



**FIRST QUARTER REPORT 2009  
MCAN MORTGAGE CORPORATION**

# MCAN MORTGAGE CORPORATION

## REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2009

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

*This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2009 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2008. These items and additional continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and our website at [www.mcanmortgage.com](http://www.mcanmortgage.com). Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2008 remain substantially unchanged. Information has been presented as of May 12, 2009.*

### RESULTS OF OPERATIONS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of \$6.4 million for the first quarter of 2009, up from \$5.1 million a year earlier. Earnings per share for the quarter were \$0.45 compared to \$0.36 last year.

(in thousands, except for per share amounts)

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
Net investment income	\$ 7,703	\$ 6,064
Operating expenses	1,269	922
Income before income taxes	6,434	5,142
Provision for income taxes and large corporations taxes	-	-
Net income	\$ 6,434	\$ 5,142
Basic and diluted earnings per share	\$ 0.45	\$ 0.36
Dividends per share	\$ 0.68	\$ 0.23

The current turmoil in the general economy, and specifically in the financial and real estate markets, has impacted MCAN both positively and negatively. In our core spread business, decreases in the prime rate that have not been matched by corresponding decreases in the cost of our term deposits have compressed the spread on our mortgage portfolio, of which over 50% is floating rate (prime-based). However, the changing interest rate environment has had a positive impact on our participation in the Canada Mortgage Bonds ("CMB") program. Also, the market turmoil has created opportunities for us, in conjunction with MCAP Commercial LP ("MCLP"), to acquire portfolios from other lenders at favourable pricing, and the aggressive management of these portfolios has led to significant incremental income in the past few quarters. Although earnings per share have been strong in recent quarters, it must be cautioned that the primary contributing activities are significantly more volatile than our core activities.

**Net Investment Income**

(in thousands)

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
<b>Investment Income</b>		
Mortgage interest	\$ 6,716	\$ 7,548
Interest on loans and investments	1,243	1,910
Fees	2,339	799
Equity income from MCAP Commercial LP	149	301
Securitization income	2,274	1,999
Interest on cash and cash equivalents	92	401
Gain (loss) on sale of mortgages	1	(4)
Marketable securities	-	4
	<b>12,814</b>	<b>12,958</b>
<b>Financial Expenses</b>		
Term deposit interest and expenses	4,047	5,358
Mortgage expenses	764	939
Provision for losses	300	597
	<b>5,111</b>	<b>6,894</b>
<b>Net Investment Income</b>	<b>\$ 7,703</b>	<b>\$ 6,064</b>

Net investment income for the first quarter increased by \$1.6 million over the prior year.

During the quarter, we realized \$662,000 relating to the partial recovery of purchase price discounts on several portfolios of discounted mortgages that we acquired in the second half of 2008. We also received \$1.6 million of fees from MCLP from a profit sharing arrangement relating to discounted mortgages acquired by MCLP.

Mortgage interest income for the quarter decreased by \$832,000 from the prior year due to a decrease in the average portfolio size from \$422 million in 2008 to \$390 million in 2009 and a decrease in the average mortgage yield from 7.13% in 2008 to 6.99% in 2009.

The prime rate was 2.50% as at March 31, 2009, a significant decrease from 5.25% as at March 31, 2008. This decrease has negatively impacted mortgage interest income, as approximately 58% of our mortgages at quarter end were floating rate mortgages. However, this negative impact has been mostly offset by the higher effective yields on the mortgages in the acquired portfolios.

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

Interest on loans and investments decreased by \$667,000 over the prior year, primarily due to the aforementioned decrease in the prime rate. In addition, we received a significant one-time interest payment in 2008 upon the payout of a securitization investment.

Fees increased by \$1.5 million over the prior year, mostly due to fees received from MCLP related to the profit sharing noted above. Fees also include construction commitment fees, which are amortized into income over the term of the related loans. Construction commitment fees earned in the quarter decreased over the prior year due to a lower average construction loan balance.

Equity income from our ownership interest in MCLP was \$149,000 during the quarter compared to \$301,000 in the prior year. In the current year, MCLP recognized significant income from its residential mortgage business, however this income was largely offset by negative fair value adjustments.

MCAN securitizes insured residential mortgages through the CMB program. We recognized securitization income of \$2.3 million during the quarter compared to \$2.0 million in the prior year. Up-front gains from securitization increased from \$1.2 million in the prior year to \$1.9 million in the current year as a result of wider interest rate spreads between mortgages and government bonds. Residual securitization income decreased from \$835,000 in the prior year to \$391,000 in the current year, as fair value adjustments to CMB-related financial instruments had a negative impact to income of \$898,000 (2008 - positive impact of \$599,000). Forward interest rates have been volatile since early 2008, which can lead to unanticipated income variances in either direction. The negative impact of fair value adjustments in the current year has been partly offset by a significant increase in interest rate swap receipts.

Term deposit interest and expenses decreased by \$1.3 million during the quarter due to a decrease of \$39 million in the average outstanding balance and a decrease in the average term deposit interest rate to 3.85% in 2009 from 4.68% in 2008. The interest rate on new term deposits is relatively high, as deposit rate decreases have not kept pace with the declines in the prime rate.

Mortgage expenses for the quarter decreased by \$175,000 over the prior year, consistent with the decrease in the average mortgage portfolio.

Provisions for losses in the current and prior year were as follows:

	<b>2009</b>	<b>2008</b>
Mortgages - general provision	\$ 404,000	\$ 164,000
Mortgages - specific provision (recovery)	(20,000)	4,000
Loans and investments - general provision (recovery)	(84,000)	23,000
Securitization investments - write-down	-	1,200,000
Securitization investments - recovery of write-down	-	(794,000)
	<b>\$ 300,000</b>	<b>\$ 597,000</b>

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the mortgages and the overall economic environment. Specific allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The general allowance represents losses that we believe have been incurred but not yet specifically identified. Reserving rates depend on asset class, as different classes have varying underlying risks. 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 period, and there could be a need to increase or decrease the allowance for credit losses.

Impaired loans net of specific allowances were 1.42% (\$6.2 million) at March 31, 2009, compared to 0.80% (\$3.4 million) at December 31, 2008 and 0.76% (\$3.4 million) at March 31, 2008. The current year quarter end balance is comprised as follows: uninsured single family (\$5.0 million, 1.14%), residential construction (\$1.2 million, 0.28%). We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts. Total mortgages past due but not impaired decreased from \$31 million at December 31, 2008 to \$29 million at March 31, 2009, however total arrears increased by \$1 million during the first quarter from \$34 million to \$35 million. Our current arrears levels are a reflection of the general deterioration in the Canadian economy. There were no other assets in arrears at quarter end.

Write-offs were \$92,000 for the quarter compared to \$1,000 in the prior year. All current year write-offs relate to uninsured single family mortgages.

### **Operating Expenses**

(in thousands)

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
Salaries and benefits	\$ 525	\$ 434
General and administrative	744	488
	<b>\$ 1,269</b>	<b>\$ 922</b>

Operating expenses have increased over the prior year, mainly due to increased professional fees incurred during the quarter.

### **Income Taxes**

(in thousands)

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
Provision against income	\$ -	\$ -
Charge (recovery) to retained earnings	(1,753)	1,684
	<b>\$ (1,753)</b>	<b>\$ 1,684</b>

Future taxes payable, which are charged directly to retained earnings, decreased during the first quarter of 2009. This decrease is primarily due to the payment of the March 31, 2009 dividend, which was significantly higher than usual. We pay no income tax on taxable income if it is paid out as dividends to our shareholders within 90 days of year end, and we generally make such

distributions. As a result of this, we had a significant future tax liability at December 31, 2008 as the March 31, 2009 dividend, which related to the 2008 tax year, had not yet been paid. The reversal of this liability through the payment of the dividend led to a recovery of future taxes in the first quarter.

### Cash Flows

Operating activities used cash flows of \$209,000 in the quarter, compared to \$1.6 million provided in the prior year.

Investing activities provided cash flows of \$211,000 in the quarter and used \$37 million in the prior year. Net mortgage advances offset loan and investment repayments in the current year, while there were significant net mortgage advances in the prior year.

Financing activities used \$27 million of cash in the quarter and used \$8 million in the prior year. Net term deposit repayments and dividends paid increased in the current year.

### SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except for per share amounts)

	2009		2008			2007		
	Q1	Q1	Q2	Q3	Q4	Q2	Q3	Q4
Net investment income	\$7,703	\$6,064	\$6,062	\$12,485	\$11,471	\$5,140	\$4,083	\$4,259
Operating expenses	1,269	922	1,173	2,088	1,551	955	1,000	1,079
Income before income taxes	6,434	5,142	4,889	10,397	9,920	4,185	3,083	3,180
Provision for (recovery of) income taxes and large corporations taxes	-	-	-	-	-	(2)	-	-
Net income	\$6,434	\$5,142	\$4,889	\$10,397	\$9,920	\$4,187	\$3,083	\$3,180
Basic and diluted earnings per share	\$0.45	\$0.36	\$0.35	\$0.73	\$0.70	\$0.33	\$0.21	\$0.23
Dividends per share								
Regular	\$0.68	\$0.12	\$0.23	\$0.25	\$0.25	\$0.23	\$0.23	\$0.23
Capital gains	-	0.11	-	-	-	-	-	-
Total	\$0.68	\$0.23	\$0.23	\$0.25	\$0.25	\$0.23	\$0.23	\$0.23

Quarterly income in the second quarter of 2007 was higher than previous quarters due to increased interest income from higher mortgage and loan portfolios and securitization income from the CMB program. The third quarter of 2007 was significantly lower due to the write-down of securitization investments and the loss from the CMB program, while the fourth quarter of 2007 had a significant equity loss from MCLP due to write-downs taken on its securitization programs. The first half of 2008 was comparable to the first two quarters of 2007, but with higher securitization income. The second half of 2008 had substantially higher net income than previous quarters due to significant income from the sale of mortgages and income earned as a result of the portfolio acquisitions noted above. Securitization income and income from the acquired portfolios remained strong in the first quarter of 2009.

## FINANCIAL POSITION

As of March 31, 2009, total consolidated assets were \$544 million, a decrease of \$26 million from December 31, 2008.

### Assets

(in thousands)	March 31, 2009		December 31, 2008		March 31, 2008	
Cash and cash equivalents	\$ 31,014	5.7%	\$ 58,071	10.2%	\$ 9,817	1.8%
Mortgages	407,706	74.9	393,010	68.9	452,210	81.8
Loans and investments	60,670	11.1	75,367	13.2	66,633	12.1
Equity investment in MCLP	17,736	3.3	18,300	3.2	17,396	3.1
Other assets	27,115	5.0	25,406	4.5	6,725	1.2
Marketable securities	-	-	-	-	126	-
	<b>\$ 544,241</b>	<b>100.0%</b>	<b>\$ 570,154</b>	<b>100.0%</b>	<b>\$ 552,907</b>	<b>100.0%</b>

Cash decreased by \$27 million during the quarter. The December 31, 2008 balance was unusually high, however during the quarter our cash balance returned to the \$20 to \$30 million range in which it is normally maintained.

Mortgages increased by \$15 million in the quarter, primarily due to increases of \$30 million in residential construction loans and \$6 million in uninsured single family mortgages, partially offset by a decrease of \$16 million in commercial mortgages.

As at March 31, 2009, we held discounted mortgages with an aggregate discount of \$32 million. We retain 50% of any recoveries of that amount, and we pay the remaining 50% to MCLP. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from 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, we do expect that material amounts will be realized over the next few years.

We do not invest in the United States mortgage market. We invest in insured and uninsured single family mortgages in Canada, which we believe 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 ("LTV") at the time of funding.

A decline in Canadian residential property values of up to 15% in some markets has been predicted by some forecasters. Such a decline and the expected increase in unemployment may result in an increase in arrears and potential loan losses. Loan to property value ratios are generally under 75% in our portfolio and our borrowers have indicated good payment discipline in the past. Our account management and that of our mortgage servicers is proactive in managing arrears. We believe that these factors will mitigate loan losses. We continue to regard residential mortgages as a solid investment asset class.

Loans and investments decreased by \$15 million, primarily due to the payouts of a loan to a private investor and an equity investment during the quarter. The CMB interest-only strips, which are retained interests in the securitized mortgages consisting of the discounted value of future mortgage interest and principal reinvestment interest receipts less coupon interest payments, increased by \$3.0 million during the quarter. The interest-only strips increase (decrease) in value as cash is paid (received). During the quarter, we recognized new interest-only strips of \$4.0 million upon the closing of this quarter's issuances, however this increase was partially offset by a \$1.9 million downward adjustment in the fair value of the interest-only strips.

The restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord") was finalized on January 21, 2009. Prior to the finalization of the restructuring for the Montreal Accord, we held securitization investments subject to the Montreal Accord as follows: ABCP of \$2.1 million (net of a \$2.0 million write-down), commercial securitization program investment of \$458,000. The restructuring converted the existing ABCP into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes 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. The commercial securitization program investment was converted to Master Asset Vehicle III ("MAV III") unrated class 20 A-1 notes. After performing a valuation of the new notes, we recorded a \$2.0 million write-down on the MAV II investments.

Our equity investment in MCLP decreased by \$564,000, consisting of the net of equity income for the quarter of \$149,000 and distributions received of \$713,000.

Other assets at March 31, 2009 consist almost entirely of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps increased significantly during 2008 and early 2009 as a result of a substantial decrease in forward interest rates. Other assets also include capital assets, prepaid expenses, accounts receivable and deferred costs.

**Liabilities and shareholders' equity**

(in thousands)

	<b>March 31</b>	<b>December 31</b>	<b>Increase</b>
	<b>2009</b>	<b>2008</b>	<b>(Decrease)</b>
<b>Liabilities</b>			
Term deposits	\$ 412,164	\$ 426,663	\$ (14,499)
Securitization liabilities	8,112	7,095	1,017
Accounts payable and accrued charges	4,377	12,186	(7,809)
Future taxes payable	5,280	7,601	(2,321)
	<u>429,933</u>	<u>453,545</u>	<u>(23,612)</u>
<b>Shareholders' equity</b>			
Share capital	98,184	97,493	691
Contributed surplus	510	510	-
Retained earnings	15,805	17,313	(1,508)
Accumulated other comprehensive income (loss)	(191)	1,293	(1,484)
	<u>114,308</u>	<u>116,609</u>	<u>(2,301)</u>
	<b>\$ 544,241</b>	<b>\$ 570,154</b>	<b>\$ (25,913)</b>

Term deposits decreased by \$14 million during the quarter. To fund our investment operations, we issue term deposits that are insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation. We do not use capital markets (including asset-backed commercial paper) for liquidity.

Securitization liabilities relate to CMB interest-only strips in liability positions. The interest-only strips usually only go into liability positions after a significant decrease in forward rates after issuance, which was the case with certain interest-only strips in late 2008 and early 2009. The decreases in the fair value of the interest-only strips have been offset by increases in the fair value of CMB interest rate swaps (included in other assets).

Share capital increased by \$691,000, which was raised through the dividend reinvestment plan for the January 2, 2009 and March 31, 2009 dividends and the issuance of new shares as part of the Executive Share Purchase Plan.

Retained earnings decreased by \$1.5 million during the quarter. The decrease was a result of the first quarter dividend of \$9.7 million, partly offset by quarterly income of \$6.4 million and a recovery to retained earnings of \$1.8 million relating to current and future income taxes.

Accumulated other comprehensive income (loss) represents the changes in unrealized gains or losses (net of taxes) on available for sale financial assets and cash flow hedges. The change in the quarter is a result of a significant decrease in the fair market value adjustment of available for sale fixed-rate mortgages. During the quarter, we revised the market rates used for this calculation to reflect the minimum mortgage yield required for this asset class. This yield requirement is reviewed continually. The decrease during the quarter reflects a higher minimum yield.

**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 strips consist of the discounted value of future mortgage interest and principal reinvestment interest 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 occurred with certain interest-only strips in 2008. In addition, we recognize liabilities for future mortgage servicing, which we subcontract to MSC, and other costs. For tax purposes, we recognize CMB-related income on the cash basis, wherein the payment of upfront CMB expenses is a deduction from taxable income at the date of issuance, and the ongoing collection of net CMB cash flows, representing the interest-only strips, is recognized in taxable income as received over the duration of the issuance.

In addition, we earn residual securitization income, which 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-only strips and interest rate swaps.

During the quarter, we securitized \$364 million of mortgages through the CMB program. We recorded \$4.0 million of interest-only strips and \$414,000 of liabilities on the respective closing dates.

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. Changes in the fair market value of the interest rate swap assets generally offset the changes in the fair value of the interest-only strips.

## CONTRACTUAL OBLIGATIONS

We have contractual obligations to make principal and interest payments on term deposits and an operating lease. In addition, we have outstanding commitments for future fundings of mortgages intended for our own portfolio, almost all of which relate to floating rate construction loans.

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

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 388,897	\$ 23,267	\$ -	\$ 412,164
Operating lease	148	370	-	518
Mortgage fundings	87,956	-	-	87,956
CMB obligations	762	1,871	-	2,633
	<b>\$ 477,763</b>	<b>\$ 25,508</b>	<b>\$ -</b>	<b>\$ 503,271</b>

## FUTURE CHANGES IN ACCOUNTING POLICY

### International Financial Reporting Standards

For the fiscal year commencing January 1, 2011, we will cease to use Canadian Generally Accepted Accounting Principles ("GAAP") and will adopt International Financial Reporting Standards ("IFRS"). We have commenced a project, the purpose of which 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 plan will address key areas such as accounting policies, financial reporting, information systems, education and training, disclosure controls and procedures, internal controls over financial reporting and other business activities.

As part of the plan, we are currently identifying differences in accounting policies on an ongoing basis and with respect to certain choices to effect conversion in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. We have completed the diagnostic phase of the plan, which has identified the following accounting differences that may potentially have a significant impact:

- First-time adoption of IFRS
- Allowance for credit losses
- Securitization
- Equity investments
- Financial statement preparation, presentation and disclosure

We acknowledge that the above list does not include all possible significant items that will occur upon the transition to IFRS. The impact on our information technology, data systems and processes will be dependent on the magnitude of the change resulting from these and other items.

We are monitoring the potential impact of changes to financial reporting processes, internal controls over financial reporting and disclosure controls and procedures. We have not yet quantified the effects of the potential significant differences between GAAP and IFRS nor their materiality. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. We will continue to assess the impact of adopting IFRS and will update our MD&A disclosures on a quarterly basis to report on the progress of our IFRS plan.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2009, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of MCAN, along with the assistance of the Company's disclosure committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that material information relating to MCAN is made known to the CEO and CFO, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## OUTLOOK

The continuing disruption in the financial markets has afforded us with opportunities to acquire mortgages on a profitable basis. While these transactions are opportunistic and cannot be planned, we expect that the disruption in the financial markets will not materially improve for several months, and as such, future acquisition opportunities may present themselves. We plan to retain investment capacity so that we can take advantage of these opportunities.

The decreases in the prime rate from 2008 and early 2009 will continue to have an adverse effect on net investment income over the next several quarters. New term deposit funding rates have not decreased to this extent, which will continue to compress spread income in the near term. With the exception of the floating rate mortgages purchased as part of the portfolio acquisitions, we have increased our fixed rate mortgage portfolio and decreased our floating rate mortgage portfolio in order to minimize this compression. We are generally targeting fixed rate mortgages, rather than floating rate mortgages. For new and existing floating rate mortgages, we are establishing minimum rates whenever possible, to protect our spread income. Higher profitability from the CMB program and the acquired portfolios has more than offset the reduction in spread income.

Slower economic activity has moderated housing market activity, compared to last year, and we expect this to continue for the balance of the year. Arrears on single family mortgages have risen due to job losses and we expect this will also continue throughout the year. Property values have declined over the past year, and we anticipate further declines.

The disruption in the financial markets has not yet resolved itself and this could be several months away. Management does not believe that this disruption has materially affected the capital or liquidity of the Company.

## DIVIDENDS

The Board of Directors declared a second quarter dividend of \$0.25 per share to be paid June 30, 2009 to shareholders of record as of June 15, 2009.



Blaine Welch  
President and Chief Executive Officer



Tammy Oldenburg  
Vice President and Chief Financial Officer

*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 the Company's 2009 Annual Information Form, which are incorporated herein by reference. These and other factors should be considered carefully and undue reliance should not be placed on the Company's forward-looking statements. Subject to applicable securities law requirements, we do not undertake to update any forward-looking statements.*

## Notice required under National Instrument 51-102, "Continuous Disclosure Obligations," Part 4.3 (3)(a).

The accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

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

**CONSOLIDATED BALANCE SHEETS**  
(Unaudited) (dollars in thousands)

<b>As at</b>	<b>Note</b>	<b>March 31 2009</b>	<b>December 31 2008</b>	<b>March 31 2008</b>
<b>Assets</b>				
<b>Investments</b>				
Cash and cash equivalents		\$ 31,014	\$ 58,071	\$ 9,817
Mortgages	2	407,706	393,010	452,210
Loans and investments	4	60,670	75,367	66,633
Equity investment in MCAP Commercial LP		17,736	18,300	17,396
Marketable securities		-	-	126
		<b>517,126</b>	<b>544,748</b>	<b>546,182</b>
Other assets	7	27,115	25,406	6,725
		<b>\$ 544,241</b>	<b>\$ 570,154</b>	<b>\$ 552,907</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Liabilities</b>				
Term deposits		\$ 412,164	\$ 426,663	\$ 442,582
Securitization liabilities	5	8,112	7,095	-
Accounts payable and accrued charges		4,377	12,186	6,256
Future taxes payable		5,280	7,601	1,181
		<b>429,933</b>	<b>453,545</b>	<b>450,019</b>
<b>Shareholders' Equity</b>				
Share capital	6	98,184	97,493	97,190
Contributed surplus		510	510	510
Retained earnings		15,805	17,313	6,853
Accumulated other comprehensive income (loss)		(191)	1,293	(1,665)
		<b>114,308</b>	<b>116,609</b>	<b>102,888</b>
		<b>\$ 544,241</b>	<b>\$ 570,154</b>	<b>\$ 552,907</b>

*See accompanying notes*

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

<b>For the Quarters Ended March 31</b>	<b>Note</b>	<b>2009</b>	<b>2008</b>
<b>Investment Income</b>			
Mortgage interest		\$ 6,716	\$ 7,548
Interest on loans and investments		1,243	1,910
Fees		2,339	799
Equity income from MCAP Commercial LP		149	301
Securitization income	3	2,274	1,999
Interest on cash and cash equivalents		92	401
Gain (loss) on sale of mortgages		1	(4)
Marketable securities		-	4
		<b>12,814</b>	<b>12,958</b>
<b>Financial Expenses</b>			
Term deposit interest and expenses		4,047	5,358
Mortgage expenses		764	939
Provision for losses		300	597
		<b>5,111</b>	<b>6,894</b>
<b>Net Investment Income</b>		<b>7,703</b>	<b>6,064</b>
<b>Operating Expenses</b>			
Salaries and benefits		525	434
General and administrative		744	488
		<b>1,269</b>	<b>922</b>
<b>Income Before Income Taxes</b>		<b>6,434</b>	<b>5,142</b>
Provision for income taxes and large corporations taxes		-	-
<b>Net Income</b>		<b>\$ 6,434</b>	<b>\$ 5,142</b>
<b>Basic and diluted earnings per share</b>		<b>\$ 0.45</b>	<b>\$ 0.36</b>
<b>Dividends per share</b>		<b>\$ 0.68</b>	<b>\$ 0.23</b>
<b>Weighted average number of basic and diluted shares (000's)</b>		<b>14,247</b>	<b>14,148</b>

*See accompanying notes*

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

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
<b>Share capital</b>		
Balance, beginning of period	\$ 97,493	\$ 96,370
Common shares issued	691	820
Balance, end of period	<b>98,184</b>	<b>97,190</b>
<b>Contributed surplus</b>		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	<b>510</b>	<b>510</b>
<b>Retained earnings</b>		
Balance, beginning of period	17,313	6,654
Net income	6,434	5,142
Income taxes recovered (charged) to retained earnings	1,753	(1,684)
Dividends declared	(9,695)	(3,259)
Balance, end of period	<b>15,805</b>	<b>6,853</b>
<b>Accumulated other comprehensive income</b>		
Balance, beginning of period	1,293	(527)
Other comprehensive income (loss)	(1,484)	(1,138)
Balance, end of period	<b>(191)</b>	<b>(1,665)</b>
<b>Total shareholders' equity</b>	<b>\$ 114,308</b>	<b>\$ 102,888</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited) (dollars in thousands)

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
<b>Net income</b>	<b>\$ 6,434</b>	<b>\$ 5,142</b>
<b>Other comprehensive income (loss), net of income taxes</b>		
Change in unrealized gain on available for sale mortgages	(1,503)	309
Change in unrealized gain on available for sale loans and investments	17	(1,425)
Change in cash flow hedges	2	2
Change in unrealized gain on available for sale marketable securities	-	(24)
Other comprehensive income (loss)	(1,484)	(1,138)
<b>Comprehensive income</b>	<b>\$ 4,950</b>	<b>\$ 4,004</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited) (dollars in thousands)

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
<b>Cash Provided by (used for):</b>		
<b>Operating Activities</b>		
Net income	\$ 6,434	\$ 5,142
Adjusted for non-cash items:		
Equity income	(156)	(297)
Provision for losses	300	597
Securitization income	(1,307)	(1,876)
Amortization of other assets	260	201
Amortization of mortgage discounts	(669)	-
Loss (gain) on sale of mortgages	(1)	4
Distributions from MCAP Commercial LP	713	-
Increase in accounts receivable	(367)	(688)
Decrease in accounts payable and accrued charges	(5,416)	(1,488)
<b>Cash flows (for) from operating activities</b>	<b>(209)</b>	<b>1,595</b>
<b>Investing Activities</b>		
Mortgage advances	(710,638)	(561,538)
Mortgage reductions	61,514	63,377
Proceeds on sale of mortgages	631,551	456,227
Decrease in loans and investments	18,243	5,080
Additions to other assets	(459)	(261)
<b>Cash flows from (for) investing activities</b>	<b>211</b>	<b>(37,115)</b>
<b>Financing Activities</b>		
Issue of term deposits	117,818	125,052
Repayment of term deposits	(132,317)	(127,838)
Issue of common shares	691	820
Dividends paid	(13,251)	(6,501)
<b>Cash flows for financing activities</b>	<b>(27,059)</b>	<b>(8,467)</b>
Decrease in cash and cash equivalents	(27,057)	(43,987)
Cash and cash equivalents, beginning of period	58,071	53,804
<b>Cash and cash equivalents, end of period</b>	<b>\$ 31,014</b>	<b>\$ 9,817</b>

**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. MCAN holds a 25% voting interest in MCLP.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods of application as the Company’s consolidated financial statements for the year ended December 31, 2008. Under GAAP, additional disclosures are required in the annual financial statements and accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008 and the accompanying notes included on pages 19 to 41 of the Company’s 2008 Annual Report. The interim consolidated financial statements include all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the periods presented.

**2. Mortgages**

<b>As at March 31</b>	<b>Principal</b>	<b>Allowance</b>	<b>2009 Net</b>
Single family mortgages			
- Uninsured	\$ 151,705	\$ 980	\$ 150,725
- Uninsured (completed inventory loans)	40,970	411	40,559
- Insured	30,006	-	30,006
Construction loans			
- Residential	171,272	1,535	169,737
- Non-residential	7,864	70	7,794
Commercial	6,787	99	6,688
	<b>408,604</b>	<b>3,095</b>	<b>405,509</b>
Fair value adjustment	124	-	124
	<b>408,728</b>	<b>3,095</b>	<b>405,633</b>
Accrued interest	2,073	-	2,073
	<b>\$ 410,801</b>	<b>\$ 3,095</b>	<b>\$ 407,706</b>

<b>As at March 31</b>	<b>Principal</b>	<b>Allowance</b>	<b>2008 Net</b>
Single family mortgages			
- Uninsured	\$ 159,541	\$ 927	\$ 158,614
- Uninsured (completed inventory loans)	36,969	337	36,632
- Insured	24,987	-	24,987
Construction loans			
- Residential	196,189	1,741	194,448
- Non-residential	5,544	49	5,495
Commercial	30,476	397	30,079
	<b>453,706</b>	<b>3,451</b>	<b>450,255</b>
Fair value adjustment	(185)	-	(185)
	<b>453,521</b>	<b>3,451</b>	<b>450,070</b>
Accrued interest	2,140	-	2,140
	<b>\$ 455,661</b>	<b>\$ 3,451</b>	<b>\$ 452,210</b>

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 or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2009**  
**MCAN MORTGAGE CORPORATION**  
 MARCH 31, 2009 (Dollar amounts in thousands except for per share amounts)

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.

There were no significant fluctuations in mortgage balances during the quarter.

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 March 31, 2009, the Company holds discounted mortgages with an aggregate discount of \$32,005 (2008 - \$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. 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 March 31, 2009 is as follows:

	<b>Gross Discount</b>	<b>Amortized Discount</b>	<b>Net Discount</b>
Fixed rate	\$ 10,500	\$ 96	\$ 10,404
Floating rate	21,641	40	21,601
	<b>\$ 32,141</b>	<b>\$ 136</b>	<b>\$ 32,005</b>

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.

The geographical breakdown of mortgages by province is as follows:

	<b>Single Family</b>	<b>Construction</b>	<b>Commercial</b>	<b>2009 Total</b>	
Ontario	\$ 97,657	\$ 59,570	\$ 4,819	\$ 162,046	39.8%
Alberta	73,009	75,936	-	148,945	36.5
British Columbia	27,384	39,755	525	67,664	16.6
Other	24,412	3,056	1,583	29,051	7.1
	<b>\$ 222,462</b>	<b>\$ 178,317</b>	<b>\$ 6,927</b>	<b>\$ 407,706</b>	<b>100.0%</b>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2009  
 MCAN MORTGAGE CORPORATION  
 MARCH 31, 2009 (Dollar amounts in thousands except for per share amounts)

	Single Family	Construction	Commercial	2008 Total	
Ontario	\$ 121,109	\$ 64,653	\$ 13,803	\$ 199,565	44.1%
Alberta	60,143	103,039	3,617	166,799	36.9
British Columbia	30,147	30,673	580	61,400	13.6
Other	9,501	2,691	12,254	24,446	5.4
	<b>\$ 220,900</b>	<b>\$ 201,056</b>	<b>\$ 30,254</b>	<b>\$ 452,210</b>	<b>100.0%</b>

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$87,956 at March 31, 2009 (2008 - \$98,269). Substantially all of these commitments relate to floating rate construction loans.

The details of the mortgage allowances are as follows:

	General	Specific	2009 Total	General	Specific	2008 Total
Balance, beginning of quarter	\$ 2,639	\$ 164	\$ 2,803	\$ 3,217	\$ 67	\$ 3,284
Provisions (recoveries)	404	(20)	384	164	4	168
Write-offs	(92)	-	(92)	(1)	-	(1)
<b>Balance, end of quarter</b>	<b>\$ 2,951</b>	<b>\$ 144</b>	<b>\$ 3,095</b>	<b>\$ 3,380</b>	<b>\$ 71</b>	<b>\$ 3,451</b>

At March 31, 2009, the Company had \$144 of specific provisions (2008 - \$71), as follows: uninsured single family - \$144 (2008 - \$4), residential construction - \$nil (2008 - \$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	2009 Total
Single family - uninsured	\$ 9,670	\$ 5,420	\$ 1,917	\$ -	\$ 17,007
Single family - insured	593	86	288	-	967
Residential construction	3,184	327	7,466	-	10,977
	<b>\$ 13,447</b>	<b>\$ 5,833</b>	<b>\$ 9,671</b>	<b>\$ -</b>	<b>\$ 28,951</b>

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2008 Total
Single family - uninsured	\$ 7,985	\$ 4,330	\$ 2,949	\$ -	\$ 15,264
Single family - insured	728	440	-	36	1,204
	<b>\$ 8,713</b>	<b>\$ 4,770</b>	<b>\$ 2,949</b>	<b>\$ 36</b>	<b>\$ 16,468</b>

Impaired loans are as follows:

	Single Family	Residential Construction	2009 Total	Single Family	Residential Construction	2008 Total
Ontario	\$ 1,962	\$ 1,197	\$ 3,159	\$ 1,008	\$ 848	\$ 1,856
Alberta	2,155	-	2,155	1,559	-	1,559
British Columbia	542	-	542	-	-	-
Other	325	-	325	-	-	-
	<b>\$ 4,984</b>	<b>\$ 1,197</b>	<b>\$ 6,181</b>	<b>\$ 2,567</b>	<b>\$ 848</b>	<b>\$ 3,415</b>

### 3. Securitization Income

For the Quarters Ended March 31	2009	2008
Gain on securitization	\$ 1,883	\$ 1,164
Residual securitization income	391	835
	<b>\$ 2,274</b>	<b>\$ 1,999</b>

During the quarter, the Company securitized \$364,260 (2008 - \$323,614) of insured single family mortgages through the Canada Mortgage Bonds (“CMB”) program. The Company participated in the securitization with MCAP Service Corporation (“MSC”).

Upon sale, the Company recognized an interest-only strip of \$3,978 (2008 - \$4,275), which is a retained interest in the securitized mortgages, included in securitization investments (note 4). The Company’s interest-only strips consist of the discounted value of future mortgage interest and principal reinvestment interest receipts less coupon interest payments. In addition, the Company established a liability for future mortgage servicing and other costs totalling \$414 (2008 - \$413) that is included in accounts payable and accrued charges. The Company subcontracts CMB servicing obligations to MSC. The net outstanding interest-only strip position at March 31, 2009 was a liability of \$1,888 (2008 - asset of \$5,201), while total outstanding CMB liabilities were \$2,405 (2008 - \$1,688).

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 and interest-only strips. Fair value changes had a negative impact of \$898 to income during the quarter (2008 - positive impact of \$599). In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however a severe steepening of the forward rate curve during the quarter had an unexpected negative impact to income.

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

<b>For the Quarters Ended March 31</b>	<b>2009</b>	<b>2008</b>
Proceeds from new securitizations	\$ 367,026	\$ 326,417
Net cash flows received on interest-only strips	\$ 512	\$ 3,363
Net cash flows paid on CMB servicing and other liabilities	\$ 159	\$ 54

#### 4. Loans and Investments

		<b>2009</b>	<b>2008</b>
Securitization investments (a)		\$ 35,874	\$ 30,390
Loans receivable and other investments (b)		24,796	36,243
		<b>\$ 60,670</b>	<b>\$ 66,633</b>

##### (a) Securitization Investments

##### Investments in Securitization Programs

<b>As at March 31</b>	<b>Principal</b>	<b>Allowance</b>	<b>2009 Net</b>	<b>2008 Net</b>
Subordinated loan - residential mortgage securitization program	\$ 7,704	\$ -	\$ 7,704	\$ 10,133
Asset-backed commercial paper	4,580	2,000	2,580	2,922
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	5,337	-	5,337	6,845
- first loss position	2,365	-	2,365	3,030
Bonds - commercial securitization program	-	-	-	461
	<b>\$ 19,986</b>	<b>\$ 2,000</b>	<b>\$ 17,986</b>	<b>\$ 23,391</b>

The restructuring of Third Party Structured Asset-Backed Commercial Paper (“ABCP”) by the Pan-Canadian Investors Committee (the “Montreal Accord”) was finalized on January 21, 2009. Prior to the finalization of the restructuring for the Montreal Accord, the Company held securitization investments subject to the Montreal Accord as follows: ABCP of \$2,122 (net of a \$2,000 write-down), commercial securitization program investment of \$458. The restructuring converted the existing ABCP into Master Asset Vehicle II (“MAV II”) investments as follows: class A-1 notes 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. The commercial securitization program investment was converted to Master Asset Vehicle III (“MAV III”) unrated class 20 A-1 notes. After performing a valuation of the new notes, the Company recorded a \$2,000 write-down on the MAV II investments.

**Other Securitization Investments**

<b>As at March 31</b>	<b>2009</b>	<b>2008</b>
CMB - interest-only strips	\$ 6,224	\$ 5,201
Insured mortgage-backed securities	11,241	-
Other securitization assets	423	1,798
	<b>\$ 17,888</b>	<b>\$ 6,999</b>
<b>Total securitization investments</b>	<b>\$ 35,874</b>	<b>\$ 30,390</b>

**(b) Loans Receivable and Other Investments**

Loans receivable and other investments consist of loans to private entities and employees. At March 31, 2009, loans receivable and other investments was net of an allowance of \$285 (2008 - \$286).

**5. Securitization Liabilities**

	<b>2009</b>	<b>2008</b>
CMB - interest only strips	\$ 8,112	\$ -

As at March 31, 2009, certain CMB interest-only strips were in a liability position, primarily due to a significant decrease in forward interest rates during 2008 and early 2009. CMB interest-only strips in an asset position at March 31, 2009 totalled \$6,224 (note 4). On a net basis, CMB interest-only strips were in a liability position of \$1,888 at March 31, 2009 (2008 - net asset position of \$5,201). 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 an asset position of \$24,357 at March 31, 2009 (2008 - asset position of \$4,115).

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 designation of interest-only strips previously designated as available for sale financial assets was revised to held for trading financial liabilities. All fair value changes previously recognized through accumulated other comprehensive income were reversed at December 31, 2008, and since that time have been recognized through income.

**6. Share Capital**

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

<b>Issued</b>	<b>Number of Shares</b>	<b>2009</b>	<b>Number of Shares</b>	<b>2008</b>
Balance, January 1	14,223,506	\$ 97,493	14,097,994	\$ 96,370
Issued				
Dividend reinvestment plan	55,324	537	52,350	484
Executive Share Purchase Plan	16,602	154	38,941	336
<b>Balance, March 31</b>	<b>14,295,432</b>	<b>\$ 98,184</b>	<b>14,189,285</b>	<b>\$ 97,190</b>

As at May 12, 2009, the Company had 14,295,432 common shares outstanding. Shares are issued out of treasury for the dividend reinvestment plan and the Executive Share Purchase Plan at the average closing price for the 20 days preceding such issues.

**7. 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.

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

	Less than one year	One to five years	Over five years	2009 Total	2008 Total
CMB interest rate swaps - fair value	\$ -	\$ 24,357	\$ -	\$ 24,357	\$ 4,115
CMB interest rate swaps - outstanding notional	\$ -	\$ 152,894	\$ -	\$ 152,894	\$ 38,057

The interest rate swaps are included in other assets if positive, and accounts payable and accrued liabilities if negative. At March 31, 2009, the interest rate swaps were in an asset position of \$24,357 (2008 - asset position of \$4,115). Changes in the fair value of the swaps are included in residual securitization income.

**8. 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. The Company typically pays out all of its taxable income by way of dividends, so capital growth is achieved through rights offerings and the dividend reinvestment plan.

The Company's capital management is driven by the guidelines set out by the Tax Act and the Superintendent of Financial Institutions Canada (“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.

The Company adopted the Basel II capital management framework effective January 1, 2008. The Company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk.

Tier 1 capital includes 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%.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2009**  
**MCAN MORTGAGE CORPORATION**  
MARCH 31, 2009 (Dollar amounts in thousands except for per share amounts)

<b>As at March 31</b>	<b>2009</b>	<b>2008</b>
<b>Tax Act Test</b>		
Income tax assets	\$ 527,636	\$ 549,752
Income tax capital	\$ 113,352	\$ 102,725
Income tax assets to capital ratio	4.65	5.35
<b>Regulatory Tests (OSFI)</b>		
Tier 1 capital		
Share capital	\$ 98,184	\$ 97,190
Contributed surplus	510	510
Retained earnings	15,805	6,853
Unrealized loss on available for sale marketable securities	-	(58)
Tier 1 capital deductions	(6,857)	(3,709)
	<u>107,642</u>	<u>100,786</u>
Tier 2 capital		
Tier 2 capital deductions	(1,493)	(1,849)
	<u>(1,493)</u>	<u>(1,849)</u>
Total capital	<u>\$ 106,149</u>	<u>\$ 98,937</u>
Total regulatory assets	\$ 550,977	\$ 562,255
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	22.57%	18.97%
Total capital to risk-weighted assets ratio	22.26%	18.63%
Assets to capital multiple	5.19	5.68

As of March 31, 2009, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

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

<b>As at March 31</b>	<b>2009</b>		<b>2008</b>	
	<b>Balance</b>	<b>Risk-Weighted</b>	<b>Balance</b>	<b>Risk-Weighted</b>
<b>On-Balance Sheet Assets</b>				
Cash and cash equivalents	\$ 31,014	\$ 6,832	\$ 9,817	\$ 2,704
Mortgages	407,706	282,993	452,210	325,860
Loans and investments	60,670	59,360	66,633	85,051
Equity investment in MCLP	17,736	17,736	17,396	17,396
Other assets	27,115	2,759	6,725	2,608
Marketable securities	-	-	126	126
	<u>\$ 544,241</u>	<u>\$ 369,680</u>	<u>\$ 552,907</u>	<u>\$ 433,745</u>
<b>Off-Balance Sheet Assets</b>				
Letters of credit		5,972		5,603
Mortgage funding commitments		43,978		49,135
		<u>49,950</u>		<u>54,738</u>
<b>Derivative Financial Instruments</b>				
Interest rate swaps		5,024		858
Charge for operational risk		52,188		41,850
<b>Total Risk-Weighted Assets</b>		<u>\$ 476,842</u>		<u>\$ 531,191</u>

## 9. 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 March 31, 2009 that were restructured under 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 2.75% (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 7.6% related to the amount of unrated notes received as part of 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. Based on the valuations from this sensitivity analysis, the Company recorded a \$2,000 write-down on the new commercial paper received upon the finalization of the Montreal Accord.

### Risk Management

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

### Interest Rate Risk

The Company's exposure to interest rate risk is discussed in note 10.

### 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 of the Board ("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 has established a methodology for determining the adequacy of its general allowances. At March 31, 2009, the general allowance was \$3,095, equating to 0.76% of mortgage assets. Actual loss experience over the past 10 years has been 0.02% per annum. The adequacy of general allowances is assessed periodically, taking into consideration such factors as economic and housing market conditions.

The Company's maximum credit 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 in excess of 20% of term deposits maturing within 100 days. In addition, single family mortgages are generally saleable 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 the Canada Deposit Insurance Corporation. 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 43% of term deposits maturing within 100 days at March 31, 2009. For further details on the Company's liquid assets and ability to meet liability obligations, refer to note 10.

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.

	<b>Within 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>2009 Total</b>	<b>2008 Total</b>
<b>Sources of liquidity</b>						
Cash and cash equivalents	\$ 31,014	\$ -	\$ -	\$ -	\$ 31,014	\$ 9,817
Mortgages	122,663	151,116	104,724	29,203	407,706	452,210
Loans and investments	23,338	5,231	19,390	12,711	60,670	66,633
Marketable securities	-	-	-	-	-	126
	<u>177,015</u>	<u>156,347</u>	<u>124,114</u>	<u>41,914</u>	<u>499,390</u>	<u>528,786</u>
<b>Uses of liquidity</b>						
Term deposits	122,268	266,629	23,267	-	412,164	442,582
Securitization liabilities	-	-	8,112	-	8,112	-
Accounts payable and accrued charges	3,606	-	-	-	3,606	5,107
	<u>125,874</u>	<u>266,629</u>	<u>31,379</u>	<u>-</u>	<u>423,882</u>	<u>447,689</u>
Unfunded mortgage commitments	8,796	70,364	8,796	-	87,956	98,269
	<u>134,670</u>	<u>336,993</u>	<u>40,175</u>	<u>-</u>	<u>511,838</u>	<u>545,958</u>
<b>Net liquidity surplus (deficit)</b>	<b>\$ 42,345</b>	<b>\$ (180,646)</b>	<b>\$ 83,939</b>	<b>\$ 41,914</b>	<b>\$ (12,448)</b>	<b>\$ (17,172)</b>

**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.

**10. 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2009**  
**MCAN MORTGAGE CORPORATION**  
MARCH 31, 2009 (Dollar amounts in thousands except for per share amounts)

The interest rate sensitivity analysis is based on the Company's balance sheet as at March 31, 2009 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:

	<b>Floating Rate</b>	<b>Within 3 Months</b>	<b>3 Months to 1 Year</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Non- Interest Sensitive</b>	<b>2009 Total</b>	<b>2008 Total</b>
<b>ASSETS</b>								
<b>Investments</b>								
Cash and cash equivalents	\$ 31,014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,014	\$ 9,817
Mortgages	235,790	38,729	39,043	88,384	777	4,983	407,706	452,210
Loans and investments	33,243	253	100	6,359	11,781	8,934	60,670	66,633
Equity investment in MCAP Commercial LP	-	-	-	-	-	17,736	17,736	17,396
Marketable securities	-	-	-	-	-	-	-	126
	300,047	38,982	39,143	94,743	12,558	31,653	517,126	546,182
Other assets	-	-	-	-	-	27,115	27,115	6,725
<b>Total Assets</b>	<b>\$ 300,047</b>	<b>\$ 38,982</b>	<b>\$ 39,143</b>	<b>\$ 94,743</b>	<b>\$ 12,558</b>	<b>\$ 58,768</b>	<b>\$ 544,241</b>	<b>\$ 552,907</b>
Yield	5.49%	7.29%	7.48%	7.57%	6.51%	-		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Term deposits	\$ -	\$ 122,268	\$ 266,629	\$ 23,267	\$ -	\$ -	\$ 412,164	\$ 442,582
Securitization liabilities	-	-	-	8,112	-	-	8,112	-
Accounts payable and accrued charges	-	-	-	-	-	4,377	4,377	6,256
Future taxes payable	-	-	-	-	-	5,280	5,280	1,181
Shareholders' equity	-	-	-	-	-	114,308	114,308	102,888
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ -</b>	<b>\$ 122,268</b>	<b>\$ 266,629</b>	<b>\$ 31,379</b>	<b>\$ -</b>	<b>\$ 123,965</b>	<b>\$ 544,241</b>	<b>\$ 552,907</b>
Yield	-	3.43%	3.65%	4.22%	-	-		
<b>GAP</b>	<b>\$ 300,047</b>	<b>\$ (83,286)</b>	<b>\$ (227,486)</b>	<b>\$ 63,364</b>	<b>\$ 12,558</b>	<b>\$ (65,197)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>YIELD SPREAD</b>	<b>5.49%</b>	<b>3.86%</b>	<b>3.83%</b>	<b>3.35%</b>	<b>6.51%</b>	<b>-</b>		

An immediate and sustained 1% increase (decrease) to market interest rates at March 31, 2009 would have a positive (adverse) effect of \$947 (2008 - \$1,173) to net investment income over the following twelve month period.

An immediate 1% increase (decrease) to market interest rates at March 31, 2009 would have an adverse (positive) effect to accumulated other comprehensive income of \$2,130 (2008 - \$583).

## 11. Guarantees

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

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

- (a) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to MCLP's residential construction loan securitization program;

- (b) 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
- (c) 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 March 31, 2009, the outstanding bank loan balances were \$8,301.

## **12. Comparative Amounts**

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.

## **13. 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.