



**CONSOLIDATED FINANCIAL STATEMENTS 2006
MCAN MORTGAGE CORPORATION**

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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

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

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



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

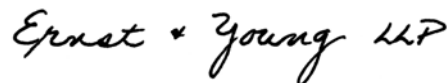
AUDITORS' REPORT

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.

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:

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

Allowance for Credit Losses	2005			End of Year
	Beginning of Year	Additions (Recoveries)	(Write-Offs)	
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.

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

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.

(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.

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

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.