



ANNUAL REPORT 2006
MCAN MORTGAGE CORPORATION

TABLE OF CONTENTS

Message To Shareholders	2
Management’s Discussion And Analysis Of Operations.....	4
Consolidated Financial Statements	16
Directors.....	34
Officers And Management.....	34
Corporate Information	35

MESSAGE TO SHAREHOLDERS

This was another successful year for MCAN Mortgage Corporation (“MCAN”, the “Company” or “we”). We achieved record results and fully invested the balance sheet. We continue to manage the Company as a closed end investment fund that invests primarily in mortgages.

At our strategic planning meetings last fall, we reconfirmed our mission statement as follows:

To achieve superior and sustainable returns for our shareholders by employing expert balance sheet management and by leveraging our investment expertise and relationships.

At the same time, we reiterated our seven operating philosophies as follows:

- Preservation of capital
- Undoubted compliance
- Prudent and innovative lending
- Quick response capital
- Depositor service excellence
- Cost efficiency
- Open and forthright communication with all stakeholders

In our 2005 annual report, I discussed our objectives for 2006. Our performance against these objectives is discussed below.

1. To fully invest the asset side of the balance sheet to earn acceptable and sustainable risk weighted returns.

In 2006, we achieved significant asset growth. Total assets at the end of 2006 were \$498 million, up \$64 million from 2005. The majority of this growth took place during the third quarter, and reflects increases in mortgages (mainly construction and commercial).

2. To operate at a standard of compliance and disclosure that reinforces the trust and confidence of regulators and investors.

We continue to provide clear and forthright communications to our regulators and investors. During 2006, the Superintendent of Financial Institutions Canada (“OSFI”) granted us an increase in our limit for construction loans from 200% of regulatory capital, to 250%. Also during the past year, we took steps to strengthen our systems and procedures to combat terrorism financing and money laundering. We plan to make further progress on this initiative in 2007.

3. To position the Company as an independent entity in its own right.

On September 15, 2006, we changed our name from MCAP Inc. to MCAN Mortgage Corporation. This change has eliminated any confusion in the marketplace between our operations and those of MCAP Commercial LP (“MCLP”) as well as its associates and affiliates.

4. To contribute to the success of MCLP through direct support for specific asset strategies and programs.

We are closely aligned to MCLP through our equity ownership in the partnership. In addition, MCLP and its affiliates/associates originate and service the majority of the mortgages in which we invest. In 2006, we supported MCLP by continuing to provide various subordinate and first loss investments for securitization programs managed by MCLP. We plan to continue supporting these programs in the years to come. We also provided warehouse financing to a residential construction loan accumulation entity which is beneficially owned by MCLP.

5. To ensure long term funding capacity, through the deposit network or alternative sources.

In 2006, we internalized the administration of our term deposit business. Previously our deposits were administered by MCAP Service Corporation, an associate company of MCLP. At the same time we implemented a new deposit software technology which has superior functionalities to the previous system. We will continue to expand our utilization of these additional functionalities in order to provide improved customer service to our deposit brokers and to better manage our term deposit business.

In setting our strategic plan for 2007, we articulated four specific objectives, as follows:

1. *To fully invest the asset side of the balance sheet to earn acceptable and sustainable risk weighted returns.*
2. *To ensure adequate capital is and remains available through a variety of cost effective sources.*
3. *To operate at a standard of compliance and disclosure that reinforces the trust and confidence of regulators and investors.*
4. *To contribute to the success of MCLP through direct support for specific asset strategies and programs.*

* * * * *

In summary, we are very satisfied with our achievements in 2006. We had record earnings and grew our balance sheet to its optimal level. In 2007, our primary focus will be to keep our balance sheet fully invested and optimize risk weighted returns by adjusting the asset mix. We look forward to reporting to our shareholders on our success in this regard in one year's time.



Blaine Welch
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2006. This MD&A has been prepared as at March 2, 2007.

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

A 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 statements 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 2007 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. We do not undertake to update any forward-looking statements.

RESULTS OF OPERATIONS

MCAN reported net income of \$15.2 million for the year ended December 31, 2006, up from \$14.1 million in the prior year. Earnings per share were \$1.24 compared to \$1.18 in the prior year, an increase of 5%.

Selected Financial Information

(in thousands, except for per share amounts)	2006 ⁽¹⁾	2005 ⁽¹⁾	2004 ⁽²⁾	Change from 2005	%
Net investment income	\$ 18,971	\$ 17,714	\$ 22,437	\$ 1,257	7.1%
Operating expenses	<u>3,856</u>	<u>3,585</u>	<u>10,043</u>	<u>271</u>	<u>7.6%</u>
Income before income taxes	15,115	14,129	12,394	986	7.0%
Provision for (recovery of) income taxes and large corporation taxes	<u>(96)⁽³⁾</u>	<u>13⁽³⁾</u>	<u>793</u>	<u>(109)</u>	<u>(838.5%)</u>
Net income	<u>\$ 15,211</u>	<u>\$ 14,116</u>	<u>\$ 11,601</u>	<u>\$ 1,095</u>	<u>7.8%</u>
Earnings per share	\$ 1.24	\$ 1.18	\$ 1.12	\$ 0.06	5.1%
Diluted earnings per share	\$ 1.24	\$ 1.18	\$ 1.09	\$ 0.06	5.1%
Dividends per share	\$ 1.18	\$ 0.97	\$ 1.11	\$ 0.21	21.6%
Assets	\$ 498,107	\$ 434,369	\$ 454,365	\$ 63,738	14.7%
Liabilities	413,496	353,205	379,400	60,291	17.1%
Shareholders' equity	84,611	81,164	74,965	3,447	4.2%
Number of common shares outstanding at year-end	12,373	12,141	11,747	232	1.9%
Book value per common share	\$ 6.84	\$ 6.69	\$ 6.38	\$ 0.15	2.2%
Common share price – close	\$ 11.40	\$ 9.63	\$ 8.80	\$ 1.77	18.4%
Market capitalization	<u>\$ 141,052</u>	<u>\$ 116,918</u>	<u>\$ 103,374</u>	<u>\$ 24,134</u>	<u>20.6%</u>

1. Includes the mortgage origination and servicing business on an equity accounted basis for the full year.
2. Includes the mortgage origination and servicing business on a consolidated basis to April 19, 2004 and on an equity accounted basis thereafter.
3. In 2005, we commenced charging income taxes directly to retained earnings rather than to income as it is more likely than not that we will pay dividends (which are deductible from taxable income) in amounts sufficient to recover current or future tax liabilities.

Net Investment Income

(in thousands)	2006	2005	2004
Investment Income			
Mortgage interest	\$ 24,642	\$ 20,225	\$ 16,229
Interest on loans and other investments	4,528	3,097	1,966
Interest on cash and cash equivalents	571	412	659
Fees	3,161	3,356	4,920
Marketable securities	2,802	3,802	755
Equity income from MCAP Commercial LP	1,840	1,915	613
Gain (loss) on sale of mortgages	53	(17)	1,494
Gain on sale of MCAP Financial Corporation	-	-	4,967
Other income	-	-	2,958
	37,597	32,790	34,561
Financial Expenses			
Term deposit interest and expenses	14,710	11,688	9,876
Mortgage expenses	3,037	2,740	1,831
Provision for losses	879	648	417
	18,626	15,076	12,124
Net Investment Income	\$ 18,971	\$ 17,714	\$ 22,437

Net investment income was \$19.0 million compared to \$17.7 million in the same period of 2005, an increase of \$1.3 million.

Mortgage interest income increased by \$4.4 million over the prior year. This variance relates to an increase in the average mortgage yield to 6.99% in 2006 from 6.05% in 2005 and an \$18 million increase in the average mortgage portfolio (from \$328 million in 2005 to \$346 million in 2006).

Interest on loans and other investments increased by \$1.4 million over 2005, due to increases in the prime rate and a significantly higher average balance.

Interest on cash and cash equivalents increased by \$159,000 compared to the prior year due to higher average cash balances and increases in the prime rate.

In the current year, fees of \$3.2 million were recognized compared to \$3.4 million in 2005. Commitment fees earned on our residential construction loan portfolio decreased to \$2.2 million in 2006 from \$2.4 million last year. The decrease in commitment fee income is due to a higher volume of construction loan payouts in 2005. When a construction loan repays prior to maturity, the remaining unamortized fees are recognized directly to income. The balance of the fees in both years relates mainly to mortgagor fees, which include extension, renewal and letter of credit fees.

Marketable securities income decreased by \$1.0 million over 2005. The decrease is primarily due to only \$1.0 million of gains from the sale of marketable securities in 2006 compared to gains of \$2.3 million in 2005 (including the reversal of prior write-downs of \$330,000). The decrease was partly offset by higher distributions in 2006 as a result of a higher average portfolio.

During the fourth quarter of 2006, there was a general market decline in income trust units as a result of statements made by the federal government. We sold down a portion of our portfolio and realized gains of \$689,000 in the quarter. Due to the events of the fourth quarter of 2006, the net unrealized gain on the Company's marketable securities portfolio decreased to \$813,000 at the end of 2006 from \$2.5 million at December 31, 2005.

Equity income of \$1.8 million from our ownership in MCAP Commercial LP ("MCLP") was comparable to \$1.9 million last year. Current year equity income includes a \$201,000 gain on the dilution of our investment in MCLP. During 2006, MCLP issued non-voting units to a partnership of certain senior managers of MCLP such that MCAN's interest in MCLP was reduced from 25% to 22.8%.

There were gains on sale of mortgages of \$53,000 in 2006 compared to losses of \$17,000 last year. There were few mortgage sales in both years due primarily to narrow spreads.

Term deposit interest and expenses increased by \$3.0 million over 2005. The increase was due to an increase in the average term deposit interest rate to 3.82% in 2006 from 3.17% in 2005 and a \$26 million increase in the average term deposit balance to \$354 million in 2006 from \$328 million in 2005.

Mortgage expenses were \$3.0 million compared to \$2.7 million in 2005. The increase is primarily due to higher mortgage servicing expenses on the residential construction and commercial portfolios, consistent with the increase in the size of both portfolios.

Provisions for losses were \$879,000 in 2006, of which \$856,000 related to mortgages and \$77,000 related to loans receivable and other investments, net of a \$54,000 recovery of mortgages that had previously been written off. This compares to \$648,000 of provisions in 2005 which were comprised of \$605,000 of provisions for mortgages and \$43,000 of provisions relating to loans receivable and other investments. The provisions for losses on mortgages were higher in 2006, as our mortgage book grew more significantly in the current year than in 2005. Write-offs were 0.2 basis points (\$6,000) on average mortgage balances, compared to 1.3 basis points (\$44,000) in the prior year.

Impaired loans net of specific allowances ended the year at 0.28% of the total loan portfolio, compared to 0.53% at December 31, 2005. We continue to proactively monitor loan arrears, and to take prudent steps to collect overdue accounts.

Operating Expenses

(in thousands)	2006	2005	2004
Salaries and benefits	\$ 1,785	\$ 1,749	\$ 4,594
General and administrative	2,071	1,836	5,449
	\$ 3,856	\$ 3,585	\$ 10,043

Operating expenses were \$271,000 higher than last year. Salaries and benefits were comparable to the prior year, while general and administrative expenses increased as a result of a one-time expense recovery in 2005.

Income Taxes

(in thousands)	2006	2005	2004
Provision (recovery) against income	\$ (96)	\$ 13	\$ 793
Charge (recovery) to retained earnings	(387)	302	-
	\$ (483)	\$ 315	\$ 793

In 2005, management determined that it was more likely than not that sufficient dividends would be paid to shareholders in future periods to recover current and future taxes. Since that time, we have charged (recovered) our current and future tax liability directly to retained earnings. In 2006, our recovery of current and future taxes was \$387,000 (2005 - charge of \$302,000). The recovery of taxes of \$96,000 (2005 - provision of \$13,000) recorded in the consolidated statements of income relates to the payment (recovery) of large corporations, corporate minimum and other taxes which cannot be recovered from payment of future dividends.

Cash Flows

Operating activities provided cash flows of \$15 million in 2006, and provided \$11 million in 2005. This change relates mostly to higher net income and increased distributions from MCLP in 2006.

Investing activities used cash flows of \$80 million in 2006 compared to \$6 million provided in 2005, primarily as a result of a substantial increase in mortgages and loans and other investments in 2006 compared to a small decrease in the prior year.

Financing activities provided cash flows of \$50 million in 2006 compared to \$32 million used in 2005. The term deposit inflow in 2006 is consistent with asset growth in the year, while there was a net term deposit outflow in 2005 as our assets decreased.

Summary of Three Year Results of Operations

In 2004, we consolidated the mortgage origination and servicing business to April 19th. After that point and for all of 2005 and 2006, we equity accounted for our interest in the mortgage origination and servicing business through our investment in MCLP.

Net investment income increased in 2006 over the prior year, primarily due to increased returns from higher mortgage and loan and other investment balances and increases in the prime rate. In 2005 and 2006, marketable securities income increased over 2004 due to higher gains on sale. The decrease in net investment income in 2005 compared to 2004 was primarily due to the gain on the sale of MCAP Financial Corporation, significantly higher mortgage trading income and income from various elements of the mortgage origination and servicing business, all in 2004.

Operating expenses in 2006 were comparable to the prior year, with 2005 slightly lower due to a one-time expense recovery. There was a significant decrease in operating expenses in 2005 compared to 2004, mostly due to the three and a half months of the mortgage origination and servicing business included in 2004.

The 2006 provision for (recovery of) income taxes was comparable to the prior year as current and future taxes were charged (recovered) to retained earnings in both years. There was a significant decrease in the provision from 2004, as current and future income taxes were not charged (recovered) to retained earnings at that time.

SUMMARY OF FOURTH QUARTER RESULTS

The Company reported net income for the quarter ended December 31, 2006 of \$5.2 million (\$0.42 per share), up from \$5.0 million (\$0.41 per share) a year earlier as follows:

(in thousands, except for per share amounts)

For the Quarters Ended December 31	2006	2005
Net investment income	\$ 6,232	\$ 6,222
Operating expenses	1,080	1,145
Income before income taxes	5,152	5,077
Provision for (recovery of) income taxes and large corporation taxes	(54)	28
Net income	\$ 5,206	\$ 5,049
Basic and diluted earnings per share	\$ 0.42	\$ 0.41
Dividends per share	\$ 0.21	\$ 0.19

Net Investment Income

(in thousands)

For the Quarters Ended December 31	2006	2005
Investment Income		
Mortgage interest	\$ 6,858	\$ 5,459
Interest on loans and other investments	1,414	770
Interest on cash and cash equivalents	163	108
Fees	791	928
Marketable securities	1,133	1,843
Equity income from MCAP Commercial LP	1,584	953
Gain (loss) on sale of mortgages	25	(9)
	11,968	10,052
Financial Expenses		
Term deposit interest and expenses	4,461	3,115
Mortgage expenses	848	755
Provision for (recovery of) losses	427	(40)
	5,736	3,830
Net Investment Income	\$ 6,232	\$ 6,222

Net investment income was comparable to the prior year. The main changes consisted of increases in mortgage interest (\$1.4 million), interest on loans and other investments (\$644,000) and equity income from MCLP (\$631,000), offset by higher term deposit interest and expenses (\$1.3 million), a decrease in gains on sales of marketable securities (\$752,000) and higher provisions for losses (\$467,000).

The increase in mortgage interest reflected a \$30 million increase in the average balance and a 0.99% increase in the yield on the portfolio. Fees of \$791,000 were comparable to \$928,000 in the same period last year. Gains from sales of marketable securities were \$689,000 in the quarter as we sold down our portfolio as a result of statements made by the federal government. Gains from sales of marketable securities were \$1.4 million in 2005 including the reversal of prior write-downs of \$468,000. Unrealized gains on the portfolio at the end of December were \$813,000 compared to \$3.3 million at September 30, 2006 and \$2.5 million at December 31, 2005. Equity income from our ownership in MCLP was \$1.6 million in the quarter compared to \$953,000 last year. MCLP realized significant income from the origination of construction loans and from the securitization of residential mortgages and commercial leases.

The \$1.3 million increase in term deposit interest and expenses in 2006 was due to a 0.96% increase in the average interest rate and a \$50 million increase in the average outstanding balance. Mortgage expenses were \$848,000 compared to \$755,000 in the same period last year, consistent with the increase in the average mortgage balance over 2005. Provisions for losses of \$427,000 were the result of a \$30 million increase in the mortgage portfolio in the quarter and the related general allowance. Impaired loans net of specific allowances were 0.28%, down from 0.53% at December 31, 2005 and 0.54% at September 30, 2006.

Operating Expenses

Operating expenses of \$1.1 million during the quarter were comparable to last year as follows:

(in thousands)		
For the Quarters Ended December 31	2006	2005
Salaries and benefits	\$ 477	\$ 618
General and administrative	603	527
	\$ 1,080	\$ 1,145

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)	2006				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net investment income	\$3,982	\$4,380	\$4,377	\$6,232	\$3,915	\$3,704	\$3,873	\$6,222
Operating expenses	893	960	923	1,080	857	850	733	1,145
Income before income taxes	3,089	3,420	3,454	5,152	3,058	2,854	3,140	5,077
Provision for (recovery of) income taxes and large corporation taxes	13	(37)	(18)	(54)	28	(75)	32	28
Net income	\$3,076	\$3,457	\$3,472	\$5,206	\$3,030	\$2,929	\$3,108	\$5,049
Basic and diluted earnings per share	\$0.25	\$0.28	\$0.29	\$0.42	\$0.26	\$0.25	\$0.26	\$0.41
Dividends per share	\$0.55	\$0.21	\$0.21	\$0.21	\$0.40	\$0.19	\$0.19	\$0.19

Quarterly results have been relatively stable with the exception of the fourth quarters of 2005 and 2006. These periods had significant gains on sales of marketable securities and substantial equity income from MCLP due to the seasonality of MCLP's business.

FINANCIAL POSITION

Total assets were up \$64 million from December 31, 2005. This change mainly reflects a \$60 million increase in mortgages and a \$21 million increase in loans and other investments, partially offset by a \$15 million decrease in cash.

Assets

(in thousands)	2006		2005		2004	
Cash and cash equivalents	\$ 17,685	3.5%	\$ 33,093	7.6%	\$ 47,315	10.4%
Marketable securities	12,473	2.5	14,764	3.4	12,965	2.9
Mortgages	395,788	79.5	335,675	77.3	314,157	69.1
Loans and other investments	53,377	10.7	32,755	7.5	63,358	13.9
Equity investment in MCLP	17,340	3.5	16,811	3.9	14,896	3.3
Other assets	1,444	0.3	1,271	0.3	1,674	0.4
	\$ 498,107	100.0%	\$ 434,369	100.0%	\$ 454,365	100.0%

Cash equivalents include treasury bills, term deposits and bankers' acceptances. These investments ensure adequate liquidity to meet maturing term deposit and new mortgage commitments. We manage our cash and cash equivalents in the \$15 million range. The 2005 balance was high as we had significant mortgage repayments near the end of the year and incorporated a deliberate strategy to increase cash balances at year-end to assist in a conversion of the term deposit administration system that took place in the first quarter of 2006.

Marketable securities comprise a diversified portfolio of real estate investment, income and royalty trusts. These investments are supported by the Company's equity base, and they provide for improved returns on, and diversification of, our investment portfolio. Our investment policy limits marketable securities investment to the lesser of 70% of regulatory capital or \$25 million. The portfolio grew considerably in 2006 until November, at which point we began to sell down the portfolio as a result of statements made by the federal government. In late 2005, we had a similar sell down due to market uncertainty at that time.

We invest in insured and uninsured single family mortgages. Uninsured mortgages may not exceed 75% 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

appraisal at the time of funding. Residential mortgages insured by the Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

Uninsured residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. During the year, our regulator, the Superintendent of Financial Institutions Canada ("OSFI"), increased our limit on conventional construction loans from 200% to 250% of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. The maximum single conventional construction loan may not exceed the lesser of \$13.5 million or 20% of regulatory capital as per our internal limits. In 2006, there was strategic growth in the residential construction portfolio to achieve better spreads at manageable risk compared to other mortgage categories.

Our mortgage book increased by \$60 million in 2006 (see Note 5 to the consolidated financial statements). This increase primarily reflected a \$34 million increase in the construction loan book (from \$151 million to \$185 million) and a \$21 million increase in commercial mortgages from 2005. Mortgages increased by \$22 million in 2005, due to a significant increase in construction loans, partly offset by a decrease in uninsured single-family mortgages.

Loans and other investments consist of loans to related parties and private companies, deferred purchase price receivables, interests in securitization programs, real estate and bonds (see Note 6 to the consolidated financial statements). Loans and investments increased by \$21 million in 2006 as a result of advances on existing loans to private companies. In 2005, there was a \$31 million decrease due to the repayment of investor loans and loans to private companies, in addition to the sale of investments in bonds.

Our largest single investment is our minority interest in MCLP. Based on our ownership interest, we believe that income from MCLP will constitute a significant component of our income in 2007 and future years.

Other assets include prepaid expenses, accounts receivable, capital assets and deferred costs.

Liabilities and shareholders' equity

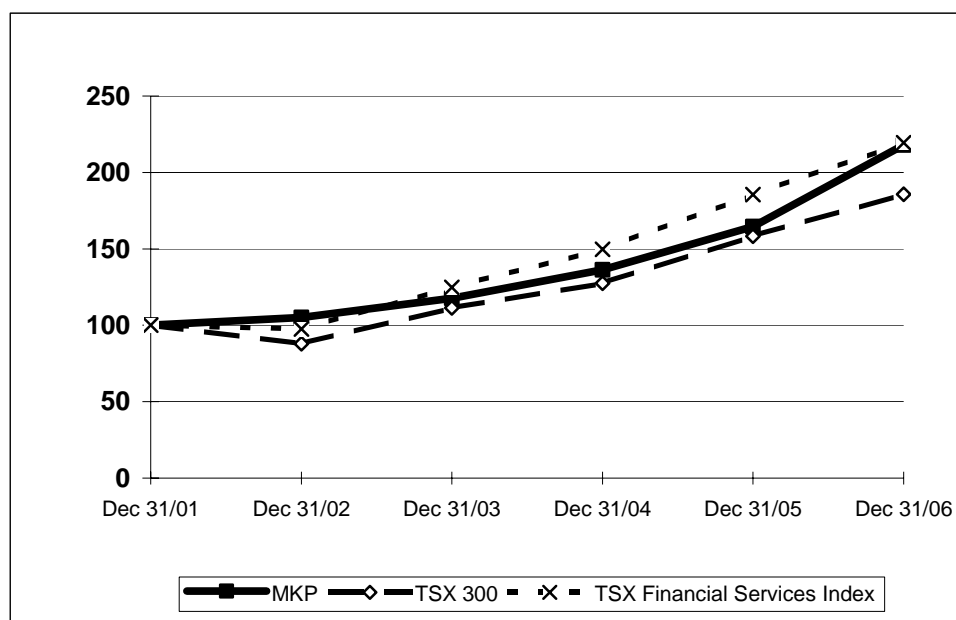
(in thousands)	2006	2005	2004	Change from	
				2005	2004
Liabilities					
Term deposits	\$ 408,734	\$ 347,182	\$ 371,335	\$ 61,552	\$ 37,399
Accounts payable and accrued charges	4,448	5,346	7,654	(898)	(3,206)
Future taxes payable	314	677	411	(363)	(97)
	413,496	353,205	379,400	60,291	34,096
Shareholders' equity					
Share capital	78,211	75,880	71,927	2,331	6,284
Contributed surplus	510	510	510	-	-
Retained earnings	5,890	4,774	2,528	1,116	3,362
	84,611	81,164	74,965	3,447	9,646
	\$ 498,107	\$ 434,369	\$ 454,365	\$ 63,738	\$ 43,742

The increase in term deposit liabilities during the year was consistent with the \$64 million increase in assets as we issued new term deposits to fund our asset growth. The prior year decrease was in line with the change in asset levels over 2005.

Total shareholders' equity of \$85 million was up \$3.4 million from December 31, 2005 and up \$9.6 million from December 31, 2004. The majority of this change reflects increases in share capital as shares were issued for cash in September 2005 and are also issued quarterly under the dividend reinvestment plan at the average closing price for the 20 days preceding such issues.

PERFORMANCE GRAPH

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2001) on the shares during the period from January 1, 2002 to December 31, 2006, 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 2001	Dec 31 2002	Dec 31 2003	Dec 31 2004	Dec 31 2005	Dec 31 2006	Compound Annual Growth
MCAN	100	105	118	136	164	218	16.9%
TSX	100	88	111	128	158	186	13.2%
TSX Financial Services	100	97	125	150	186	219	17.0%

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

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of common shares with no par value. At December 31, 2006, there were 12,372,939 common shares outstanding. At March 2, 2007, there were 12,444,989 common shares outstanding. Additional information related to the share capital is included in Note 15 to the consolidated financial statements.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a mortgage investment corporation ("MIC"), we can deduct dividends paid to shareholders during the year and within 90 days thereafter from income for tax purposes. Consequently, 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:

Fiscal Period	2006	2005	2004
First Quarter	\$ 0.55	\$ 0.40	\$ 0.27
Second Quarter	0.21	0.19	0.17
Third Quarter	0.21	0.19	0.17
Fourth Quarter	0.21	0.19	0.19
Special (November 10, 2004)	-	-	0.31
	\$ 1.18	\$ 0.97	\$ 1.11
Taxable Dividends	\$ 1.06	\$ 0.855	\$ 0.50
Capital Gains Dividends	0.12	0.115	0.61
	\$ 1.18	\$ 0.97	\$ 1.11

Our dividends are regulated by OSFI under Regulatory and Legislative Advisory No. 2003-04, Capital Structure - Declaration and Payment of Dividends. Approval is required from OSFI if a dividend is deemed to be a "Large Dividend" as calculated under this advisory. As a MIC, 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. Over the past three years, we have requested and received dividend approvals from OSFI on numerous occasions. We plan to request approval from OSFI for our dividends in 2007 and future years if required.

The Board of Directors declared a first quarter dividend of \$0.31 per share to be paid March 30, 2007 to shareholders of record as of March 15, 2007. This dividend comprises the regular quarterly dividend which the Board increased to \$0.23 (from \$0.21) and a \$0.08 extra dividend. The Board designated \$0.12 of this dividend as a capital gains dividend.

Under the Income Tax Act (the "Tax Act"), we can deduct dividends paid up to 90 days following year-end against the previous year's taxable income. The extra dividend payable on March 30, 2007 is necessary to fully offset taxable income in 2006 and reflects a combination of factors, but primarily the capital gains realized on the sales of marketable securities in the latter part of the year. While there will generally be an element of dividend adjustment in the first quarter of each year to equate dividends to taxable income, the amount of such adjustment will depend on factors which cannot be predicted.

OFF BALANCE SHEET ARRANGEMENTS

We enter into certain off balance sheet arrangements in the ordinary course of business.

We commit to fund mortgages in advance of funding at agreed upon interest rates. Substantially all of these commitments relate to floating rate loans.

We have established a facility with an investment dealer to provide short positions in Government of Canada Bonds, which are used to manage interest rate risk on commitments and mortgages held for sale. At December 31, 2006, we did not have any outstanding hedging instruments. Details of our commitments and hedges are included in Notes 2, 5 and 18 to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS

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

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 373,934	\$ 34,800	\$ -	\$ 408,734
Operating lease	109	441	85	635
Mortgage fundings	135,978	-	-	135,978
	\$ 510,021	\$ 35,241	\$ 85	\$ 545,347

TRANSACTIONS WITH RELATED PARTIES

In 2006, we purchased certain corporate services and mortgage and loan origination services at a cost of \$2.7 million from MCLP and \$828,000 from MCAP Service Corporation ("MSC"), while we received fees of \$2.0 million from MCLP, \$65,000 of fees and interest from MSC and \$437,000 of interest from Warehouse Trust, an entity which is beneficially owned by MCLP. Corporate services include premises and systems. The fees received from MCLP and MSC include commitment, extension, renewal and letter of credit fees.

We use MCLP's and MSC's systems, including networks, subsystems, and general ledger. We also receive technology support from MSC. We plan to use the systems of both entities in the foreseeable future.

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

The Company settled an amount of \$7.5 million relating to two guarantees provided by Interior Capital Corporation ("ICC"), an entity acquired in 2000. The Company signed agreements with the vendors to recover the costs related to the settlement of such guarantees and in February 2004 received \$3.5 million as partial recovery from the vendor shareholders. The remainder was financed over five years with interest at 4.0%. The majority of the vendor shareholders of ICC are related to the Company. The balance outstanding at December 31, 2006 was \$1.3 million.

During 2002, the Board established the Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to key personnel for the purpose of purchasing the Company's shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares. At December 31, 2006, \$715,000 of loans were outstanding. Subsequent to year-end, loans of \$527,000 were advanced under the Share Purchase Plan and the approved amount of loans was increased from \$1,050,000 to \$1,250,000. The loans under the Share Purchase Plan bear interest at prime plus 1% and have a five-year term. Additional information related to the Share Purchase Plan is included in Note 15 to the consolidated financial statements.

MATCHING

In order to minimize the effect of interest rate movements, our policy is to manage the repricing dates of our invested assets and debt obligations in accordance with Board approved limits. In addition, we endeavour to stagger the maturities of invested assets and term deposits to produce an orderly turnover of assets and liabilities.

Our primary objective is to obtain profitable interest rate spreads rather than to attempt to capitalize on fluctuations in interest rates. To the extent that we are successful in matching the repricing dates of our invested assets and our term deposits, the leveraged portion of our mortgage portfolio will remain largely insensitive to swings in market interest rates.

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

BORROWING

We derive our net investment income from the investment of our equity and the difference or spread between amounts earned on our mortgages and other investments and the cost of the term deposits that we issue to fund such investments. 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 granted us a 9:1 consolidated regulatory assets to capital ratio effective December 28, 2001. 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 income tax assets and capital, regulatory assets and capital and maximum assets and ratios over the past three years are as follows:

December 31 (in thousands)	2006	2005	2004
Tax Act Test			
Income Tax Assets	\$ 499,714	\$ 438,669	\$ 461,073
Income Tax Capital	\$ 86,245	\$ 85,664	\$ 80,434
Income Tax Assets to Capital ratio	5.79	5.12	5.73
Maximum Assets (non-consolidated)	\$ 517,470	\$ 513,984	\$ 482,604
Maximum Assets to Capital ratio	6.00	6.00	6.00
Regulatory Test (OSFI)			
Regulatory Assets	\$ 505,508	\$ 471,841	\$ 480,814
Regulatory Capital	\$ 81,294	\$ 69,460	\$ 68,351
Regulatory Assets to Capital ratio	6.22	6.79	7.03
Maximum Regulatory Assets (consolidated)	\$ 731,646	\$ 625,140	\$ 615,159
Maximum Regulatory Assets to Capital ratio	9.00	9.00	9.00
Total Regulatory Capital to Risk-Weighted Assets ratio	17.58%	21.33%	19.07%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	18.30%	24.92%	20.92%
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 Canada Deposit Insurance Corporation ("CDIC") insured term deposits with varying maturities in most provinces of Canada.

LIQUIDITY

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The Investment Committee ("ICB") is responsible for liquidity management, including 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 marketable securities and 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 CDIC insured term deposits. These term deposits also provide us with the ability to fund asset growth as needed. We also have a \$20 million overdraft facility in place to fund asset growth or meet short-term obligations as required. Our liquidity position and our access to capital markets support our ability to meet current and future commitments. We are not aware of any contingencies or known events that are likely to materially affect our liquidity position.

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. For a discussion of the material risks affecting the Company, reference is made to the risk factors described in the 2007 Annual Information Form, which is incorporated herein by reference.

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.

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 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 reduce 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.

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

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 with respect to asset and liability mismatch risk, liquidity risk and credit risk. All other key risk exposures are reported to the Board of Directors by management.

PEOPLE

As at December 31, 2006, we had twelve employees compared to eleven at December 31, 2005.

BRANDING

On September 15, 2006, the Company changed its 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, the Company changed the name of its deposit liabilities from debentures to term deposits. The Company's term deposits remain insured pursuant to the standard terms of coverage set out by CDIC.

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 semi-annual basis. Senior management liaises with regulators to keep them apprised of Company progress and changes to our business. Our Chief Compliance Officer reports at least annually to the Chairman of the Conduct Review, Corporate Governance & Human Resources Committee of the Board of Directors.

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. Internal Audit reports quarterly to the Audit Committee of the Board of Directors.

In addition, our External Auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of our annual financial statements, and report to the Audit Committee of the Board of Directors annually on matters that come to their attention.

OUTLOOK

In 2006, our primary focus was to fully invest the balance sheet while maintaining historical spreads. We are subject to maximum asset levels under both the Tax Act and the Trust Act. The maximum asset level permitted under the Tax Act, which is the most constraining for us, effectively limits assets to 6 times capital on a non-consolidated basis, measured at tax values. We manage our assets to a level of 5.75 times capital to provide a prudent cushion between the maximum and total actual assets. Due to significant 2006 asset growth, we were slightly over our 5.75 internal limit at December 31, 2006, in the amount of \$4 million. In 2007, we plan to maintain our asset level at 5.75 times capital. Maintaining our balance sheet at a level of full investment will depend on our ability to find assets with satisfactory yields at manageable levels of risk. Our operations and income are a function of the interest rate environment and the availability of mortgage product at reasonable yields. The availability of mortgage product for us and the yields thereon is based on market competition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Allowance for Credit Losses

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. 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 year, and there could be a need to increase or decrease the allowance for credit losses. Details of our accounting policies and balances of the allowances for credit losses can be found in Notes 2 and 5 to the consolidated financial statements. Details of the allowance for credit losses by mortgage, loan and other investment type can be found in the 2007 Annual Information Form.

Income Taxes

As a MIC, we can deduct dividends paid to our shareholders from our calculation of taxable income. When it is considered more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, we charge the related provision for future and current taxes directly to retained earnings. The provision for income taxes consists of various taxes that cannot be recovered from the payment of future dividends. Details of our accounting policies and balances relating to income taxes can be found in Notes 2 and 14 to the consolidated financial statements. During 2005, we determined that it was more likely than not that sufficient dividends will be paid to recover current and future taxes. We will continue to proactively monitor on a quarterly basis that this is an appropriate position.

FUTURE CHANGES IN ACCOUNTING POLICY

The Canadian Institute of Chartered Accountants has issued new accounting requirements for financial instruments, hedges and other comprehensive income. Financial assets are required to be classified as held for trading, held to maturity, loans and receivables, or available for sale, and financial liabilities are required to be classified as held for trading or other. When the Company adopts the new requirements on January 1, 2007, marketable securities and mortgages will be classified as available for sale. Upon adopting the requirements, the Company will revalue its marketable securities and mortgages at fair value. The Company will include the gains and losses on re-measuring in a new section of shareholders' equity called other comprehensive income. The impact of re-measuring the marketable securities and mortgages at fair value on January 1, 2007 will be recognized in opening accumulated other comprehensive income and is discussed in Notes 4 and 5 to the consolidated financial statements. Results for prior periods will not be restated.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant 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. Company management, with the participation of the CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as of December 31, 2006 and has concluded that such disclosure controls and procedures are effective.

Internal Control over Financial Reporting

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 Canadian generally accepted accounting principles. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. During the interim period ended December 31, 2006, the Company did not make any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FINANCIAL INSTRUMENTS

The fair value of financial items approximates recorded amounts unless otherwise disclosed in the notes to the consolidated financial statements. Details regarding the fair value of specific items are included in Note 2 to the consolidated financial statements. Off balance sheet financial instruments are discussed in Off Balance Sheet Arrangements above.

2006 CONSOLIDATED FINANCIAL STATEMENTS**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include interpretations of GAAP by our regulator, the Superintendent of Financial Institutions Canada.


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

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

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

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

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



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

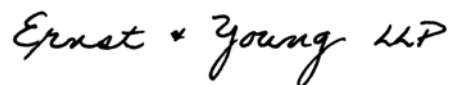
AUDITORS' REPORT

To the Shareholders of MCAN Mortgage Corporation

We have audited the consolidated balance sheets of MCAN Mortgage Corporation (formerly MCAP Inc.) as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada,
January 31, 2007

MCAN MORTGAGE CORPORATION
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

As at December 31	Note	2006	2005
Assets			
Investments			
Cash and cash equivalents	3	\$ 17,685	\$ 33,093
Marketable securities	4	12,473	14,764
Mortgages	5	395,788	335,675
Loans and other investments	6	53,377	32,755
Equity investment in MCAP Commercial LP	7	17,340	16,811
		496,663	433,098
Accounts receivable	9	386	116
Capital assets	10	639	541
Other assets	11	419	614
		\$ 498,107	\$ 434,369
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	12, 20	\$ 408,734	\$ 347,182
Accounts payable and accrued charges	9	4,448	5,346
Future taxes payable	14	314	677
		413,496	353,205
Shareholders' Equity			
Share capital	15	78,211	75,880
Contributed surplus	15	510	510
Retained earnings		5,890	4,774
		84,611	81,164
		\$ 498,107	\$ 434,369

See accompanying notes

On behalf of the Board:



Blaine Welch
President and Chief Executive Officer



David G. Broadhurst
Director, Chairman of the Audit Committee

MCAN MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(dollars in thousands except for per share amounts)

Years Ended December 31	Note	2006	2005
Investment Income			
Mortgage interest		\$ 24,642	\$ 20,225
Interest on loans and other investments		4,528	3,097
Interest on cash and cash equivalents		571	412
Fees		3,161	3,356
Marketable securities	4	2,802	3,802
Equity income from MCAP Commercial LP	7	1,840	1,915
Gain (loss) on sale of mortgages	8	53	(17)
		37,597	32,790
Financial Expenses			
Term deposit interest and expenses		14,710	11,688
Mortgage expenses		3,037	2,740
Provision for losses		879	648
		18,626	15,076
Net Investment Income		18,971	17,714
Operating Expenses			
Salaries and benefits		1,785	1,749
General and administrative		2,071	1,836
		3,856	3,585
Income Before Income Taxes		15,115	14,129
Provision for (recovery of) income taxes and large corporation taxes	14	(96)	13
Net Income		\$ 15,211	\$ 14,116
Retained earnings, beginning of year		4,774	2,528
Income taxes recovered (charged) to retained earnings	14	387	(302)
Dividends declared		(14,482)	(11,568)
Retained earnings, end of year		\$ 5,890	\$ 4,774
Basic and diluted earnings per share		\$ 1.24	\$ 1.18
Dividends per share		\$ 1.18	\$ 0.97
Weighted average number of basic and diluted shares (000's)		12,298	11,918

See accompanying notes

MCAN MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

Years Ended December 31	Note	2006	2005
Cash Provided by (used for):			
Operating Activities			
Net income		\$ 15,211	\$ 14,116
Adjusted for non-cash items:			
Provision for losses		933	318
Amortization of capital assets		148	26
Amortization of other assets		607	677
Amortization of mortgage premiums		-	10
Loss (gain) on sale of mortgages	8	(53)	17
Equity income		(1,874)	(1,913)
Distributions from MCAP Commercial LP	7	1,311	-
Decrease (increase) in accounts receivable		(270)	637
Decrease in accounts payable and accrued charges		(1,164)	(2,418)
Cash flows from operating activities		14,849	11,470
Investing Activities			
Marketable securities		2,291	(1,468)
Mortgage advances		(493,259)	(683,183)
Mortgage reductions		328,817	425,652
Proceeds on sale of mortgages	8	103,523	235,379
Additions to capital assets		(246)	(433)
Decrease (increase) in loans and other investments		(20,664)	30,558
Additions to other assets		(412)	(505)
Cash flows (for) from investing activities		(79,950)	6,000
Financing Activities			
Issue of term deposits		479,389	451,652
Repayment of term deposits		(417,837)	(475,804)
Issue of common shares		2,331	3,953
Dividends paid		(14,190)	(11,493)
Cash flows from (for) financing activities		49,693	(31,692)
Decrease in cash and cash equivalents		(15,408)	(14,222)
Cash and cash equivalents, beginning of year		33,093	47,315
Cash and cash equivalents, end of year		\$ 17,685	\$ 33,093
Supplementary Information			
Interest paid during the year		\$ 10,912	\$ 10,617
Taxes paid during the year		\$ 266	\$ 524

See accompanying notes

1. Basis of Presentation

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

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company’s 22.8% partnership interest in MCAP Commercial LP (“MCLP”) is accounted for using the equity method.

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

2. Summary of Significant Accounting Policies

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

Measurement Uncertainty

Management of the Company exercises its best judgment with regard to certain estimates and assumptions, which affect the reported amounts of revenue, expenses, assets and liabilities. Specific amounts subject to such judgment include provisions for future credit losses and estimated residual realization values. Actual results could differ from management’s estimates.

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities are stated at cost less any write-down for decline in value which is other than temporary.

Mortgages

Mortgages are carried at the amortized cost plus accrued interest, less an allowance for loan losses.

Equity Investments

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

Impaired Loans

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

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

Restructured Loans

Restructured loans are loans where, because of the weakened financial condition of the borrower, the terms have been modified. These loans are carried at the net present value of future cash flows, discounted at the contractual interest rate in effect immediately prior to the restructuring. Restructured loans are not included in impaired loans if the borrowers have complied with the terms and management has reasonable assurance that principal and interest under the new terms will be collected in a timely manner.

Allowance for Credit Losses

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

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

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

Asset Sales

The Company accounts for the sale of assets when control over the assets is relinquished in accordance with *CICA Accounting Guideline 12* ("AcG 12").

The Company commits and funds loans for its own investing operations. The Company earns interest and fees on these loans. From time to time, the Company sells loans to third parties. The Company records a gain or loss at the time of sale of loans equal to the fair value of the proceeds received less the carrying value of the loans. The Company receives full cash consideration at the time of sale for a majority of such loan sales. In other cases, a portion of the proceeds is paid over time.

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

Investments in Securitization Entities

The Company invests in obligations issued by various securitization entities.

Senior interests in securitization entities are considered loan investments where the credit quality of the instrument is high. Interest is recognized on the accrual basis on these loan investments. Subordinated interests with high credit risks are considered debt securities and the interest on these investments is recorded using the effective yield method by amortizing the accretable yield over the life of the subordinated interest. The accretable yield is the difference between the total expected cash flows from the subordinated interest and its carrying value.

On a quarterly basis, the Company compares the carrying value of the subordinated interests to their fair value, determined on the basis of expected discounted cash flows. When a decline in value is identified that is other than temporary, the affected carrying amount is written down to its fair value.

Revenue and Expense Recognition

- (a) The Company is entitled to fees for committing loans related to its mortgage portfolio. These fees are deferred and amortized into income over the term of the mortgage.
- (b) Amounts received on the buydown of mortgage interest rates are deferred and amortized over the term of the mortgage.
- (c) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the loan.
- (d) Commissions paid on the issue of term deposits are deferred and amortized over the term of the term deposit.

Capital Assets

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

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

Income Taxes

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

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

Financial Instruments

The fair value of financial items approximates recorded amounts unless otherwise disclosed.

The following methods and assumptions were used to estimate the fair values of the on-balance sheet financial instruments:

Financial Instruments Valued at Carrying Value

Due to their short-term maturity, the carrying values of cash equivalents, accounts receivable and accounts payable and accrued charges approximate their fair values.

Marketable Securities

Fair values are based on quoted market prices.

Mortgages, Loans and Other Investments

The fair values of mortgages, loans and other investments are estimated on a discounted cash flow basis that uses market interest rates currently charged for similar mortgages, loans and other investments to expected maturity dates. The fair value of all floating rate mortgages, loans and other investments is equal to their respective carrying values.

Deferred Purchase Price Receivable

The fair value of the deferred purchase price receivable is estimated on a discounted cash flow basis using assumptions for interest rates that approximate market rates, prepayment rates, and expected credit losses.

Term Deposits

The estimated fair values of term deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

Hedging

In the normal course of business, the Company may enter into hedging transactions (instruments providing short positions in Government of Canada Bonds) to manage interest rate risk on commitments and mortgages held for sale. The Company does not take short positions for speculative purposes. The Company monitors relationships between hedging instruments and associated hedged items. This monitoring includes identification of the specific mortgages held for sale, the nature of the risk being hedged, the hedge objective, and effectiveness of the hedge. Hedge effectiveness is evaluated at the inception of the hedge relationship and on an ongoing basis, both retrospectively and prospectively, primarily using quantitative statistical measures of correlation.

The Company accounts for the short positions as fair value hedges. Recognition of the changes in the fair value of these short positions is deferred and recorded in income in the period in which the hedged transaction occurs, offsetting the gain or loss on the mortgages upon sale.

Realized and unrealized gains or losses associated with hedges which have been terminated or cease to be effective prior to maturity are deferred under other assets or accounts payable and accrued charges on the consolidated balance sheets. Such gains or losses are recognized in income in the period in which the underlying hedged transaction is recognized.

Variable Interest Entities

On January 1, 2005, the Company adopted *CICA Accounting Guideline 15* (“AcG 15”), which defines the consolidation rules for variable interest entities (“VIEs”). A VIE is an entity where the equity is considered insufficient to finance the entity’s activities or the equity holders do not have a controlling financial interest. These rules require the holder of the majority of variable interests of a VIE to consolidate the entity. Variable interests are defined as the exposure to both expected losses and expected gains. In the event of a sharing of expected losses and expected gains, the beneficiary with the majority of expected losses would be required to consolidate the VIE. These rules do not apply to VIEs considered to be Qualifying Special Purpose Entities. The Company did not hold a majority of the variable interests in any VIE at the time of, or since, adoption of *AcG 15*.

Future Changes in Accounting Policy

The Canadian Institute of Chartered Accountants (“CICA”) has issued new accounting requirements for financial instruments, hedges and other comprehensive income. Financial assets are required to be classified as held for trading, held to maturity, loans and receivables, or available for sale, and financial liabilities are required to be classified as held for trading or other. When the Company adopts the new requirements on January 1, 2007, marketable securities and mortgages will be classified as available for sale. Upon adopting the requirements, the Company will revalue its marketable securities and mortgages at fair value. The Company will include the gains and losses on re-measuring in a new section of shareholders’ equity called other comprehensive income. The impact of re-measuring the marketable securities and mortgages at fair value on January 1, 2007 will be recognized in opening accumulated other comprehensive income. Results for prior periods will not be restated.

3. Cash and Cash Equivalents

	2006	2005
Corporate cash and cash equivalents	\$ 4,180	\$ 3,102
Bankers’ acceptances, term deposits and treasury bills	13,500	29,988
Accrued interest	5	3
	\$ 17,685	\$ 33,093

4. Marketable Securities

	2006	2005
Marketable securities at book value	\$ 12,473	\$ 14,764
Unrealized gains	813	2,528
Marketable securities at fair value	\$ 13,286	\$ 17,292

	2006	2005
Marketable securities income	\$ 2,802	\$ 3,802
Change in unrealized gains and losses	(1,715)	(389)
	\$ 1,087	\$ 3,413

Marketable securities consist of income, royalty and real estate investment trusts. The marketable securities portfolio has no specific maturity date.

As discussed in note 2, the Company will adopt the CICA’s new accounting requirements that will impact the accounting policy for marketable securities beginning January 1, 2007. The marketable securities portfolio will be classified as available for sale. The impact of reclassifying marketable securities as available for sale on the consolidated balance sheet at January 1, 2007 will be an increase to marketable securities of approximately \$813 and an increase to accumulated other comprehensive income of \$638, which is net of a future tax liability of \$175.

December 31, 2006 (Dollar amounts in thousands except for per share amounts)

5. Mortgages

	2006	2005
Single family mortgages		
- Uninsured	\$ 136,675	\$ 124,829
- Insured	40,231	46,956
Construction loans		
- Residential	184,604	148,855
- Non-residential	29	1,689
Commercial	35,606	14,266
	397,145	336,595
Accrued interest	2,250	1,837
	399,395	338,432
Less: Allowance for credit losses	3,607	2,757
	\$ 395,788	\$ 335,675
Fair value	\$ 396,623	\$ 337,328

At December 31, 2006 and 2005, the Company did not hold any individual mortgage or counterparty position in excess of 5% of total mortgages.

The details of the mortgage loan provisions are as follows:

	2006			
	Beginning of Year	Additions (Recoveries)	(Write-Offs)	End of Year
Allowance for Credit Losses				
General provisions	\$ 2,757	\$ 856	\$ (6)	\$ 3,607
Specific provisions	-	-	-	-
	\$ 2,757	\$ 856	\$ (6)	\$ 3,607
	2005			
	Beginning of Year	Additions (Recoveries)	(Write-Offs)	End of Year
Allowance for Credit Losses				
General provisions	\$ 2,168	\$ 633	\$ (44)	\$ 2,757
Specific provisions	28	(28)	-	-
	\$ 2,196	\$ 605	\$ (44)	\$ 2,757

At December 31, 2006, the Company had \$1,009 of impaired loans (2005 - \$2,067).

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$135,978 at December 31, 2006 (2005 - \$186,778). Substantially all of these commitments relate to floating rate loans.

The Company has made a commitment to fund mortgages for MCLP to a maximum of \$80,000. At December 31, 2006, the Company had funded \$nil (2005 - \$3,539) of mortgages. The Company earns interest from such mortgages while they are funded and the credit and interest rate risk of such mortgages is for the account of MCLP.

During 2005, MCLP established a \$100,000 line of credit with the Caisse de dépôt et placement du Québec (the "Caisse") to finance mortgages held for resale. While the Company's \$80,000 commitment remains in place, MCLP has agreed with the Caisse not to draw on the MCAN facilities as long as MCLP has access to the \$100,000 line of credit with the Caisse.

As discussed in note 2, the Company will adopt the CICA's new accounting requirements that will impact the accounting policy for mortgages beginning January 1, 2007. The mortgage portfolio will be classified as available for sale. The impact of reclassifying mortgages as available for sale on the consolidated balance sheet at January 1, 2007 will be an increase to mortgages of \$835 and an increase to accumulated other comprehensive income of \$655, which is net of a future tax liability of \$180.

6. Loans and Other Investments

		2006	2005
Loans receivable	(a)	\$ 37,363	\$ 17,518
Deferred purchase price receivables	(b)	525	790
Other investments	(c)	14,204	11,349
Bonds	(d)	1,285	3,098
		\$ 53,377	\$ 32,755
Fair value		\$ 53,377	\$ 32,755

(a) Loans Receivable

	Note	2006	2005
Loan receivable from MCAP Mortgage Corporation		\$ 433	\$ 476
Loan receivable from Warehouse Trust		6,009	14
Subordinated loans - residential mortgage securitization programs		12,229	3,761
Loans receivable from vendor shareholders of ICC		1,309	2,085
Loans receivable - employees	15	715	701
Loans receivable - other		16,668	9,361
Loan receivable from MSC		-	495
Investor loan - residential mortgage securitization program		-	625
		\$ 37,363	\$ 17,518
Fair value		\$ 37,363	\$ 17,518

The loan receivable from MCAP Mortgage Corporation represents a right to a series of payments, to be received at \$100 per annum to 2012, purchased by the Company at a discount rate of 14.3%.

Warehouse Trust, a VIE, is a residential construction mortgage loan accumulation entity which is beneficially owned by MCLP. MCAP Financial Corporation ("MFC") acts as the trustee. The loan receivable from Warehouse Trust is under a line of credit set up in 2005 to acquire interests in construction and commercial mortgage loans or other loans originated by MCLP. The loan receivable bears interest at prime plus 0.55%, 6.55% at December 31, 2006 (2005 - 5.55%). Advances must be repaid within 10 business days from the date of the advance.

The subordinated loans - residential mortgage securitization programs consist of subordinated loans under two separate programs. One loan bears interest at 10% and has an outstanding balance of \$8,339 at December 31, 2006. This loan was initially advanced during 2006. The other loan bears interest at 12% (2005 - 12%) and has an outstanding balance of \$3,890 at December 31, 2006 (2005 - \$3,761). Both loans are subordinate to senior debt holders and senior to the deferred purchase price payable to MCLP.

The Company settled an amount of \$7,500 relating to two guarantees provided by Interior Capital Corporation ("ICC"), an entity acquired in 2000. The Company signed agreements with the vendors to recover the costs related to the settlement of such guarantees and in February 2004 received \$3,511 as partial recovery from the vendor shareholders. The remainder was financed over five years with interest at 4%. The majority of the vendor shareholders of ICC are related to the Company.

The other loans receivable have been made to two private companies. Three loans made to one company bear interest at prime plus 4%, 10% at December 31, 2006 (2005 - 9%) and have an aggregate outstanding balance of \$4,724 at December 31, 2006 (2005 - \$3,601). One loan has been advanced to a private company bearing interest at prime plus 1%, 7% at December 31, 2006 (2005 - 6%). This loan has an outstanding balance of \$11,944 at December 31, 2006 (2005 - \$5,760). All of these loans are payable on demand.

The loan receivable from MSC is due one year plus a day after demand and bears interest at prime plus 1.5%, 7.5% at December 31, 2006 (2005 - 6.5%).

In 2005, an investor loan was provided to a private company to fund such company's investment in a residential mortgage securitization program managed by MCLP. This loan bore interest at prime plus 1%, 6% at December 31, 2005. This loan was repaid in full in 2006.

December 31, 2006 (Dollar amounts in thousands except for per share amounts)

(b) Deferred Purchase Price Receivables

The deferred purchase price receivables represent funds receivable from subsidiaries of Canadian chartered banks and Canadian Mortgage and Housing Corporation mortgage backed securities programs in connection with the sale of residential mortgages. These amounts are receivable over the terms of the related mortgages, ranging from six months to five years. The carrying values of these deferred purchase price assets have been calculated by discounting the expected cash flows at 4.2% to 5%. The Company is not subject to credit or prepayment risks associated with the underlying mortgages.

(c) Other Investments

	2006	2005
Mortgage trusts	\$ 2,520	\$ 2,507
Deferred purchase price receivable - residential construction mortgage loan securitization program		
- senior position	7,494	5,965
- first loss position	3,317	1,979
Real estate	873	898
	\$ 14,204	\$ 11,349
Fair value	\$ 14,204	\$ 11,349

MCAN purchased an interest in the deferred purchase price receivable - residential construction mortgage loan securitization program ("DPPR") from a VIE. The DPPR represents funds receivable from the VIE in connection with the sale of mortgages by Warehouse Trust to the VIE. The DPPR constitutes 10% of the total funding for the program. MCAN has purchased the senior 3% on which it earns an interest return of prime plus 5%, 11% at December 31, 2006 (2005 - 10%) in priority to the more junior interests in the DPPR. MCAN accounts for this position as a loan. MCAN also purchased a 25% interest in the most junior 4% (the "First Loss Position") for which it receives 25% of the residual cash flow from the program. The carrying value of MCAN's interest in the First Loss Position has been calculated by discounting the expected cash flows by applying a rate of 29% (2005 - 29%).

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

The real estate investment consists of a 25% interest in one property. This investment is accounted for using the equity method.

(d) Bonds

	2006	2005
Bonds - residential mortgage securitization program	\$ 827	\$ 2,640
Bonds - commercial securitization program	458	458
	\$ 1,285	\$ 3,098
Fair value	\$ 1,285	\$ 3,098

The bonds - residential mortgage securitization program bear interest at the benchmark Government of Canada Bond rate plus 2.25%. At December 31, 2006, the bonds had a weighted average yield of 6.07% (2005 - 5.39%). The bonds are subordinate to senior debt holders and senior to the second subordinated loan discussed in (a) above. The bonds are rated A by the Dominion Bond Rating Service ("DBRS").

The bonds - commercial securitization program bear interest at CDOR plus 2.5%. At December 31, 2006, the bonds had a weighted average yield of 6.83% (2005 - 5.84%). The bonds are subordinate to senior debt holders and senior to the deferred purchase price payable to MCLP and a subordinated loan. The bonds are rated A by DBRS.

7. Equity Investment in MCAP Commercial LP

	2006	2005
Balance, beginning of year	\$ 16,811	\$ 14,896
Equity income	1,840	1,915
Distributions received	(1,311)	-
	\$ 17,340	\$ 16,811

Equity income includes a \$201 gain on dilution of the Company's investment in MCLP. During the year, MCLP issued non-voting Class B units such that MCAN's interest in MCLP was reduced from 25% to 22.8%.

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

8. Asset Sales

The Company sells residential and commercial mortgage loans and residential construction loans. The Company does not retain any loan servicing obligations or rights in the majority of mortgage and loan sales. In certain cases, the Company retains servicing obligations and subcontracts such servicing obligations to MSC or MCLP. In these cases the Company includes the servicing obligations in its gain on sale calculation. Purchasers of transferred mortgage loans have no recourse to the Company.

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

	Gains (Losses) on Sales of Mortgages		Amortization of Servicing Liability	
	2006	2005	2006	2005
Residential mortgages	\$ 53	\$ (17)	\$ 1	\$ 2

The carrying value of the deferred purchase price receivable of residential mortgages at December 31, 2006 was \$525 (2005 - \$790) (note 6(b)) and the related servicing liability at December 31, 2006 was \$26 (2005 - \$37). The fair values of the deferred purchase price receivable and servicing liability are equal to their carrying values.

Of the total residential mortgage sales in 2006, 13% involved sales in which the Company has a retained interest (2005 - 100%).

The following table summarizes certain cash flows received from mortgage sales for the years ended.

	2006	2005
Proceeds from sales	\$ 30,283	\$ 4,760
Receipt of deferred purchase price and servicing fees	\$ 333	\$ 451

Residential mortgages were sold without recourse. The deferred purchase price receivable represents direct claims against the purchasers of the mortgages and consequently the Company is not exposed to the credit risk of the assets sold.

The above amounts do not include mortgage sales to MCLP, Warehouse Trust or MSC of \$73,240 (2005 - \$230,619). These mortgage sales were at prices equal to the outstanding principal and accrued interest. These amounts are settled fully in cash. MCLP and Warehouse Trust subsequently sold such mortgages to arm's length VIEs. MCAN has, independent of such sales, made certain investments in those VIEs (notes 6(a), (c) and (d)). MSC subsequently sold such mortgages to arm's length parties.

December 31, 2006 (Dollar amounts in thousands except for per share amounts)

The following table outlines the key assumption used to measure the fair value of the residential mortgages - deferred purchase price and the sensitivity to immediate changes of 10% and 20%. The sensitivities are hypothetical and should be used with caution. Prepayment rates and interest rates have minimal impact on the value of residential mortgages - deferred purchase price and are not included below.

	Residential Mortgages
Retained interests	
Deferred purchase price receivable	\$ 525
Servicing liability	(26)
	\$ 499
Impact of:	
Discount rate (%)	5%
10% adverse change	\$ 4
20% adverse change	\$ 6

9. Accounts Receivable/Accounts Payable and Accrued Charges

(a) Accounts receivable

	2006	2005
Related party receivables - MCLP	\$ 344	\$ -
Other receivables	42	116
	\$ 386	\$ 116

(b) Accounts payable and accrued charges

	2006	2005
Accounts payable and accrued charges	\$ 1,057	\$ 1,721
Dividends payable	2,599	2,307
Unearned mortgage commitment fees	792	1,223
Related party payables - MCLP	-	95
	\$ 4,448	\$ 5,346

In 2006, the Company purchased certain corporate services and mortgage origination and loan administration services from MSC in the amount of \$828 (2005 - \$1,140). During 2006, the Company received \$65 (2005 - \$146) of mortgage fees and interest from MSC.

In 2006, the Company purchased certain corporate services and mortgage origination and loan administration services from MCLP in the amount of \$2,664 (2005 - \$2,355). During 2006, the Company received \$2,008 (2005 - \$2,622) of mortgage fees from MCLP.

During 2006, the Company received \$437 (2005 - \$185) of interest from Warehouse Trust.

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

10. Capital Assets

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and fixtures	\$ 83	\$ 34	\$ 81	\$ 17
Computer hardware	73	28	68	6
Computer software	612	104	375	-
Leasehold improvements	47	10	45	5
	\$ 815	\$ 176	\$ 569	\$ 28
Net book value		\$ 639		\$ 541

11. Other Assets

	2006	2005
Prepaid expenses	\$ 79	\$ 100
Deferred origination expenses	340	514
	\$ 419	\$ 614

12. Term Deposits

	2006	2005
Term deposits	\$ 401,987	\$ 343,086
Accrued interest	6,747	4,096
	\$ 408,734	\$ 347,182
Fair value	\$ 412,335	\$ 351,308

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2005 - 30 days to five years) and bear interest at rates ranging from 2.10% to 4.80% (2005 - 1.45% to 5.80%).

13. Credit Facilities

The Company has access to a line of credit from a Canadian chartered bank that is a \$35,000 facility bearing interest at prime plus 0.5%, 6.5% at December 31, 2006 (2005 - 5.5%). The facility has a sub limit of \$20,000 for letters of credit and \$20,000 for overdrafts, and is due and payable upon demand. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At December 31, 2006, there were letters of credit in the amount of \$9,106 issued (2005 - \$10,136) and additional letters of credit in the amount of \$7,343 committed but not issued (2005 - \$10,952).

14. Income Taxes

In 2005, management determined that it was more likely than not that sufficient dividends would be paid to shareholders in future periods to recover current and future taxes. Since that time, the Company has charged its current and future tax liability directly to retained earnings. The provision for (recovery of) taxes recorded in the consolidated statements of income and retained earnings relates to large corporations, corporate minimum and other taxes which cannot be recovered from the payment of future dividends.

	2006	2005
Income before income taxes	\$ 15,115	\$ 14,129
Less: dividends	(14,482)	(11,568)
Income subject to tax	633	2,561
Statutory rate of tax	43%	43%
Tax provision before the following:	272	1,101
Equity income	(619)	(402)
Provision for (recovery of) large corporations tax and corporate minimum tax	(57)	65
Permanent differences	(79)	(210)
Change in valuation allowance	-	(239)
Tax provision (recovery) per financial statements	\$ (483)	\$ 315
Presentation of tax provision in financial statements		
Provision against (recovery to) income	\$ (96)	\$ 13
Charge (recovery) to retained earnings	(387)	302
	\$ (483)	\$ 315

December 31, 2006 (Dollar amounts in thousands except for per share amounts)

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

	2006	2005
Provision for loan losses	\$ 1,651	\$ 1,252
Equity investment in MCAP Commercial LP	(373)	624
Dividends deductible for tax purposes	(1,337)	(2,571)
Marketable securities	(170)	(152)
Capital assets	(85)	(7)
Loss carryforward benefit	-	177
	\$ (314)	\$ (677)

15. Share Capital and Contributed Surplus

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

The details of share capital transactions for the two years ended December 31, 2006 are as follows:

Issued	Common Shares	
	#	\$
Balance as at January 1, 2005	11,747,216	71,927
Issued		
Dividend reinvestment plan	142,047	1,395
Shares issued for cash	251,417	2,558
Balance as at December 31, 2005	12,140,680	75,880
Issued		
Dividend reinvestment plan	199,145	2,006
Share Purchase Plan	33,114	325
Balance as at December 31, 2006	12,372,939	78,211

During 2006, the Company issued 199,145 (2005 - 142,047) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

During 2005, the Company issued 251,417 shares for cash. These shares were issued on September 12, 2005 at the average closing price for the 20 days preceding such issue.

The Company had no potentially dilutive instruments for the years ended December 31, 2006 and 2005.

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

Executive Share Purchase Plan

The Company has established an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares. Dividend distributions on the shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions, and 75% of capital gain distributions. Shares are issued out of treasury for the Share Purchase Plan at the weighted average trading price for the 20 days preceding such issue.

MCAN advanced \$325 of loans under the Share Purchase Plan in 2006 (2005 - \$nil). At December 31, 2006, \$715 of loans were outstanding (2005 - \$701) (note 6(a)). The loans under the Share Purchase Plan bear interest at prime plus 1%, 7% at December 31, 2006 (2005 - 6%), and have a five-year term. The shares are pledged as security for the loans and have a market value of \$1,015 at December 31, 2006 (2005 - \$890).

In 2006, 33,114 shares were issued out of treasury under the Share Purchase Plan (2005 - nil).

16. 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.

The gap position presented is measured at close of business on December 31, 2006. That position 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 following table presents the assets and liabilities of the Company by interest rate sensitivity:

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non- Interest Sensitive	2006 Total	2005 Total
ASSETS								
Investments								
Cash and cash equivalents	\$ 4,180	\$ 13,505	\$ -	\$ -	\$ -	\$ -	\$ 17,685	\$ 33,093
Marketable securities	-	-	-	-	-	12,473	12,473	14,764
Mortgages	254,919	27,046	44,750	64,859	1,216	2,998	395,788	335,675
Loans and other investments	31,448	418	-	2,249	12,268	6,994	53,377	32,755
Equity investment in MCLP	-	-	-	-	-	17,340	17,340	16,811
	290,547	40,969	44,750	67,108	13,484	39,805	496,663	433,098
Accounts receivable	-	-	-	-	-	386	386	116
Capital assets	-	-	-	-	-	639	639	541
Other assets	-	-	-	-	-	419	419	614
Total Assets	\$ 290,547	\$ 40,969	\$ 44,750	\$ 67,108	\$ 13,484	\$ 41,249	\$ 498,107	\$ 434,369
Yield	7.88%	6.24%	7.75%	6.45%	10.32%	-	-	-
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 99,899	\$ 274,035	\$ 34,800	\$ -	\$ -	\$ 408,734	\$ 347,182
Accounts payable and accrued charges	-	-	-	-	-	4,448	4,448	5,346
Future taxes payable	-	-	-	-	-	314	314	677
Shareholders' equity	-	-	-	-	-	84,611	84,611	81,164
Total Liabilities and Shareholders' Equity	\$ -	\$ 99,899	\$ 274,035	\$ 34,800	\$ -	\$ 89,373	\$ 498,107	\$ 434,369
Yield	-	3.93%	4.20%	4.12%	-	-	-	-
GAP	\$ 290,547	\$ (58,930)	\$ (229,285)	\$ 32,308	\$ 13,484	\$ (48,124)	\$ -	\$ -
YIELD SPREAD	7.88%	2.31%	3.55%	2.33%	10.32%	-	-	-

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2006 would have a positive (adverse) effect of \$1,525 (2005 - \$1,424) to net interest income over the following twelve month period.

17. Borrowing and Capital Ratios

The Company operates as a MIC as defined under the Tax Act. Under the Tax Act, the Company's tax status as a MIC is regulated through its borrowing ratio which is defined as the ratio of deposits and other borrowings to capital and reserves. The calculation of this ratio is determined on a non-consolidated basis and adjusted to cost for tax purposes. The maximum authorized borrowing ratio of the Company is currently 5:1. As at December 31, 2006 the ratio was 4.79 (2005 - 4.12).

The Company is a loan company regulated under the Trust Act. The Trust Act defines two tiers of capital and computes capital ratios in relation to risk-weighted assets. 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. As at December 31, 2006, the total capital ratio was 17.58% (2005 - 21.33%) and the Tier 1 capital ratio was 18.30% (2005 - 24.92%).

The second capital adequacy requirement of OSFI is an asset to capital multiple, which is calculated by dividing the Company's total consolidated regulatory assets by its total consolidated regulatory capital. The Company's maximum authorized regulatory capital ratio is 9:1. As at December 31, 2006, the Company had a regulatory assets to regulatory capital multiple of 6.22 (2005 - 6.79).

18. Hedging Instruments

The Company has established a facility with an investment dealer to provide short positions in Government of Canada Bonds, which are used to manage interest rate risk on commitments and mortgages held for sale.

There are no outstanding hedge positions at December 31, 2006.

In 2005, MCLP was granted use of the Company's hedging facility to hedge interest rate risk related to mortgages that MCLP was holding for sale. At December 31, 2005, the total amount of short positions outstanding was \$18,077, all of which were for the account of MCLP. There was an unrealized loss of \$111 on these contracts at December 31, 2005, which was reflected on the Company's consolidated balance sheet at that time. MCLP no longer has use of the Company's hedging facility as MCLP has its own facility in place.

19. Commitments

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

2007	\$	109
2008		109
2009		109
2010		110
2011		113
Thereafter		85
	\$	635

20. Name Change

On September 15, 2006, the Company changed its 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, the Company changed the name of its deposit liabilities from debentures to term deposits. The Company's term deposits remain insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation.

21. Guarantees

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

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

- (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;
- (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; and
- (d) guarantee of the lease of furniture, fixtures and equipment between MCAP Leasing Inc. as lessor and MFC and MCLP as lessees with monthly lease payments of \$24 expiring in July 2008.

During the year, MCLP issued Class B units of \$7,023 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.

22. Comparative Amounts

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

DIRECTORS

David Broadhurst

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

Raymond Doré

Corporate Director; Chairman of the Conduct Review, Corporate Governance and Human Resources Committee; Director since May 1997.

Brian Johnson

President and CEO, Crown Life Insurance Company; Member of the Audit Committee and of the Investment Committee; Director since January 2001.

David MacIntosh

Corporate Director; Chairman of the Investment Committee; Member of the Audit Committee; Director since January 2000.

Derek Norton

President and CEO, MCAP Commercial LP; Director since July 2000.

Jean C. Pinard

Consultant, Pinco Inc.; Member of the Conduct Review, Corporate Governance and Human Resources Committee and of the Investment Committee; Director since November 2005.

Robert A. Stuebing

Corporate Director; Member of the Investment Committee; Director since April 2004.

Ian Sutherland

Chairman, MCAN Mortgage Corporation; Director since January 1991.

Blaine Welch

President and CEO, MCAN Mortgage Corporation; Director since April 2004.

OFFICERS AND MANAGEMENT

Ian Sutherland

Chairman of the Board

Blaine Welch

President and CEO

Tammy Oldenburg

Vice President and CFO

Michael Misener

Vice President, Investments

Sylvia Pinto

Corporate Secretary

Derek Sutherland

Assistant Vice President, Treasurer, Chief Compliance Officer and Risk Officer

Kevin Dwarté

Assistant Vice President, Investments, Privacy Officer, Chief Anti-Money Laundering Officer and Business Continuity/Disaster Recovery Coordinator

John Tyas

Controller

CORPORATE INFORMATION

Head Office

200 King Street West, Suite 400
Toronto, Ontario
M5H 3T4

Tel: (416) 598-2665

Fax: (416) 598-4142

Web: www.mcanmortgage.com

Corporate Counsel

Goodmans LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Public Listing

Toronto Stock Exchange
Exchange symbol MKP

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Corporate Information

This MCAN Mortgage Corporation 2006 Annual Report is available for viewing/printing on our web site at www.mcanmortgage.com, or additionally on SEDAR at www.sedar.com. To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, 200 King Street West, Suite 400, Toronto, Ontario M5H 3T4, by phone 416-591-5214 or 1-800-387-4405, or e-mail spinto@mcanmortgage.com.

Registrar and Transfer Agent

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar at 1-800-332-0095, or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

General Information

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

Annual Meeting

4:00 p.m., on May 3, 2007
St. Andrew's Club and Conference Centre
150 King Street West, 27th Floor
Toronto, Ontario