



**MCAN MORTGAGE CORPORATION**

**ANNUAL  
INFORMATION  
FORM**

**MARCH 23, 2009**

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## CORPORATE STRUCTURE

### *Name, Address and Incorporation*

MCAN Mortgage Corporation (the “Company,” “MCAN” or “we”) was incorporated under the federal *Loan Companies Act*, now called the *Trust and Loan Companies Act* (the “Trust Act”), by Letters Patent dated January 11, 1991. We received our certificate to commence business from the Office of the Superintendent of Financial Institutions (“OSFI”) on November 7, 1991. The head and registered office of the Company is located at 200 King Street West, Suite 400, Toronto, Ontario, M5H 3T4.

We conduct our operations so as to continually qualify as a mortgage investment corporation (“MIC”) for purposes of the *Income Tax Act* (Canada) (the “Tax Act”). Our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are deductible for income tax purposes to the Company and 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 maintain registration to carry on business in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

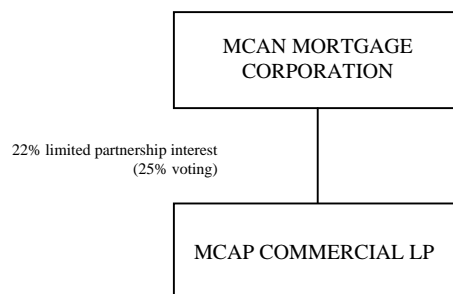
### *Intercorporate Relationships*

The Company consolidates the accounts of its wholly owned subsidiaries and equity accounts for its investment in MCAP Commercial LP (“MCLP”).

At December 31, 2008, MCAN held a 22% limited partnership interest in MCLP. During 2007, MCLP issued non-voting units to a partnership of certain senior managers of MCLP such that MCAN’s interest in MCLP was reduced from 22.8% to 22%. Our voting interest in MCLP is 25%. The Caisse de dépôt et placement du Québec (the “Caisse”) has a 66.1% limited partnership interest in MCLP and a 75% voting interest. The remaining 11.9% limited partnership interest in MCLP is held by management of MCLP.

MCLP is provincially registered under the *Limited Partnerships Act*, Ontario.

### MCAN MORTGAGE CORPORATION CORPORATE STRUCTURE



#### **A NOTE ABOUT FORWARD LOOKING STATEMENTS**

This report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company. These forward looking statements can generally be identified as such because of the context of the statements and often include words such as the Company “believes”, “anticipates”, “expects”, “plans”, “estimates” or words of a similar nature. These statements are based on current expectations, and are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technology change, global market activity, interest rates, changes in government and economic policy and general economic conditions in geographic areas where the Company operates. Reference is made to the risk factors disclosed in this Annual Information Form. These and other factors should be considered carefully and undue reliance should not be placed on the Company’s forward-looking statements. Subject to applicable securities law requirements, we do not undertake to update any forward-looking statements.

### **THREE YEAR HISTORY**

On September 15, 2006, we changed our name from MCAP Inc. to MCAN Mortgage Corporation following the receipt of approval from OSFI. The name change was approved by shareholders on May 4, 2006 at the Annual and Special Meeting of Shareholders.

Concurrent with the name change, we changed the name of our deposit liabilities from debentures to term deposits. Our term deposits remain insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation (“CDIC”).

In 2007, we began our participation in the Canada Mortgage Bonds (“CMB”) program, which involves the securitization of insured single family mortgages.

We completed a rights offering on July 5, 2007. The rights offering raised gross proceeds of \$16.4 million with 1,559,981 new common shares issued, resulting in \$94 million of additional investment capacity.

During 2008, we acquired several portfolios of single family mortgages at a discount to their par values.

There were no significant acquisitions or dispositions of subsidiaries or interests in a business that occurred during the year ended December 31, 2008.

Further information regarding the development of the Company and our outlook for 2009 is provided in the Message to Shareholders and Management’s Discussion and Analysis (“MD&A”) in our 2008 Annual Report, which is incorporated by reference in this Annual Information Form. These documents are available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at [www.sedar.com](http://www.sedar.com).

### **NARRATIVE DESCRIPTION OF THE 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.

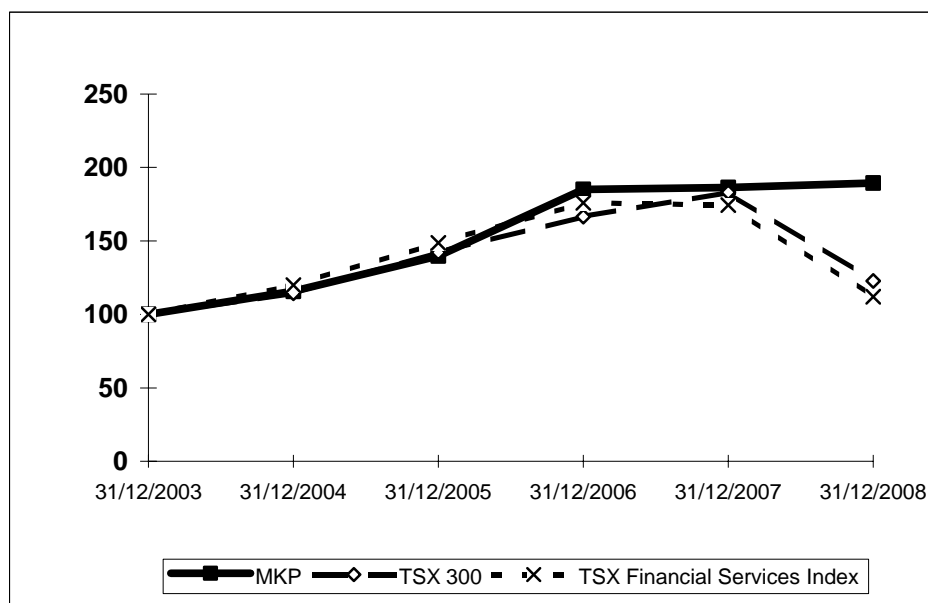
Our objective is to generate a reliable stream of income by investing our funds in a portfolio of mortgages (including single-family residential, residential construction, non-residential construction and commercial mortgages), as well as other types of loans and investments, real estate, securitization investments and marketable securities in the form of corporate bonds and real estate investment and income trusts. We employ leverage by issuing debt obligations up to a maximum of five times capital, on a non-consolidated basis, as permitted by the Tax Act. In addition, OSFI has provided us with a consolidated regulatory assets to capital limit. 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 paid by the Company. Such dividends are received by our shareholders as capital gains dividends and interest income respectively.

We fund our operations with term deposits insured pursuant to the standard terms of coverage set out by CDIC. The term deposits are sourced through a network of independent financial agents.

Our Board of Directors has ultimate responsibility for the management and investments of the Company. The Board of Directors has established an Investment Committee (“ICB”) from among its members consisting of at least three directors, the majority of whom are independent directors. The ICB is responsible for the review and approval of the Company’s Investment Policies and Standards (“IPS”), including investment limits, target asset mix and investment approval authorities. The ICB meets at least quarterly to review the Company’s investment program and monitor compliance with the IPS, the Trust Act and the Tax Act.

### Performance Graph

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2003) on its common shares during the period from January 1, 2004 to December 31, 2008, with the S&P/TSX Composite Index (Total Return) and the S&P/TSX Financial Services Index (Total Return), assuming reinvestment of all dividends.



	Dec 31 2003	Dec 31 2004	Dec 31 2005	Dec 31 2006	Dec 31 2007	Dec 31 2008	Compound Annual Growth
MCAN	100	116	140	185	186	189	13.6%
TSX	100	114	142	167	183	123	4.2%
TSX Financial Services	100	120	149	176	174	112	2.3%

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

### Balance Sheet

The following table sets out the composition of our assets as at December 31, 2008:

<b>Assets</b>	
<b>As at December 31, 2008</b>	
<b>(in thousands)</b>	
Cash and Cash Equivalents	\$ 58,071
Mortgages	393,010
Loans and Investments	75,367
Equity Investment in MCLP	18,300
Other Assets	25,406
	<u>\$ 570,154</u>

**Existing Mortgage and Loan Portfolio**

The following tables set out the composition of our mortgages and loans and investments as at December 31, 2008:

**Mortgage and Loan and Investment Analysis by Type**  
As at December 31, 2008

Type	Outstanding Principal Amount (in thousands)	Percentage of Total Assets	Allowance for Credit Losses (in thousands)
Single family mortgages			
- Uninsured	\$ 154,602	27.1%	\$ 1,001
- Uninsured (completed inventory loans)	32,477	5.7	369
- Insured	27,694	4.9	-
Construction loans			
- Residential	144,893	25.4	1,263
- Non-residential	8,085	1.4	70
Commercial	<u>23,911</u>	<u>4.2</u>	<u>100</u>
	391,662	68.7	<u>2,803</u>
Fair Value Adjustment	<u>2,023</u>	<u>0.3</u>	
	393,685	69.0	
Accrued Interest	<u>2,128</u>	<u>0.4</u>	
	395,813	69.4	
Less: Allowance for Credit Losses	<u>(2,803)</u>	<u>(0.5)</u>	
Mortgages	<u>393,010</u>	<u>68.9</u>	
Securitization Investments	41,675	7.3	2,000
Loans Receivable and Other Investments	<u>35,742</u>	<u>6.3</u>	<u>369</u>
	77,417	13.6	<u>2,369</u>
Accrued Interest	<u>319</u>	<u>-</u>	
	77,736	13.6	
Less: Allowance for Credit Losses	<u>(2,369)</u>	<u>(0.4)</u>	
Loans and Investments	<u>75,367</u>	<u>13.2</u>	
Total	<u>\$ 468,377</u>	<u>82.1%</u>	<u>\$ 5,172</u>

**Credit Risk and Provisioning**

We establish an allowance for mortgage loan losses consisting of specific and general provisions that, in management's judgment, is adequate to absorb all credit related losses in our 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 our 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. Based on our best judgment, we believe that the general allowance is indicative of probable losses within the next two years based on current economic conditions and risk profile. However, 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.

The allowance for credit losses relating to mortgages decreased by \$481,000 in 2008 to \$2.8 million, compared to a decrease of \$323,000 in 2007. The decrease consisted of a reduction in the general allowance of \$478,000, an increase in specific allowances of \$97,000 and write-offs of \$100,000. We also recorded an increase in the

allowance for credit losses of \$1.3 million in 2008 to \$2.4 million relating to loans and investments, compared to an increase of \$836,000 in 2007. The 2008 increase included a \$2.0 million write-down and a \$794,000 write down reversal on our securitization investments. Write-offs were 2.3 basis points (\$100,000) on average mortgage balances, compared to 0.1 basis points (\$4,000) in the prior year.

Within the \$41.5 million of securitization investments, we had \$20.5 million of investments in securitization programs (net of a write-down) at December 31, 2008, of which \$17.9 million was in bank-sponsored programs and \$2.6 million was in non bank-sponsored programs.

The \$2.6 million of non bank-sponsored securitization investments were subject to the restructuring of Third Party Structured Asset-Backed Commercial Paper (“ABCP”) by the Pan-Canadian Investors Committee (the “Montreal Accord”), which was finalized on January 21, 2009. The restructured ABCP, which represents the majority of this balance, 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.

Impaired loans net of specific allowances ended the year at 0.80% of the total loan portfolio, compared to 0.58% at December 31, 2007. We continue to proactively monitor loan arrears, and to take prudent steps to collect overdue accounts.

### ***CMB Program***

We participate in the CMB program, which involves the securitization of insured single family mortgages. We participate in the CMB program with MCAP Service Corporation (“MSC”). For accounting purposes, we recognize an up-front gain on securitization, and at that time we recognize an interest-only strip, which is a retained interest in the securitized mortgages. The interest-only strip consists of the discounted value of future mortgage interest and principal reinvestment interest receipts less fixed coupon interest payments. In addition, we recognize liabilities for future mortgage servicing costs, which we subcontract to MSC, and other costs.

As part of the CMB program, we enter into “pay-floating, receive-fixed” interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. We receive interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips.

### ***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. We have two significant capital tests that must be closely monitored. First, as a MIC, we are limited by the Tax Act 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. Second, as we are a loan company under the Trust Act, OSFI regulates our consolidated regulatory assets to capital. In this regard, OSFI has granted us a regulatory assets to capital limit. 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 target minimum Tier 1 and Total capital ratios are both 15%.

Our income tax assets and capital, regulatory assets and capital and maximum assets and ratios over the past three years are as follows:

<b>December 31</b> (dollars in thousands)	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Tax Act Test</b>			
Income Tax Assets	\$ 551,589	\$ 552,531	\$ 499,714
Income Tax Capital	\$ 115,998	\$ 100,780	\$ 86,245
Income Tax Assets to Capital ratio	4.76	5.48	5.79
Maximum Assets (non-consolidated)	\$ 695,988	\$ 604,680	\$ 517,470
Maximum Assets to Capital ratio	6.00	6.00	6.00
<b>Regulatory Test (OSFI)</b>			
Regulatory Assets	\$ 578,124	\$ 569,269	\$ 505,508
Regulatory Capital	\$ 107,991	\$ 100,554	\$ 81,294
Regulatory Assets to Capital ratio	5.35	5.66	6.22
Maximum Regulatory Assets (consolidated)	\$ 971,919	\$ 904,986	\$ 731,646
Total Regulatory Capital to Risk-Weighted Assets ratio	23.69%	21.53%	17.58%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	24.09%	22.16%	18.30%
Minimum Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	7.00%	7.00%	7.00%

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 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 insured pursuant to the standard terms of coverage set out by CDIC with varying maturities in certain provinces of Canada. We do not use capital markets (including asset-backed commercial paper) for liquidity.

### ***Investment in MCAP Commercial LP***

At December 31, 2008, we held a 22.0% limited partnership interest in MCLP, which had a book value of \$18.3 million. Our investment holds a 25% voting interest. We account for this partnership interest on the equity basis such that our investment in MCLP is increased by equity income and reduced by cash distributions. Pursuant to the MCAP Commercial LP Amended and Restated Limited Partnership Agreement, we are currently entitled to appoint one (of five) directors to the board of the General Partner of MCLP. Cadcap Inc., a subsidiary of the Caisse, controls the General Partner and is entitled to nominate three directors to the board. The remaining director position is held by the Chief Executive Officer of MCLP. We will continue to participate in the mortgage origination and servicing business through our interest in MCLP.

MCLP, together with MSC, a partly owned company, 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 MSC.

We received \$1.8 million of distributions from MCLP in 2008 (2007 - \$1.1 million, 2006 - \$1.3 million).

### ***Investment Policies***

Our investment policy objective is to invest shareholders' and depositors' funds in a reasonable and prudent manner to enhance return on capital. We invest funds in a portfolio of mortgages including single-family residential, residential construction, non-residential construction and commercial mortgages, as well as other types of loans and investments, real estate, securitization investments and marketable securities in the form of corporate

bonds and real estate investment and income trusts. We may also invest in cash and short-term money market instruments to ensure that we are able to meet liquidity policies and our payment obligations.

Our directors have established, and we adhere to, investment policies, standards and procedures that we consider that a reasonable and prudent person would apply to the portfolio to avoid undue risk of loss and to obtain a reasonable return.

### ***Investment Policies and Standards***

Management develops and recommends the Company's IPS to the ICB for review and input. The IPS is approved annually by the Board. The general standards included in the IPS are as follows:

1. The Company shall comply with the investment provisions of the Trust Act and the guidelines, limits and directions from OSFI, the Financial Transactions and Reports Analysis Centre of Canada ("FINTRAC") and CDIC. The ICB will report deviations from the Trust Act and any guidelines, limits or directions to the Board of Directors.
2. The Company shall conduct its investment activities so as to qualify at all times as a MIC for purposes of the Tax Act.
3. The Company shall maintain an appropriate degree of liquidity in accordance with its liquidity policy and funding policy to enable it to meet its payment obligations.
4. The Company shall manage the financial risk resulting from changes in interest rates within approved limits through its Asset and Liability Management Committee, which is also responsible for managing the Company's liquidity.
5. The Company shall manage its portfolio of invested assets to appropriately diversify risk among borrowers, issuers, properties and types of investments.
6. Management shall establish specific procedures based on a philosophy of prudent management, legislation and regulatory guidelines and input received from the ICB, the Board of Directors and other professionals.
7. The Company shall maintain high ethical standards in its investment practices.
8. The Company shall strive to diversify its funding sources to limit financing risk.
9. The Company shall maintain adequate capital as required under legislated and regulated borrowing multiples and capital adequacy tests.
10. The ICB shall review the asset mix quarterly and recommend changes in emphasis, as deemed appropriate.

### ***Risk Profile***

We take investment and lending risk in accordance with the policies set out in our IPS.

We invest in mortgages in Canada, including single-family residential, residential construction, non-residential construction and commercial mortgages, as well as other types of loans and investments, real estate, securitization investments and marketable securities in the form of corporate bonds and real estate investment and income trusts.

We are authorized to invest in uninsured residential mortgages that do not exceed 80% of the value of the real estate securing such loans. 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. Insured single family mortgages may exceed this ratio.

We have regulatory approval to invest in conventional construction loans in an aggregate amount not exceeding 250% of regulatory capital. Conventional construction loans include residential construction loans, residential

development loans and residential land loans. A single residential loan may not exceed the lesser of \$13.5 million or 20% of regulatory capital, unless insured (such internal limits are hereinafter referred to as “IPS Limit”). Aggregate commitments for residential construction loans to one borrower or related group shall not exceed the lesser of \$17 million (IPS Limit) or 25% of regulatory capital. If the aforementioned commitment is insured, it may exceed \$17 million but still must not exceed 25% of regulatory capital. Non-residential construction loans may also be included within this residential construction loan limit, up to one half of the aggregate limit. A single non-residential loan and/or related group exposure may not exceed the lesser of \$13.5 million or 20% of regulatory capital (IPS Limit).

We have regulatory approval to invest in commercial loans, in an aggregate amount not exceeding our regulatory capital. These investments are not limited to, but may include, the equity and debt instruments of private corporations or trusts, as well as high ratio mortgage loans. In addition, pursuant to our IPS, we limit our investment in each individual commercial loan to \$5 million unless it is specifically approved by the Board as recommended by the ICB (IPS Limit).

We also have regulatory approval to invest in commercial term mortgages, in an aggregate amount not exceeding our regulatory capital. The maximum single commercial term mortgage may not exceed \$10 million (IPS Limit). Aggregate commercial term mortgages to one borrower or related group may not exceed the lesser of \$13.5 million or 20% of regulatory capital (IPS Limit).

We may invest in marketable securities to a limit of 70% of regulatory capital and in real property to a limit of 70% of regulatory capital subject to a combined limit of 100% of regulatory capital.

No exposure to a single entity may exceed 25% of regulatory capital.

We also monitor the risk profile of our investment portfolio by using risk rating guidelines. The ICB reviews and approves the risk rating guidelines at least annually and monitors the risk profile of the investment portfolio at least quarterly.

### ***Risk Factors***

We are exposed to a number of risks that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital or reputation.

The 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 sale of the underlying security deteriorates below the carrying amount of the exposure. 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. 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 ICB. Furthermore, our exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of our investments. Our policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

*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. 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. In general, we maintain 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. We have access to funding through our 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 million banking facility in place to fund asset growth or meet short-term obligations as required. Our liquidity position and access to funding support our ability to meet current and future commitments.

*Interest Rate Risk*

Interest rate risk is the potential impact of changes in interest rates on our earnings and net equity. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

*Economic Conditions*

Credit and equity markets have experienced what many consider to be an unprecedented level of world-wide volatility and uncertainty over the last 18 months, resulting in illiquid markets that have required the intervention of governments' central banks in North America, Europe and Asia. This market uncertainty, which initially focused on the United States mortgage market and securities created from these assets, has now spread more pervasively through the global economy. Most economists have forecasted a recession for 2009, the length and depth of which is uncertain.

A decline in general economic conditions could cause default rates to increase as creditworthiness decreases for borrowers who are more highly leveraged or as unemployment increases. This decline could negatively affect our net income. In addition, a general decline in economic conditions could 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.

*Monetary Policy*

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply of money and the general level of interest rates could affect our earnings. Changes in the level of interest rate affect the interest spread between our mortgages, loans and investments and term deposits, and as a result 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.

*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. Furthermore, our operations are largely dependent on MCLP and MSC, as we outsource the majority of our mortgage and loan origination and servicing to MCLP and MSC.

*Reliance on Key Personnel*

Our future performance is dependent on the abilities, experience and efforts of our management 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.

*Competition Risk*

Our operations and income are a function of the interest rate environment and the availability of mortgage products at reasonable yields. 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, there may be an adverse effect on our financial condition and results of operations.

*Regulatory Risk*

Changes in laws and regulations, including interpretation or implementation, could 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 could result in sanctions and financial penalties which could adversely impact our earnings and damage our reputation.

*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, 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 and therefore are not exposed to risks associated with such activities as market making, arbitrage or proprietary trading.

*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, could 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.

*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 may rely on information furnished by them, including financial statements and other financial 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 financial information that do not comply with Canadian Generally Accepted Accounting Principles ("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.

*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 to our commercial and development lending activities.

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

### ***Risk Management***

We operate in changing regulatory and economic environments. As a result, our management and the Board of Directors are particularly diligent in their consideration of issues of risk. Our goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our assessment and management of risk, as a means to gain a strategic advantage and ultimately enhance shareholder value. We have established policies and procedures to address the risks outlined above under “Risk Factors.”

Our senior management is responsible for the quality of processes, policies, procedures and controls and for internal reporting on a day-to-day basis. Oversight and guidance rests with the Board of Directors.

As discussed above under “Risk Factors,” we are exposed to various inherent risks, particularly interest rate risk and credit risk. We mitigate these risks through investment diversification, and by diligent management of assets and liabilities.

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 invested 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.

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. 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 quarterly review involving senior management and the ICB.

Furthermore, our exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of our investments. Our policies establish limits on concentration by asset class, risk rating, geographic region, dollar limit and borrower. We use these policies to assess credit risk and portfolio quality.

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. In general, we maintain liquid investments and credit facilities in excess of 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, thus providing us with added flexibility to meet liquidity needs. We have access to capital through our ability to issue term deposits insured pursuant to the standard terms of coverage set out by CDIC. These term deposits also provide us with the ability to fund asset growth as needed. We also have a \$30 million banking facility in place to fund asset growth or meet short-term obligations as required. 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 have established and maintain liquidity policies which meet the standards set under the Trust Act and any regulations or guidelines issued by OSFI.

Market risk on marketable securities is managed through prudent investment selection and diversification by security and industry.

All material outsourcing arrangements are required to comply with OSFI guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. Our Chief Risk Officer and senior management regularly review outsourcing arrangements to provide reasonable assurances that the outsourcing arrangements are in compliance with OSFI’s guideline. These reviews account for the materiality of the outsourcing arrangement and the status of the risk management program associated with the outsourced arrangement.

Ultimately, risk management is controlled at the highest level of the Company. Our Asset and Liability Management Committee reviews and manages these risks on a monthly basis. Our Board of Directors reviews and approves all risk management policies and procedures. Management reports to the Board of Directors on the status of risk management at least quarterly.

### ***People***

As at December 31, 2008, we had twelve employees, unchanged from December 31, 2007.

### ***Premises***

In 2004, we entered into an arrangement with MCLP to sublease space at 200 King Street West, Toronto, Ontario, expiring in 2012.

### ***Systems***

We use MCLP's and MSC's systems, including networks, subsystems, and general ledger, and we also receive technology support from MCLP. We plan to use the systems of both entities in the foreseeable future. Our term deposit system, which we own, is run on these systems.

### ***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 of Directors.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. As of December 31, 2008, an evaluation was carried out of the effectiveness of disclosure controls and procedures. Based on that evaluation, the CEO and CFO will certify that those disclosure controls and procedures were effective as at the end of the financial year ended December 31, 2008.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. As of December 31, 2008, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statements compliance with GAAP. Based on that evaluation, the CEO and CFO will certify that those internal controls over financial reporting were effective as at the end of the financial year ended December 31, 2008.

These evaluations were conducted in accordance with the standards of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings*. A Disclosure Committee, comprised of members of senior management, assists the CEO and CFO in their responsibilities.

There were no changes in our internal controls over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Internal Audit**

We outsource our Internal Audit function to Protiviti - Independent Risk Consulting. The Internal Audit function has unrestricted access to our operations, senior management and the Chairman of the Audit Committee of the Board of Directors. Internal Audit performs an evaluation of business risk and then undertakes internal audits of those areas that are deemed to be of greatest risk but ensures coverage of all business processes over the related audit cycle. Internal Audit reports quarterly to the Audit Committee of the Board of Directors.

**DIVIDEND POLICY AND RECORD**

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a MIC, 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:

<b>Fiscal Period</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
First Quarter - Regular Dividend	\$ 0.23	\$ 0.23	\$ 0.21
First Quarter - Extra Dividend	-	0.08	0.34
Second Quarter	0.23	0.23	0.21
Third Quarter	0.25	0.23	0.21
Fourth Quarter	0.25	0.23	0.21
	<b>\$ 0.96</b>	<b>\$ 1.00</b>	<b>\$ 1.18</b>
Taxable Dividends	\$ 0.85	\$ 0.88	\$ 1.06
Capital Gains Dividends	0.11	0.12	0.12
	<b>\$ 0.96</b>	<b>\$ 1.00</b>	<b>\$ 1.18</b>

The Board of Directors declared a first quarter dividend of \$0.68 per share to be paid March 31, 2009 to shareholders of record as of March 16, 2009. The dividend comprises the regular quarterly dividend of \$0.25 and a \$0.43 extra dividend.

In 2006 and 2007, there was an extra dividend paid in the first quarter in addition to the regular dividend due to significant capital gains realized from the sale of our marketable securities portfolio. In 2008, there was no extra dividend distributed as a result of the effect of the CMB program on taxable income. However, we maintained the regular quarterly dividend with the payment of the March 2008 dividend, which created a loss for tax purposes of \$0.19 per share. The March 2009 extra dividend is necessary to pay out the balance of 2008 taxable income to shareholders. In 2008, taxable income was significantly lower than income for accounting purposes as a result of our participation in the CMB program.

**Dividend Reinvestment Plan**

In 2002, we amended and restated our dividend reinvestment plan (the "Dividend Reinvestment Plan"). Pursuant to the Dividend Reinvestment Plan, cash dividends paid to registered holders of common shares are automatically reinvested in common shares purchased by Computershare Trust Company of Canada ("Computershare"), as agent, either on the open market at market prices or from treasury at the weighted average trading price for the 20 days preceding such issue, at the option of MCAN. A copy of the Dividend Reinvestment Plan and a form permitting registered shareholders to elect to participate in or withdraw from the Dividend Reinvestment Plan are available by calling the Corporate Secretary at (416) 591-5214. Beneficial owners of common shares must make arrangements with the financial institution or stock brokerage through which they hold their common shares to become a participant in the Dividend Reinvestment Plan. Once a registered holder or a beneficial owner has

enrolled in the Dividend Reinvestment Plan, participation continues automatically unless terminated in accordance with the terms of the Dividend Reinvestment Plan.

## DESCRIPTION OF CAPITAL STRUCTURE

Our authorized capital consists of an unlimited number of common shares with no par value. At December 31, 2008 there were 14,223,506 common shares outstanding. As of the date hereof, the number of common shares outstanding is 14,256,753. The common shares are the only voting securities of the Company. Generally, each common share provides one vote per share. However, the Directors are elected by cumulative voting, as required by the Company's by-laws and the Trust Act. The Trust Act requires cumulative voting for the election of directors where more than 10% of the voting shares of a company are beneficially owned, directly or indirectly, by a shareholder. In addition, our by-laws provide for cumulative voting for the election of directors where a shareholder beneficially owns, directly or indirectly, more than 9% of the voting shares of the Company. Under the cumulative voting system, each holder of common shares has the right to cast a number of votes equal to the number of votes attached to the common shares held by the shareholder multiplied by the number of directors to be elected at the meeting. The shareholder may cast all such votes in favor of one nominee or distribute them among the nominees in any manner.

Pursuant to the Tax Act, if any shareholder or related group of shareholders acquires more than 25% of the common shares, the Company will no longer qualify as a MIC.

Changes to our capital over the past two years are set out in Note 15 of our consolidated financial statements for the year ended December 31, 2008 contained in our 2008 Annual Report, which is incorporated by reference in this Annual Information Form.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

As at December 31, 2008, as a group, the directors and executive officers of the Company beneficially owned, directly or indirectly, or exercised control or direction over, 5,555,156 common shares, representing a 39.06% interest in the Company.

### *Directors*

Information concerning our directors and their municipalities of residence and principal occupations, is as shown in the table below. The term of each of the directors will expire at the time of our next Annual Meeting of shareholders to be held on May 12, 2009.

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>	<u>Common Shares Owned and/or Controlled at December 31, 2008 <sup>11</sup></u>	<u>Approximate Percentage of Common Shares</u>
<b>DAVID G. BROADHURST</b> <sup>1,2</sup> Toronto, Ontario, Canada	May 14, 1997	President, Poynton Investments Limited (financial consulting and investments)	58,157	0.41%
<b>RAYMOND DORÉ</b> <sup>2</sup> Toronto, Ontario, Canada	May 14, 1997	Corporate Director <sup>4</sup>	2,140,335	15.05%
<b>BRIAN A. JOHNSON</b> <sup>1,3</sup> Toronto, Ontario, Canada	January 10, 2001	Partner, Crown Capital Partners (finance), Partner, Crown Realty Partners (real estate)	94,058	0.66%
<b>DAVID A. MACINTOSH</b> <sup>1,3</sup> Waterloo, Ontario, Canada	January 28, 2000	Corporate Director	28,125	0.20%

<b>DEREK A. NORTON</b> Toronto, Ontario, Canada	July 24, 2000	President & CEO, MCAP Commercial LP (mortgage services provider) <sup>5</sup>	278,350	1.96%
<b>JEAN C. PINARD</b> <sup>2,3,6</sup> Sutton, Québec, Canada	November 3, 2005	Consultant, Pinco Inc. <sup>7</sup> (real estate and structured assets)	nil	0.00%
<b>ROBERT A. STUEBING</b> <sup>3</sup> Toronto, Ontario, Canada	April 19, 2004	Corporate Director <sup>8</sup>	576,607	4.05%
<b>IAN SUTHERLAND</b> Oro-Medonte, Ontario, Canada	January 11, 1991	Chairman, MCAN Mortgage Corporation <sup>9</sup>	2,154,700	15.15%
<b>BLAINE WELCH</b> Toronto, Ontario, Canada	April 19, 2004	President & CEO, MCAN Mortgage Corporation <sup>10</sup>	138,330	0.97%

1. Member of the Audit Committee.
2. Member of the Conduct Review, Corporate Governance & Human Resources Committee.
3. Member of the Investment Committee.
4. Since May 2006. Prior to May 2006, Mr. Doré was Chairman, MCAN Mortgage Corporation.
5. Since April 2004. From July 2000 to April 2004, Mr. Norton was President & CEO, MCAP Inc.
6. Under the Agreement dated April 14, 2004 between the Company, Bentall Capital II Limited Partnership (now C-Cap II Limited Partnership ("CCLP2")), CDP Capital – Real Estate Advisory Inc., Cadcap Inc. and MFC relating to the investment of CCLP2 in the Company, the parties expressed their intention that CCLP2 will be entitled to nominate one nominee of CCLP2 to the Board of Directors of the Company, subject to CCLP2 owning a minimum of 5% of the common shares. This year CCLP2 has nominated Mr. Pinard for election to the Board of Directors.
7. Since April 2004. Prior to April 2004, Mr. Pinard was President & Chief Operating Officer of CDP Capital Mortgages (financial services).
8. Since July 2006. From April 2004 to June 2006, Mr. Stuebing was Senior Vice President & CFO, MCAP Inc. Prior to April 2004, Mr. Stuebing was Senior Vice President, MFC (financial services).
9. Since May 2006. Mr. Sutherland was also Chairman, North West Company Fund (retailer) until May 2008.
10. Since April 2004. Prior to April 2004, Mr. Welch was Senior Vice President and Chief Risk & Investment Officer, MCAP Inc.
11. The information as to shares owned, directly or indirectly, or over which control or direction is exercised has been furnished by the respective directors.

We do not have an Executive Committee. We are required to have an Audit Committee and a Conduct Review, Corporate Governance & Human Resources Committee.

### *Executive Officers*

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation for the last five years</u>	<u>Common Shares Owned and/or Controlled at December 31, 2008</u>	<u>Approximate Percentage of Common Shares</u>
<b>BLAINE WELCH</b> Toronto, Ontario, Canada	President & CEO	Prior to April 2004, Mr. Welch was Senior Vice President and Chief Risk & Investment Officer, MCAP Inc.	138,330	0.97%
<b>TAMMY OLDENBURG</b> Toronto, Ontario, Canada	Vice President & CFO	Prior to July 2006, Ms. Oldenburg was VP Finance & Controller, MCAP Inc. Prior to February 2005, Ms. Oldenburg was AVP, Finance & Controller, MCAP Inc.	47,756	0.34%
<b>MICHAEL MISENER</b> Mississauga, Ontario, Canada	Vice President, Investments	Prior to April 2006, Mr. Misener was AVP Investment Management, MCAP Financial Corporation - Real Estate Finance Group.	38,738	0.27%

### *Additional Disclosure Relating to Directors and Executive Officers*

To our knowledge, no director or executive officer of MCAN is, or has been in the last ten years, a director, chief executive officer or chief financial officer of a company that (i) was the subject of an order that was issued while that person was acting in that capacity, or (ii) was subject to an order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in that capacity.

For the purposes of the above paragraph, “order” means (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days.

To our knowledge, no director or executive officer of MCAN or a shareholder holding a sufficient number of securities of MCAN to affect materially the control of MCAN, (i) is or has been within the last ten years, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (ii) has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder, except for the following: Mr. Johnson, a director of MCAN, was Chairman of the Board of Directors of CrownAg International Inc. (“CrownAg”) from 2000 to 2005. During that time, Crown Life Insurance Company was both a shareholder and a secured creditor of CrownAg. In order to realize on its security in 2005, Crown Life Insurance Company, together with two other secured creditors, placed CrownAg into receivership under the *Bankruptcy and Insolvency Act* (Canada).

Further, no director or executive officer of MCAN, or a shareholder holding a sufficient number of securities of MCAN to affect materially the control of MCAN has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### ***Conflicts of Interest***

Information relating to Conflicts of Interest may be found in the Indebtedness of Directors and Executive Officers section of our 2007, 2008 and 2009 Management Information Circulars dated February 28, 2007, February 29, 2008, and March 13, 2009 respectively, and filed on SEDAR.

### **MARKET FOR SECURITIES**

MCAN’s common shares are listed and posted for trading on the TSX under the trading symbol “MKP”. The volume of shares traded during 2008 was 2,154,000 compared to 1,573,000 in 2007. The range of trading prices during 2008 was \$7.62 to \$10.35.

The monthly high and low closing prices and trading volumes for the periods indicated below were as follows:

	<u>Volume Traded</u>	<u>High (\$)</u>	<u>Low (\$)</u>
January 2008	225,601	10.35	8.20
February	509,757	9.50	7.95
March	87,539	9.23	8.05
April	194,769	8.95	8.10
May	147,185	9.40	8.06
June	142,904	8.99	7.80
July	110,015	8.95	7.87
August	93,735	10.00	8.55
September	158,073	9.86	8.66
October	246,945	9.60	7.62
November	142,454	9.25	8.43
December	95,217	9.19	8.25
January 2009	106,160	9.59	8.88
February	143,984	10.50	9.25

**SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER**

To MCAN's knowledge, the only common shares that are subject to a contractual restriction on transfer are the following:

Designation of class	Number of securities that are subject to a contractual restriction on transfer <sup>1</sup>	Percentage of class
Common shares	50,896	0.36%

- The common shares set forth above were purchased pursuant to the Employee Share Ownership Plan ("ESOP"). The ESOP was established by the Board in 2000 to enable employees of MCAN, MCLP and MSC to purchase common shares of the Company in a convenient and systematic manner. Participation in the ESOP is voluntary. An employee may contribute no more than 6% and no less than 1% of annual salary into the ESOP and the employee's employer will contribute 50% of the employee's contribution, up to a maximum of 3% of the employee's base salary. Contributions are used to acquire shares on the open market. The ESOP is administered by CIBC Mellon Trust Company.

Shares acquired with an employee's contributions vest immediately. Two withdrawals or transfers of shares acquired with an employee's contribution are permitted in a calendar year. A third withdrawal or transfer results in a suspension of the employer's future contributions to the employee's plan for a period of twelve months. Common shares acquired with the employer's contribution to the ESOP vest on December 31<sup>st</sup> of the year in which the shares are acquired. Unvested shares cannot be withdrawn or transferred until December 31<sup>st</sup> of each year. The number of unvested shares immediately prior to the vesting of such shares pursuant to the ESOP as at December 31, 2008 is represented in the table above.

**TRANSFER AGENT AND REGISTRAR**

Computershare, located in Montreal, Quebec, is our transfer agent and registrar for the common shares.

**INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Information relating to Interest of Management and Others in Material Transactions may be found in the Indebtedness of Directors and Executive Officers section of our 2007, 2008 and 2009 Management Information Circulars dated February 28, 2007, February 29, 2008 and March 13, 2009, respectively, and filed on SEDAR.

**MATERIAL CONTRACTS**

Except for contracts made in the ordinary course of business, the only material contract entered into by the Company within the most recently completed financial year, or before the most recently completed financial year which is currently in effect is as follows:

MCAN entered into a contract with MCLP for activities covering mortgage origination and servicing on April 15, 2004. The term of this contract expires April 15, 2009. The contract provides for both mortgages that are held for investment directly by MCAN and warehoused mortgages that are held for the benefit of MCLP. Origination and servicing rates are specified according to the type of mortgage.

**AUDIT COMMITTEE INFORMATION**

The Audit Committee's primary purpose is to assist the Board in fulfilling its oversight responsibilities with respect to (i) the quality and integrity of financial statements to be provided to shareholders and regulatory bodies; (ii) the effectiveness of our risk management and compliance practices; (iii) the independent auditor's performance, qualifications and independence; (iv) the performance of the internal audit function; and (v) our compliance with legal and regulatory requirements. The Audit Committee meets with the internal and external auditors and management as required. The mandate of the Audit Committee is attached as Schedule A to this Annual Information Form.

As of December 31, 2008, the members of the Audit Committee were David G. Broadhurst (Chairman), David A. MacIntosh and Brian A. Johnson. All members of the Audit Committee are, for the purposes of *National Instrument 52-110 - Audit Committees*, considered to be independent and financially literate. The following is a description of the education and experience of each member of the committee that is relevant to the performance of his responsibilities as a member of the Audit Committee.

Mr. Broadhurst holds a B.A. degree and is a member of the Institute of Chartered Accountants of Ontario. He is the President of Poynton Investments Limited. He currently serves on the board and audit committee of the North West Company Fund and on the board of a non-public Canadian company.

Mr. MacIntosh holds a M.A. degree in Economics and has held senior executive positions with Mutual Life of Canada in finance and investments. He currently serves on the board of a non-public Canadian company.

Mr. Johnson holds a M.B.A. degree and the CFA designation. He is a Partner with Crown Capital Partners and Crown Realty Partners. He currently serves on the board of Crombie Real Estate Investment Trust and on the board of several non-public Canadian companies.

## AUDIT FEES

Fees paid to the Company's auditor, Ernst & Young LLP for the past two years are as follows:

	<u>2008</u>	<u>2007</u>
Audit Fees	\$ 158,750	\$ 151,500
Audit-Related Fees <sup>1</sup>	7,750	8,000
Tax Fees <sup>2</sup>	43,809	51,802
All Other Fees <sup>3</sup>	<u>26,500</u>	<u>3,445</u>
Total Fees	<u>\$ 236,809</u>	<u>\$ 214,747</u>

1. Audit-Related Fees include accounting consultations.
2. Tax Fees include tax planning, review of tax returns and tax advice.
3. All Other Fees include various non-audit services.

## INTEREST OF EXPERTS

Ernst & Young LLP, the external auditor of the Company, reported on the Company's 2008 consolidated financial statements. At the time of preparing its report on the 2008 consolidated financial statements, Ernst & Young LLP was independent of the Company in accordance with the auditor's rules of professional conduct in Canada.

## ADDITIONAL INFORMATION

Additional information about MCAN is available on the Company's web site at [www.mcanmortgage.com](http://www.mcanmortgage.com) and on SEDAR.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, and interests of insiders in material transactions, is contained in our Management Information Circular dated March 13, 2009 in connection with our Annual Meeting of Shareholders scheduled to be held May 12, 2009. Additional financial information is provided in our consolidated financial statements and Management's Discussion and Analysis in our 2008 Annual Report for the year ended December 31, 2008.

Copies of our Annual Information Form, as well as copies of our 2008 Annual Report for the year ended December 31, 2008 and Management Information Circular dated March 13, 2009 may be obtained from:

MCAN Mortgage Corporation  
 200 King Street West  
 Suite 400  
 Toronto, ON M5H 3T4

Attn: Corporate Secretary  
 Telephone: (416) 591-5214  
 Fax: (416) 598-4142

## SCHEDULE A - MANDATE OF THE AUDIT COMMITTEE

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### Role

The primary purpose of the Audit Committee (the “Committee”) is to assist the Board in its oversight role with respect to:

1. the quality and integrity of financial statements to be provided to shareholders and regulatory bodies;
2. the effectiveness of MCAN’s risk management and compliance practices;
3. the independent auditor’s performance, qualifications and independence;
4. the performance of the internal audit function; and
5. MCAN’s compliance with legal and regulatory requirements.

### Composition and Operations

1. The Committee shall consist of at least three directors appointed annually by the Board.
2. No member of the Committee shall be an officer or employee of MCAN, its subsidiaries or affiliates. Members of the Committee will not be affiliated with MCAN as such term is defined in the *Trust and Loan Companies Act* (Canada).
3. Each member of the Committee shall satisfy the applicable independence and experience requirements of the laws governing MCAN, the applicable stock exchange on which MCAN’s securities are listed and applicable securities regulatory authorities.
4. The Board shall appoint one member of the Committee as Committee Chair.
5. Each member of the Committee shall be financially literate as such qualification is defined by applicable law and interpreted by the Board in its business judgement.
6. The Committee shall meet at least quarterly and as many additional times as necessary. The Committee shall report to the Board on its activities, findings and recommendations after each of its meetings.

### Specific Duties

#### Independent Auditor

1. Recommend to the Board that the independent auditor be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the issuer, subject to required shareholder approval.
2. Recommend to the Board the compensation of the independent auditor.
3. Provide oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services (including resolution of disagreements between management and the independent auditor regarding financial reporting). Review the engagement letter of the independent auditor and ensure that the independent auditor reports directly to the Committee.
4. Pre-approve all audit services and permitted non-audit services (including the fees, terms and conditions for the performance of such services) to be provided by the independent auditor. Consider whether the non-audit services to be provided are compatible with maintaining the auditor’s independence. When appropriate, the Committee may delegate to the Chairman of the Committee the authority to grant pre-approvals of audit and permitted non-audit services, provided that such authorization does not exceed \$25,000 at any given time, and the full Committee shall be informed of such approvals at its next scheduled meeting.

5. Review and discuss with management and the independent auditor prior to the annual audit the scope, planning and staffing of the annual audit and the degree of co-ordination between the plans of the independent auditor and the internal auditor.
6. Review and approve hiring policies regarding partners and employees or former partners and employees of the present and former independent auditor.
7. Meet separately with the independent auditor and report to the Board.
8. Review with management and the independent auditor any communications from the latter concerning deficiencies, weaknesses or matters of concern.

Financial Reporting

9. Review and discuss with management and the independent auditor the annual audited financial statements and any other returns or transactions required to be reviewed by the Committee and report to the Board prior to approval by the Board and publication of earnings.
10. Review and discuss with management MCAN's quarterly financial statements prior to their publication.
11. Review the annual and quarterly disclosures made in management's discussion and analysis prior to approval by the Board and publication.
12. Review such returns as the Superintendent of Financial Institutions may specify.
13. Require management to implement and maintain appropriate internal control procedures.
14. Review, evaluate and approve the procedures established under item 13.
15. Review such investments and transactions that could adversely affect MCAN's well-being as the auditor or any officer of MCAN may bring to the attention of the Committee.
16. At least annually, review and discuss with management and the independent auditor the appropriateness of MCAN's accounting and financial reporting policies and any changes made thereto, including overseeing management's work plan for implementing the International Financial Reporting Standards for the financial statements.
17. Review all financial public disclosure documents, including information contained in earnings press releases, Annual Information Form, Annual Report and Management Information Circular prior to approval by the Board.
18. Review and discuss with the CEO and the CFO the procedures undertaken in connection with the CEO and CFO certifications.
19. Meet with the internal auditor and with management to discuss the effectiveness of the internal control procedures established for MCAN.

Internal Auditor

20. Review the scope of the audit to be performed by the internal auditor and the degree of co-ordination between the plans of the internal and independent auditor.
21. Review the quarterly reports of the internal auditor on internal audit activities and results of its audits.
22. Meet separately with the internal auditor and report to the Board.
23. Annually assess the effectiveness of the internal audit function.

Risk Management

24. Review significant risk management policies and practices.

25. Review management's reports demonstrating compliance with the risk management policies.

Anti-Money Laundering and Anti-Terrorist Financing Program ("AML/ATF Program")

26. Review at least annually and recommend to the Board MCAN's Anti-Money Laundering Policies and Procedures ("AML Policy").

27. Review at least quarterly the Chief Anti-Money Laundering Officer's report on MCAN's compliance with the AML/ATF Program and MCAN's AML Policy.

Other

28. Establish procedures for the receipt, retention and treatment of complaints received by MCAN regarding accounting, internal accounting controls, or auditing matters, and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

29. Review correspondence with regulators or governmental agencies.

30. Review at least annually and recommend to the Board the Outsourcing Policy and performance under all material outsourcing arrangements.

31. Review at least annually and recommend to the Board the Business Continuity Plan.

32. Review at least annually the internal auditor's report on the results of testing of the Business Continuity Plan.

33. Review at least annually the adequacy of the MCAN's insurance, in particular its employee bonding, errors and omissions and directors and officers coverage.

34. Review any evidence of employee fraud.

35. At the discretion of the Committee, retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities.

36. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the Committee mandate.

37. Carry out any other appropriate duties and responsibilities assigned by the Board.

Approved: February 12, 2009