



**ANNUAL REPORT 2007**  
**MCAN MORTGAGE CORPORATION**

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## MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation (“MCAN”, the “Company” or “we”) was impacted by the turbulence in the financial markets during the second half of 2007. What would have otherwise been strong performance was tempered by the writedowns taken on some of our direct investments as well as the writedowns taken by MCAP Commercial LP (“MCLP”).

The rights issue in July strengthened our capital base and gave us additional investment capacity.

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
- Depositor service excellence
- Quick response capital
- Open and forthright communication with all stakeholders
- Cost efficiency

In our 2006 annual report, I discussed our objectives for 2007. 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 July 2007, we completed a rights offering. The rights offering raised gross proceeds of \$16.4 million, resulting in \$94 million of additional investment capacity. At year end, we had not fully levered the new capital from the rights offering and were underinvested by \$27 million. We plan to fully invest our remaining investment capacity by the second quarter of 2008.

***2. To ensure adequate capital is and remains available through a variety of cost effective sources.***

We fund the balance sheet with equity and through the issuance of term deposits. The rights offering completed this past year was fully subscribed and resulted in a significant capital increase for the Company. 2007 marks the second year of administration of the term deposit business within MCAN. The term deposit system, which we implemented in 2006, has assisted in providing operational efficiencies and improved customer service to our deposit brokers.

***3. 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 straightforward communications to our regulators and investors. On an ongoing basis we ensure that we are in compliance with all relevant current and pending legislation set out by our various regulators. In 2007, we continued to make improvements in our systems and procedures to combat terrorism financing and money laundering. In addition, we took steps to meet the requirements for Basel II, which comes into effect for the Company in 2008.

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

We continue to be closely aligned to MCLP through our equity ownership in the partnership. In addition, MCLP and MCAP Service Corporation (“MSC”) originate and service the majority of our mortgage portfolio. Over the past year, we supported MCLP by continuing to provide various subordinate and first loss investments for securitization programs managed by MCLP. We also provided warehouse financing to a residential construction loan accumulation entity, which is beneficially owned by MCLP. We plan to continue supporting these programs in the years to come.

In 2007, we began securitizing residential mortgages through the Canada Mortgage Bonds (“CMB”) program. We participate in the CMB program with MSC.

In setting our strategic plan for 2008, we restated the four objectives discussed above.

We began 2008 with a solid capital base and excess investment capacity. While the turbulence in the financial markets is likely to continue for some time, we believe we are well positioned to take advantage of investment opportunities as they become available.

A handwritten signature in black ink, appearing to read "Blaine Welch". The signature is written in a cursive, flowing style.

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, 2007. This MD&A has been prepared as at February 29, 2008.*

*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](http://www.mcanmortgage.com) or through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://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 forward looking statements can generally be identified as such because of the context of the statements and often include words such as the Company "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature. These statements are based on current expectations, and are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technology change, global market activity, interest rates, changes in government and economic policy and general economic conditions in geographic areas where the Company operates. Reference is made to the risk factors disclosed in the Company's 2008 Annual Information Form, which are incorporated herein by reference. These and other factors should be considered carefully and undue reliance should not be placed on the Company's forward-looking statements. Subject to applicable securities law requirements, we do not undertake to update any forward-looking statements.*

### RESULTS OF OPERATIONS

MCAN reported net income of \$14.8 million for the year ended December 31, 2007, down from \$15.2 million in the prior year. Earnings per share were \$1.12 compared to \$1.23 in the prior year, a decrease of 9%.

Prior year earnings per share have been restated from \$1.24 to \$1.23 and 2007 second quarter earnings per share have been restated from \$0.34 to \$0.33 to reflect the dilutive impact of the rights offering that we completed in the third quarter. The rights offering was dilutive as the shares were issued at \$10.50, a 7% discount from the market price at that time.

### Selected Financial Information

(in thousands, except for per share amounts)	2007	2006	2005	Change from 2006	
				\$	%
Net investment income	\$ 18,926	\$ 18,971	\$ 17,714	\$ (45)	(0.2%)
Operating expenses	<u>4,109</u>	<u>3,856</u>	<u>3,585</u>	<u>253</u>	<u>6.6%</u>
Income before income taxes	14,817	15,115	14,129	(298)	(2.0%)
Provision for (recovery of) income taxes and large corporations taxes	<u>(26)</u>	<u>(96)</u>	<u>13</u>	<u>70</u>	<u>(72.9%)</u>
Net income	<u>\$ 14,843</u>	<u>\$ 15,211</u>	<u>\$ 14,116</u>	<u>\$ (368)</u>	<u>(2.4%)</u>
Basic and diluted earnings per share	\$ 1.12	\$ 1.23	\$ 1.18	\$ (0.11)	(8.9%)
Dividends per share	\$ 1.00	\$ 1.18	\$ 0.97	\$ (0.18)	(15.3%)
Assets	\$ 557,629	\$ 498,107	\$ 434,369	\$ 59,522	11.9%
Liabilities	454,622	413,496	353,205	41,126	9.9%
Shareholders' equity	103,007	84,611	81,164	18,396	21.7%
Number of common shares outstanding at year-end	14,098	12,373	12,141	1,725	13.9%
Book value per common share	\$ 7.31	\$ 6.84	\$ 6.69	\$ 0.47	6.9%
Common share price - close	\$ 9.96	\$ 11.40	\$ 9.63	\$ (1.44)	(12.6%)
Market capitalization	\$ 140,416	\$ 141,052	\$ 116,918	\$ (636)	(0.5%)

**Net Investment Income**

(in thousands)	2007	2006	2005
<b>Investment Income</b>			
Mortgage interest	\$ 28,669	\$ 24,642	\$ 20,225
Interest on loans and investments	5,728	4,528	3,097
Interest on cash and cash equivalents	1,299	571	412
Fees	3,384	3,161	3,356
Marketable securities	956	2,802	3,802
Equity income from MCAP Commercial LP	890	1,840	1,915
Securitization income	1,190	-	-
Gain (loss) on sale of mortgages	22	53	(17)
	<b>42,138</b>	<b>37,597</b>	<b>32,790</b>
<b>Financial Expenses</b>			
Term deposit interest and expenses	18,996	14,710	11,688
Mortgage expenses	3,699	3,037	2,740
Provision for losses	517	879	648
	<b>23,212</b>	<b>18,626</b>	<b>15,076</b>
<b>Net Investment Income</b>	<b>\$ 18,926</b>	<b>\$ 18,971</b>	<b>\$ 17,714</b>

Net investment income was \$18.9 million in 2007, a decrease of \$45,000 from \$19.0 million in 2006. As a result of increased capacity from the rights offering, we had significant increases in mortgage interest and interest on loans and investments, partially offset by higher term deposit interest and expenses. We also had an increase in net investment income due to securitization income earned through our participation in the Canada Mortgage Bonds ("CMB") program in 2007. However, these positive variances were offset by lower marketable securities income and equity income from MCAP Commercial LP ("MCLP").

Mortgage interest income increased by \$4.0 million over the prior year. This variance was a result of an increase in the average mortgage yield to 7.31% in the current year from 6.99% in the prior year due to a higher average prime rate and a \$39 million increase in the average mortgage portfolio (from \$346 million in 2006 to \$385 million in 2007) as a result of higher investment capacity from the rights offering.

Interest on loans and investments increased by \$1.2 million over the prior year due to a larger average portfolio and a higher average prime rate.

Interest on cash and cash equivalents increased by \$728,000 over the prior year due to significantly higher average cash balances and a higher average prime rate in 2007.

Fees increased by \$223,000 over 2006 as a result of a larger construction loan portfolio. Fees include commitment, extension, renewal and letter of credit fees earned on our mortgage portfolio.

Marketable securities income decreased by \$1.8 million over 2006. The decrease is primarily due to a significantly smaller portfolio in 2007 as we sold off the majority of the portfolio in the first half of the year. Gains from sales were \$696,000 in the current year compared to \$1.0 million in the prior year.

Equity income of \$890,000 from our ownership in MCLP decreased significantly from \$1.8 million in 2006 due to write-downs taken by MCLP on certain of its securitization programs as a result of disruption in financial markets. Current year equity income includes a \$34,000 gain on the dilution of our investment in MCLP, compared to \$201,000 in 2006. During 2006 and 2007, MCLP issued non-voting units to a partnership of certain senior managers of MCLP such that MCAN's interest in MCLP has been reduced to 22.0%.

We recognized \$1.2 million of securitization income through our participation in the CMB program, in which we securitize insured residential mortgages. Securitization income includes the upfront gain on securitization at the issuance date, along with residual securitization income earned over the duration of the issuance.

Gains on sales of mortgages were \$22,000 compared to \$53,000 in the prior year. These sales relate to mortgages outside of the CMB program.

Term deposit interest and expenses increased by \$4.3 million over 2006. The increase was a result of an increase in the average term deposit interest rate to 4.43% in 2007 from 3.82% in 2006 due to higher market rates for new fundings, and a \$42 million increase in the average term deposit balance to \$396 million in 2007 from \$354 million in 2006 as a result of increased capacity from the rights offering.

Mortgage expenses were \$3.7 million compared to \$3.0 million in 2006. The increase is primarily due to higher mortgage servicing expenses on the residential construction portfolio, consistent with the growth in the portfolio.

Provisions for losses were \$517,000 in 2007, which included a \$386,000 recovery of mortgage provisions, a \$67,000 specific mortgage provision and a \$42,000 provision related to loans and investments. We also recorded a write-down of \$794,000 on our securitization investments. Provisions for losses were \$879,000 in 2006, consisting of \$856,000 of provisions for mortgages and \$77,000 of provisions relating to loans and investments, net of a \$54,000 recovery of mortgages that had previously been written off. Write-offs were 0.1 basis points (\$4,000) on average mortgage balances, compared to 0.2 basis points (\$6,000) in the prior year.

We had \$23.5 million of investments in securitization programs (net of a write-down) at December 31, 2007, of which \$20.7 million was in bank-sponsored programs and \$2.8 million was in non bank-sponsored programs. The subordinated loan under one of the non-bank programs has been impacted by repricing in debt markets. We have not received sufficient information to assess fully the degree to which it has been impaired. Based on available information, we have recorded a write-down of \$794,000.

Impaired loans net of specific allowances ended the year at 0.58% of the total loan portfolio, compared to 0.28% at December 31, 2006. We continue to proactively monitor loan arrears, and to take prudent steps to collect overdue accounts.

### Operating Expenses

(in thousands)	2007	2006	2005
Salaries and benefits	\$ 1,878	\$ 1,785	\$ 1,749
General and administrative	2,231	2,071	1,836
	<b>\$ 4,109</b>	<b>\$ 3,856</b>	<b>\$ 3,585</b>

Operating expenses increased by \$253,000 over 2006, consistent with the increase in the prior year.

### Income Taxes

(in thousands)	2007	2006	2005
Provision (recovery) against income	\$ (26)	\$ (96)	\$ 13
Charge (recovery) to retained earnings	873	(387)	302
	<b>\$ 847</b>	<b>\$ (483)</b>	<b>\$ 315</b>

We have taken the position that it is more likely than not that sufficient dividends will be paid to shareholders in future periods to recover current and future taxes. As a result of this, we charge (recover) our current and future tax liabilities directly to retained earnings. The recovery of taxes recorded in the consolidated statements of income relates to the recovery of large corporations, corporate minimum and other taxes which cannot be recovered from payment of future dividends.

In 2007, there was a significant charge to retained earnings as a result of the impact of the CMB program on future taxes. For accounting purposes, we have recorded significant up-front gains on securitization, but for tax purposes we recognize income as cash is received over the duration of the issuance. This timing difference creates a significant future tax liability.

We have had a minimal provision for (recovery of) income taxes reflected in net income in the last three years.

### Cash Flows

Operating activities provided cash flows of \$16 million in 2007, comparable to \$15 million provided in 2006.

Investing activities used cash flows of \$22 million in 2007 and used \$80 million in 2006. The decrease is a result of a smaller increase in mortgages and loans and investments in 2007 compared to the prior year, and a higher net outflow of marketable securities in 2007.

Financing activities provided cash flows of \$42 million in 2007 and provided \$50 million in 2006. Net term deposit inflow was lower in the current year than in the prior year, partially offset by the impact of the rights offering in 2007.

### Summary of Three Year Results of Operations

Net income in 2007 decreased by \$368,000 over 2006. We had significantly higher mortgage interest and interest on loans and investments in the current year due to increased capacity from the rights offering, partially offset by higher term deposit interest and expenses. In addition, we had securitization income in the current year from the CMB program, in which we only began to participate in 2007. However, we had much lower marketable securities income and equity income from MCLP in the current year. Although net income only decreased by 2% from 2006, there was a 9% decrease in earnings per share. The rights offering had a negative impact to 2007 earnings per share as we were significantly underinvested for the majority of the second half of the year.

The increase in net income in 2006 over 2005 of \$1.1 million was primarily due to increased returns from higher mortgage and loan and investment balances and increases in the prime rate.

Operating expenses have increased steadily since 2005, consistent with the growth in our asset base.

### SUMMARY OF FOURTH QUARTER RESULTS

The Company reported net income for the quarter ended December 31, 2007 of \$3.2 million (\$0.23 per share), down from \$5.2 million (\$0.42 per share) a year earlier as follows:

(in thousands, except for per share amounts)

For the Quarters Ended December 31	2007	2006
Net investment income	\$ 4,259	\$ 6,232
Operating expenses	1,079	1,080
Income before income taxes	3,180	5,152
Provision for (recovery of) income taxes and large corporations taxes	-	(54)
Net income	\$ 3,180	\$ 5,206
Basic and diluted earnings per share	\$ 0.23	\$ 0.42
Dividends per share	\$ 0.23	\$ 0.21

### Net Investment Income

(in thousands)

For the Quarters Ended December 31	2007	2006
<b>Investment Income</b>		
Mortgage interest	\$ 7,984	\$ 6,858
Interest on loans and investments	1,372	1,414
Interest on cash and cash equivalents	542	163
Fees	995	791
Marketable securities	5	1,133
Equity income from MCAP Commercial LP	(817)	1,584
Securitization income	511	-
Gain on sale of mortgages	2	25
	<b>10,594</b>	<b>11,968</b>
<b>Financial Expenses</b>		
Term deposit interest and expenses	5,543	4,461
Mortgage expenses	1,078	848
Provision for (recovery of) losses	(286)	427
	<b>6,335</b>	<b>5,736</b>
<b>Net Investment Income</b>	<b>\$ 4,259</b>	<b>\$ 6,232</b>

Net investment income decreased by \$2.0 million over the prior year. The decrease is primarily due to lower equity income from MCLP (\$2.4 million) and substantial gains from sales of marketable securities (\$689,000) in 2006, partially offset by an increase in securitization income (\$511,000) and a decrease in provisions for losses (\$713,000).

Mortgage interest income increased by \$1.1 million due to a \$45 million increase in the average balance and a 0.19% increase in the yield on the portfolio. Interest on loans and investments was comparable to last year. Marketable securities income decreased substantially due to a significantly lower portfolio in 2007 and \$689,000 of gains on sale in 2006. The equity loss from

our ownership in MCLP was \$817,000 in the quarter compared to income of \$1.6 million last year. MCLP took write-downs on certain of its securitization programs due to widening spreads and an increased cost of funds. We had \$511,000 of securitization income from the CMB program, in which we did not participate in 2006.

Term deposit interest and expenses increased by \$1.1 million as a result of a 0.47% increase in the average interest rate and a \$49 million increase in the average outstanding balance. Mortgage expenses were \$1.1 million compared to \$848,000 in the same period of 2006, consistent with the increase in the average mortgage balance over the prior year. Recoveries of losses were \$286,000 in 2007 compared to provisions of \$427,000 in 2006. Impaired loans net of specific allowances were 0.58%, compared to 0.28% at December 31, 2006 and 0.61% at September 30, 2007.

### 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	2007	2006
Salaries and benefits	\$ 511	\$ 477
General and administrative	568	603
	<b>\$ 1,079</b>	<b>\$ 1,080</b>

### SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)	2006				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net investment income	\$3,982	\$4,380	\$4,377	\$6,232	\$5,444	\$5,140	\$4,083	\$4,259
Operating expenses	893	960	923	1,080	1,075	955	1,000	1,079
Income before income taxes	3,089	3,420	3,454	5,152	4,369	4,185	3,083	3,180
Provision for (recovery of) income taxes and large corporations taxes	13	(37)	(18)	(54)	(24)	(2)	-	-
Net income	<u>\$3,076</u>	<u>\$3,457</u>	<u>\$3,472</u>	<u>\$5,206</u>	<u>\$4,393</u>	<u>\$4,187</u>	<u>\$3,083</u>	<u>\$3,180</u>
Basic and diluted earnings per share	\$0.25	\$0.28	\$0.28	\$0.42	\$0.35	\$0.33	\$0.21	\$0.23
Dividends per share								
Regular	\$0.43	\$0.21	\$0.21	\$0.21	\$0.19	\$0.23	\$0.23	\$0.23
Capital gains	0.12	-	-	-	0.12	-	-	-
Total	<u>\$0.55</u>	<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.31</u>	<u>\$0.23</u>	<u>\$0.23</u>	<u>\$0.23</u>

Over the past eight quarters, quarterly results have been stable with modest growth, with the exception of the second half of 2007 and the fourth quarter of 2006. The fourth quarter of 2006 had significant gains on sales of marketable securities and substantial equity income from MCLP due to the seasonality of MCLP's business. Quarterly income in the first two quarters of 2007 was higher than previous quarters due to increased interest income from higher mortgage and loan portfolios, and securitization income from the CMB program. The third quarter of 2007 was significantly lower due to the write-down of securitization investments and the loss from the CMB program, while the fourth quarter of 2007 had a significant equity loss from MCLP.

## FINANCIAL POSITION

Total assets were up \$60 million from December 31, 2006. This change mainly reflects a \$17 million increase in mortgages, an \$18 million increase in loans and investments and a \$36 million increase in cash, partially offset by a \$12 million decrease in marketable securities.

### Assets

(in thousands)	2007		2006		2005	
Cash and cash equivalents	\$ 54,008	9.7%	\$ 17,685	3.5%	\$ 33,093	7.6%
Marketable securities	156	-	12,473	2.5	14,764	3.4
Mortgages	412,685	74.0	395,788	79.5	335,675	77.3
Loans and investments	71,286	12.8	53,377	10.7	32,755	7.5
Equity investment in MCLP	17,095	3.1	17,340	3.5	16,811	3.9
Capital assets and other assets	2,399	0.4	1,444	0.3	1,271	0.3
	<b>\$ 557,629</b>	<b>100.0%</b>	<b>\$ 498,107</b>	<b>100.0%</b>	<b>\$ 434,369</b>	<b>100.0%</b>

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 \$20 million range. The year-end balance was high as we had a significant mortgage sale near the end of the year.

Marketable securities comprise a 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. We began to sell down the portfolio in late 2006 as a result of statements made by the federal government, and sold the majority of the remaining portfolio in 2007.

We invest in insured and uninsured single-family mortgages. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified 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. Our limit on conventional construction loans is 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.

Our mortgage book increased by \$17 million in 2007 (see Note 5 to the consolidated financial statements). This increase was due to increases of \$13 million in construction loans and \$24 million in uninsured single-family mortgages, partially offset by decreases of \$9 million in commercial mortgages and \$11 million in single-family insured mortgages. Mortgages increased by \$60 million in 2006, due to increases in construction loans and commercial mortgages.

We invest in insured and uninsured residential mortgages in Canada, which we believe are lower risk than United States sub-prime mortgages. Unlike the United States, we believe that the Canadian residential property market continues to exhibit healthy fundamentals.

Loans and investments consist of investments in securitization programs, the interest-only strip from the CMB program, CMHC-insured mortgage-backed securities and loans to related parties and private companies (see Note 6 to the consolidated financial statements). Loans and investments increased by \$18 million in 2007, mostly due to our participation in the CMB program and a new loan to a private company. In 2006, there was a \$21 million increase as a result of advances on existing loans to private companies.

Our largest single investment is our minority interest in MCLP. We will continue to participate in the mortgage origination and servicing business through our interest in MCLP. MCLP, together with MCAP Service Corporation ("MSC"), a partly owned company, is an originator and servicer of mortgage loans for third party investors in Canada. We outsource the majority of our mortgage and loan origination and servicing to MCLP and MSC.

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

**Liabilities and shareholders' equity**

(in thousands)	2007	2006	2005	Change from	
				2006	2005
<b>Liabilities</b>					
Term deposits	\$ 445,368	\$ 408,734	\$ 347,182	\$ 36,634	\$ 98,186
Accounts payable and accrued charges	8,293	4,448	5,346	3,845	2,947
Future taxes payable	961	314	677	647	284
	454,622	413,496	353,205	41,126	101,417
<b>Shareholders' equity</b>					
Share capital	96,370	78,211	75,880	18,159	20,490
Contributed surplus	510	510	510	-	-
Retained earnings	6,654	5,890	4,774	764	1,880
Accumulated other comprehensive income (loss)	(527)	-	-	(527)	(527)
	103,007	84,611	81,164	18,396	21,843
	<b>\$ 557,629</b>	<b>\$ 498,107</b>	<b>\$ 434,369</b>	<b>\$ 59,522</b>	<b>\$ 123,260</b>

Term deposit liabilities increased by \$37 million during the year as a result of increased capacity from the rights offering. The prior year increase was consistent with the change in asset levels over the year.

Total shareholders' equity of \$103 million was up \$18 million from December 31, 2006. The increase is primarily due to the rights offering completed in July 2007 which raised gross proceeds of \$16 million. In addition, we issued new shares on a quarterly basis under the dividend reinvestment plan at the average closing price for the 20 days preceding such issues.

**CMB PROGRAM**

In 2007, we began our participation in the CMB program, which involves the securitization of insured residential mortgages. We participate in the CMB program with MSC. For accounting purposes, we recognize an up-front gain on securitization, and at that time we recognize an interest-only strip, which is a retained interest in the securitized mortgages. In addition, we recognize liabilities for future mortgage servicing, which we subcontract to MSC, and other costs. For tax purposes, we recognize CMB-related income on the cash basis, wherein the payment of upfront CMB expenses is a deduction from taxable income at the date of issuance, and the ongoing collection of net CMB cash flows, representing the interest-only strip, is added to taxable income as received over the duration of the issuance. Since 2007 represented the first year in which we participated in the CMB program, there was a significant deduction to taxable income related to the payment of upfront CMB expenses, compared to minimal collection of ongoing net CMB cash flows. Although the CMB program provided income of \$1.2 million for accounting purposes, it had a negative impact on taxable income of \$5.4 million (\$0.39 per share).

In addition, we earn residual securitization income, which includes the net yield earned on the interest-only strip and the CMB liabilities, penalty income, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest rate swaps.

During the year, we securitized \$1.1 billion of mortgages through the CMB program. We recorded \$7.7 million of interest-only strips and \$1.4 million of liabilities on the respective closing dates.

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

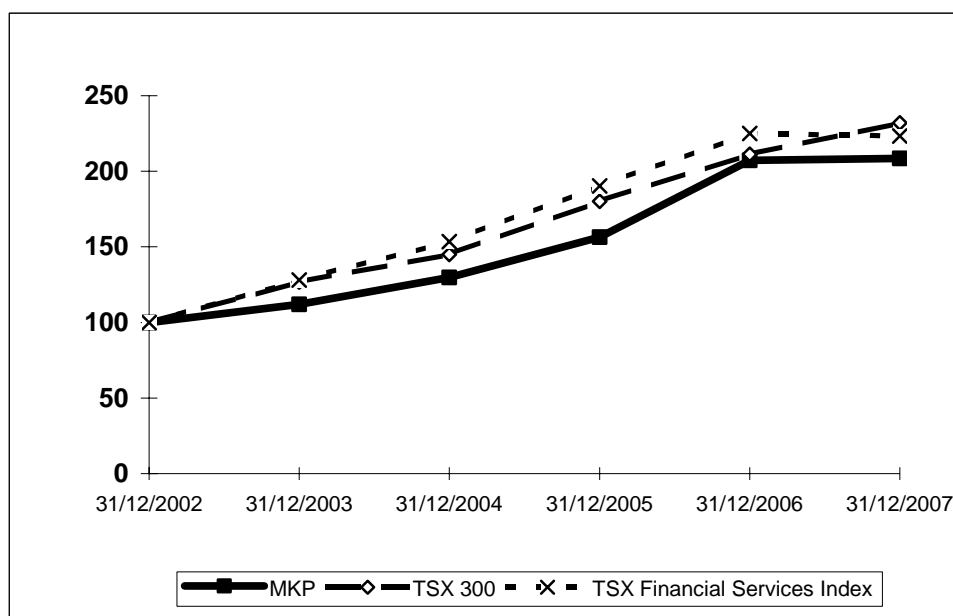
During the year, the expected future interest earned on reinvested CMB principal collections was reduced as a result of a CMHC advisory changing permitted investments. As a result, the interest-only strips from the March and June 2007 CMB issuances were written down.

**RIGHTS OFFERING**

On July 6, 2007, we announced the successful completion of the fully subscribed rights offering that expired on July 5, 2007. The rights offering raised gross proceeds of \$16.4 million with 1,559,981 new common shares issued. Of the new common shares issued, 1,380,681 were subscribed for under the initial subscription privilege and 179,300 were subscribed for under the additional subscription privilege. The rights offering increased investment capacity by \$94 million.

**PERFORMANCE GRAPH**

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2002) on the common shares during the period from January 1, 2003 to December 31, 2007, 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 2002	Dec 31 2003	Dec 31 2004	Dec 31 2005	Dec 31 2006	Dec 31 2007	Compound Annual Growth
MCAN	100	112	130	156	207	209	15.9%
TSX	100	127	145	180	211	232	18.3%
TSX Financial Services	100	128	154	190	225	223	17.4%

*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, 2007, there were 14,097,994 common shares outstanding. At February 29, 2008, there were 14,167,955 common shares outstanding. Additional information related to the share capital is included in Note 14 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. We pay out substantially all of our taxable income to shareholders, whereas other financial institutions generally pay out only a portion of their taxable income to their shareholders. These dividends are taxable in the shareholders' hands as interest. In addition, a MIC can pay certain capital gains dividends which are taxed as capital gains in the shareholders' hands. We intend to continue to declare dividends on a quarterly basis.

Dividends per share over the past three years are as follows:

Fiscal Period	2007	2006	2005
First Quarter - Regular Dividend	\$ 0.23	\$ 0.21	\$ 0.19
First Quarter - Extra Dividend	0.08	0.34	0.21
Second Quarter	0.23	0.21	0.19
Third Quarter	0.23	0.21	0.19
Fourth Quarter	0.23	0.21	0.19
	<b>\$ 1.00</b>	<b>\$ 1.18</b>	<b>\$ 0.97</b>
Taxable Dividends	\$ 0.88	\$ 1.06	\$ 0.855
Capital Gains Dividends	0.12	0.12	0.115
	<b>\$ 1.00</b>	<b>\$ 1.18</b>	<b>\$ 0.97</b>

The Board of Directors declared a first quarter dividend of \$0.23 per share to be paid March 28, 2008 to shareholders of record as of March 14, 2008. The Board designated \$0.11 of this dividend as a capital gains dividend.

In each of the past three years, there has been a special dividend paid in the first quarter in addition to the regular dividend. In 2005, it was a result of the previous year's gain on the sale of MCAP Financial Corporation. In 2006 and 2007, it was due to significant capital gains realized from the sale of our marketable securities portfolio. There is no extra dividend to be distributed in March 2008, mostly due to the effect of the CMB program on taxable income. By declaring our regular quarterly dividend (\$0.23) for the first quarter of 2008, we paid out dividends in excess of taxable income, creating a loss for tax purposes of \$0.19 per share.

#### OFF BALANCE SHEET ARRANGEMENTS

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, 2007, there were no outstanding short positions. Details of our commitments and hedges are included in Notes 5 and 19 to the consolidated financial statements.

Off balance sheet arrangements relating to the CMB program are discussed in the "CMB Program" section.

#### 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.

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

(in thousands)	Less than one year	One to five years	Over five years	Total
Term deposits	\$ 402,672	\$ 42,696	\$ -	\$ 445,368
Operating lease	109	417	-	526
Mortgage fundings	110,910	-	-	110,910
CMB obligations	370	1,104	-	1,474
	<b>\$ 514,061</b>	<b>\$ 44,217</b>	<b>\$ -</b>	<b>\$ 558,278</b>

We outsource our mortgage and loan origination and servicing. We continue to pay servicing expenses as long as the mortgages and loans remain on our balance sheet.

#### TRANSACTIONS WITH RELATED PARTIES

In 2007, we purchased mortgage and loan origination services and certain corporate services at a cost of \$3.6 million from MCLP and \$5.1 million from MSC, while we received fees of \$2.5 million from MCLP and \$1.8 million of fees and 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 MCLP. 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 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. At December 31, 2007, \$1.1 million of loans were outstanding. Subsequent to year-end, loans of \$336,000 were advanced under the Share Purchase Plan and the approved amount of loans was increased from \$1,250,000 to \$1,520,000. 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 14 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 assets 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 our regulator, the Superintendent of Financial Institutions Canada ("OSFI").

## **BORROWING**

We derive our net investment income from the investment of our equity and the difference or spread between amounts earned on our assets and the cost of the term deposits that we issue to fund such assets. We have two significant capital tests that must be closely monitored. First, as a MIC, we are limited by the Income Tax Act (Canada) (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)	2007	2006	2005
<b>Tax Act Test</b>			
Income Tax Assets	\$ 552,531	\$ 499,714	\$ 438,669
Income Tax Capital	\$ 100,780	\$ 86,245	\$ 85,664
Income Tax Assets to Capital ratio	5.48	5.79	5.12
Maximum Assets (non-consolidated)	\$ 604,680	\$ 517,470	\$ 513,984
Maximum Assets to Capital ratio	6.00	6.00	6.00
<b>Regulatory Test (OSFI)</b>			
Regulatory Assets	\$ 569,269	\$ 505,508	\$ 471,841
Regulatory Capital	\$ 100,554	\$ 81,294	\$ 69,460
Regulatory Assets to Capital ratio	5.66	6.22	6.79
Maximum Regulatory Assets (consolidated)	\$ 904,986	\$ 731,646	\$ 625,140
Maximum Regulatory Assets to Capital ratio	9.00	9.00	9.00
Total Regulatory Capital to Risk-Weighted Assets ratio	21.53%	17.58%	21.33%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	22.16%	18.30%	24.92%
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 term deposits insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation ("CDIC") with varying maturities in certain provinces of Canada. We do not use capital markets (including asset-backed commercial paper) for liquidity.

## 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 the review and approval of liquidity policies. The Asset and Liability Management Committee is responsible for liquidity management. 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 \$30 million banking facility in place to fund asset growth or meet short-term funding 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 2008 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 rates across the term spectrum of our assets and liabilities, including both parallel and non-parallel changes in interest rates. By managing and matching the terms of invested assets and term deposits so that they offset each other, we 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.

All material outsourcing arrangements are required to comply with OSFI guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. Our Chief Compliance Officer and senior management regularly review outsourcing arrangements to provide reasonable assurances that the outsourcing arrangements are in compliance with OSFI's guideline.

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 interest rate 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, 2007, we had twelve employees, unchanged from December 31, 2006.

## 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 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.

## OUTLOOK

Our primary objective is to fully invest the balance sheet while maintaining acceptable and sustainable returns. 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. We have not yet fully levered our new capital from the rights offering and as a result of this we were underinvested by \$27 million at year end. Our objective is to fully invest our remaining investment capacity from the rights offering by the second quarter of 2008. Maintaining our balance sheet at 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 and the statements of income, changes in shareholders' equity, comprehensive income and 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.

### Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management's intention. From January 1, 2007, financial assets are now classified as held for trading, held to maturity, loans and receivables or available for sale, and financial liabilities are classified as held for trading or other. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income until such time as disposal occurs, at which time the cumulative change in fair value is transferred to income, except for those considered to be changes attributable to impairment which are charged to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivatives and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2007, the Company did not have any hedge accounting relationships.

For further details on financial instruments, please refer to Notes 2, 4, 5, 6, 10 and 19 to the consolidated financial statements.

### 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.

On a quarterly basis, the Company compares the carrying value of its loans and investments 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.

Details of our accounting policies and balances of the allowances for credit losses can be found in Notes 2, 5 and 6 to the consolidated financial statements.

### Securitization

On the closing date of a CMB issuance, we recognize an interest-only strip, which is a retained interest in the securitized mortgages. We require the use of estimates to determine the fair value of the interest-only strip, which represents the present value of expected future cash flows. As a result of this, estimates and assumptions could have a material impact on net income. We review the estimates used to determine the fair value of the interest-only strip on an ongoing basis to ensure their appropriateness. For further information, please refer to Note 8 to the consolidated financial statements, which presents a sensitivity analysis of the current fair value of the interest-only strip to immediate 10% and 20% adverse changes in key assumptions.

### Income Taxes

As a MIC, we can deduct dividends paid to our shareholders from our calculation of taxable income. We have taken the position that it is more likely than not that future dividends will be sufficient to recover current or future income tax liabilities, and as a result of this, 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 13 to the consolidated financial statements. 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 ("CICA") has issued a new accounting standard, *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard will be adopted on January 1, 2008. We do not expect the adoption of this new standard to have a material impact on our financial statements.

The CICA has issued two new standards, *Financial Instruments - Disclosures* and *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. These new standards will be adopted on January 1, 2008. We do not expect the adoption of these new standards to have a material impact on our financial statements.

## **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, 2007 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, 2007, 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.

**2007 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

*Toronto, Canada,  
January 31, 2008*

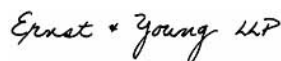
**AUDITORS' REPORT**

To the Shareholders of MCAN Mortgage Corporation

We have audited the consolidated balance sheets of MCAN Mortgage Corporation as at December 31, 2007 and 2006 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants  
Licensed Public Accountants**

*Toronto, Canada,  
January 31, 2008*

**MCAN MORTGAGE CORPORATION  
CONSOLIDATED BALANCE SHEETS**

(dollars in thousands)

As at December 31	Note	2007	2006
<b>Assets</b>			
<b>Investments</b>			
Cash and cash equivalents	3	\$ 54,008	\$ 17,685
Marketable securities	4	156	12,473
Mortgages	5	412,685	395,788
Loans and investments	6	71,286	53,377
Equity investment in MCAP Commercial LP	7	17,095	17,340
		<b>555,230</b>	<b>496,663</b>
Capital assets and other assets	9	2,399	1,444
		<b>\$ 557,629</b>	<b>\$ 498,107</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Term deposits	10	\$ 445,368	\$ 408,734
Accounts payable and accrued charges	11	8,293	4,448
Future taxes payable	13	961	314
		<b>454,622</b>	<b>413,496</b>
<b>Shareholders' Equity</b>			
Share capital	14	96,370	78,211
Contributed surplus	14	510	510
Retained earnings		6,654	5,890
Accumulated other comprehensive income (loss)	15	(527)	-
		<b>103,007</b>	<b>84,611</b>
		<b>\$ 557,629</b>	<b>\$ 498,107</b>

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**

(dollars in thousands except for per share amounts)

Years Ended December 31	Note	2007	2006
<b>Investment Income</b>			
Mortgage interest		\$ 28,669	\$ 24,642
Interest on loans and investments		5,728	4,528
Interest on cash and cash equivalents		1,299	571
Fees		3,384	3,161
Marketable securities	4	956	2,802
Equity income from MCAP Commercial LP	7	890	1,840
Securitization income	8	1,190	-
Gain on sale of mortgages	8	22	53
		<b>42,138</b>	<b>37,597</b>
<b>Financial Expenses</b>			
Term deposit interest and expenses		18,996	14,710
Mortgage expenses		3,699	3,037
Provision for losses		517	879
		<b>23,212</b>	<b>18,626</b>
<b>Net Investment Income</b>		<b>18,926</b>	<b>18,971</b>
<b>Operating Expenses</b>			
Salaries and benefits		1,878	1,785
General and administrative		2,231	2,071
		<b>4,109</b>	<b>3,856</b>
<b>Income Before Income Taxes</b>		<b>14,817</b>	<b>15,115</b>
Provision for (recovery of) income taxes and large corporations taxes	13	(26)	(96)
<b>Net Income</b>		<b>\$ 14,843</b>	<b>\$ 15,211</b>
<b>Basic and diluted earnings per share</b>	17	<b>\$ 1.12</b>	<b>\$ 1.23</b>
<b>Dividends per share</b>		<b>\$ 1.00</b>	<b>\$ 1.18</b>
<b>Weighted average number of basic and diluted shares (000's)</b>		<b>13,306</b>	<b>12,395</b>

*See accompanying notes*

**MCAN MORTGAGE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(dollars in thousands)

Years Ended December 31	2007	2006
<b>Share capital</b>		
Balance, beginning of year	\$ 78,211	\$ 75,880
Common shares issued	18,159	2,331
Balance, end of year	<b>96,370</b>	<b>78,211</b>
<b>Contributed surplus</b>		
Balance, beginning of year	510	510
Changes to contributed surplus	-	-
Balance, end of year	<b>510</b>	<b>510</b>
<b>Retained earnings</b>		
Balance, beginning of year	5,890	4,774
Net income	14,843	15,211
Income taxes (charged) recovered to retained earnings	(873)	387
Dividends declared	(13,206)	(14,482)
Balance, end of year	<b>6,654</b>	<b>5,890</b>
<b>Accumulated other comprehensive income</b>		
Balance, beginning of year	1,261	-
Other comprehensive income (loss)	(1,788)	-
Balance, end of year	<b>(527)</b>	<b>-</b>
<b>Total shareholders' equity</b>	<b>\$ 103,007</b>	<b>\$ 84,611</b>

**MCAN MORTGAGE CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(dollars in thousands)

Years Ended December 31	2007	2006
<b>Net income</b>	<b>\$ 14,843</b>	<b>\$ 15,211</b>
<b>Other comprehensive income (loss), net of income taxes</b>		
Change in unrealized gain on available for sale marketable securities	(91)	-
Transfer of gains on sale of marketable securities to net income	(549)	-
Change in unrealized gain on available for sale mortgages	(1,109)	-
Change in unrealized gain on available for sale loans and investments	(1)	-
Change in cash flow hedges	(38)	-
Other comprehensive income (loss)	(1,788)	-
<b>Comprehensive income</b>	<b>\$ 13,055</b>	<b>\$ 15,211</b>

See accompanying notes

**MCAN MORTGAGE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

<b>Years Ended December 31</b>	<b>Note</b>	<b>2007</b>	<b>2006</b>
<b>Cash provided by (used for):</b>			
<b>Operating Activities</b>			
Net income		\$ 14,843	\$ 15,211
Adjusted for non-cash items:			
Equity income		(880)	(1,874)
Provision for losses		546	933
Securitization income		(1,169)	-
Amortization of capital assets and other assets		871	755
Gain on sale of mortgages	8	(22)	(53)
Amortization of mortgage premiums		5	-
Distributions from MCAP Commercial LP	7	1,135	1,311
Increase in other receivables		(304)	(270)
Increase (decrease) in accounts payable and accrued charges		1,455	(1,164)
<b>Cash flows from operating activities</b>		<b>16,480</b>	<b>14,849</b>
<b>Investing Activities</b>			
Marketable securities		12,243	2,291
Mortgage advances		(2,746,158)	(493,259)
Mortgage reductions		411,259	328,817
Proceeds on sale of mortgages		2,312,601	103,523
Additions to capital assets and other assets		(1,013)	(658)
Increase in loans and investments		(11,319)	(20,664)
<b>Cash flows for investing activities</b>		<b>(22,387)</b>	<b>(79,950)</b>
<b>Financing Activities</b>			
Issue of term deposits		646,240	479,389
Repayment of term deposits		(609,606)	(417,837)
Issue of common shares		18,159	2,331
Dividends paid		(12,563)	(14,190)
<b>Cash flows from financing activities</b>		<b>42,230</b>	<b>49,693</b>
Increase (decrease) in cash and cash equivalents		36,323	(15,408)
Cash and cash equivalents, beginning of year		17,685	33,093
<b>Cash and cash equivalents, end of year</b>		<b>\$ 54,008</b>	<b>\$ 17,685</b>
<b>Supplementary Information</b>			
<b>Interest paid during the year</b>		<b>\$ 16,385</b>	<b>\$ 10,912</b>
<b>Taxes paid during the year</b>		<b>\$ 507</b>	<b>\$ 266</b>

See accompanying notes

## 1. Basis of Presentation

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

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

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

## 2. Summary of Significant Accounting Policies

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

### Measurement Uncertainty

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

### Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions, and classified based on management’s intention. From January 1, 2007, financial assets are now classified as held for trading, held to maturity, loans and receivables or available for sale, and financial liabilities are classified as held for trading or other. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in accumulated other comprehensive income until such time as disposal occurs, at which time the cumulative change in fair value is transferred to income, except for those considered to be changes attributable to impairment which are charged to income. Other classifications are subsequently measured at amortized cost. From time to time, the Company may use derivatives and non-derivative financial instruments to manage interest rate risk. Hedge accounting is optional, and where it can be applied, it requires the Company to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2007, the Company did not have any hedge accounting relationships.

### 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 transferred to a third party. At this point, the assets are removed from the balance sheet.

In 2007, the Company began its participation in the Canada Mortgage Bonds ("CMB") program, which involves the securitization of insured residential mortgages. On the sale date, the Company sells mortgages to the Canada Housing Trust and recognizes an interest-only strip, which is a retained interest in the securitized mortgages. The Company also recognizes a liability for future mortgage servicing costs.

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

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

**Revenue and Expense Recognition**

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

**Income Taxes**

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

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

**Variable Interest Entities**

*CICA Accounting Guideline 15 ("AcG 15")* defines the consolidation rules for variable interest entities ("VIEs"). A VIE is an entity where the equity is considered insufficient to finance the entity's activities or the equity holders do not have a controlling financial interest. These rules require the holder of the majority of variable interests of a VIE to consolidate the entity. Variable interests are defined as the exposure to both expected losses and expected gains. In the event of a sharing of expected losses and expected gains, the beneficiary with the majority of expected losses would be required to

consolidate the VIE. These rules do not apply to VIEs considered to be Qualifying Special Purpose Entities. The Company did not hold a majority of the variable interests in any VIE at the time of, or since, adoption of *AcG 15*.

### Changes in Accounting Policy

On January 1, 2007, the Company adopted the following new accounting standards of the Canadian Institute of Chartered Accountants ("CICA"): *Financial Instruments-Recognition and Measurement*, *Financial Instruments-Disclosure and Presentation*, *Hedges* and *Comprehensive Income*. The adoption of these new standards resulted in changes, as previously described, in the accounting for financial instruments and hedges as well as the recognition of certain transitional adjustments that have been recorded in opening accumulated other comprehensive income. At adoption and as permitted by the transition rules, the Company applied the recognition criteria.

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

At adoption, the Company classified loans and investments as loans and receivables or held to maturity, marketable securities and mortgages as available for sale and term deposits and accounts payable as other financial liabilities. The impact of re-measuring the available for sale financial assets at fair value on January 1, 2007 was recognized in opening accumulated other comprehensive income.

	December 31 2006	Adjustment	January 1 2007
Marketable securities	\$ 12,473	\$ 773	\$ 13,246
Mortgages	395,788	835	396,623
Future taxes payable	314	347	661
Accumulated other comprehensive income	-	1,261	1,261

The Company recognized interest-only strips and interest rate swap derivatives to its balance sheet during the year as part of the CMB program. As a result of the adoption of the aforementioned accounting standards, the interest-only strips from the March, June and September CMB issuances are classified as available for sale, and as a result, fair value changes are recognized in accumulated other comprehensive income. The interest-only strip from the December CMB issuance is classified as held for trading, wherein fair value changes are recognized in income. The interest rate swaps entered into under the CMB program do not qualify for hedge accounting and therefore are accounted for on a mark-to-market basis, with changes in the fair value of the swaps being recognized to income.

### Specific Accounting Policies

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

### Future Changes in Accounting Policy

The CICA has issued a new accounting standard, *Capital Disclosures*, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. This new standard will be adopted on January 1, 2008.

The CICA has issued two new standards, *Financial Instruments - Disclosures* and *Financial Instruments - Presentation*, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks. These new standards will be adopted on January 1, 2008.

## 3. Cash and Cash Equivalents

	2007	2006
Cash and cash equivalents	\$ 3,055	\$ 4,180
Bankers' acceptances, term deposits and treasury bills	50,919	13,500
Accrued interest	34	5
	<b>\$ 54,008</b>	<b>\$ 17,685</b>

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.

December 31, 2007 (Dollar amounts in thousands except for per share amounts)

#### 4. Marketable Securities

	2007	2006
Marketable securities at cost, less allowance	\$ 199	\$ 12,473
Unrealized gains (losses)	(43)	813
<b>Marketable securities at fair value</b>	<b>\$ 156</b>	<b>\$ 13,286</b>

As a result of the new CICA standards for financial instruments adopted in 2007, marketable securities are classified as available for sale and are now carried at fair value. In 2006, marketable securities were carried at amortized cost. The historical cost of marketable securities is written down for any decline in value which is other than temporary.

	2007	2006
Marketable securities income	\$ 956	\$ 2,802
Change in unrealized gains and losses	(856)	(1,715)
	<b>\$ 100</b>	<b>\$ 1,087</b>

Marketable securities consist of income, royalty and real estate investment trusts. The marketable securities portfolio has no specific maturity date. Fair values are based on bid prices quoted in active markets.

#### 5. Mortgages

	Principal	Allowance	2007 Net	2006 Net
Single family mortgages				
- Uninsured	\$ 160,403	\$ 1,102	\$ 159,301	\$ 135,249
- Insured	29,661	-	29,661	40,231
Construction loans				
- Residential	192,860	1,726	191,134	182,992
- Non-residential	4,575	41	4,534	29
Commercial	26,740	415	26,325	35,037
	414,239	3,284	410,955	393,538
Fair value adjustment	(573)	-	(573)	-
	413,666	3,284	410,382	393,538
Accrued interest	2,303	-	2,303	2,250
	<b>\$ 415,969</b>	<b>\$ 3,284</b>	<b>\$ 412,685</b>	<b>\$ 395,788</b>

MCAN invests in uninsured residential mortgages that do not exceed 80% of the value of the real estate securing such loans. Residential mortgages insured by Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

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

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

The fair values of mortgages are estimated on a discounted cash flow basis that uses market interest rates currently charged for similar mortgages to expected maturity dates. Mortgages are classified as available for sale.

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$110,910 at December 31, 2007 (2006 - \$135,978). Substantially all of these commitments relate to floating rate loans.

The Company manages credit risk through risk management policies and procedures that emphasize the quality and diversification of its investments. These policies establish limits on concentration by asset class, risk rating, geographic region, dollar limit and borrower.

The details of the mortgage provisions are as follows:

			2007			2006
	General	Specific	Total	General	Specific	Total
Balance, beginning of year	\$ 3,607	\$ -	\$ 3,607	\$ 2,757	\$ -	\$ 2,757
Provisions (recoveries)	(386)	67	(319)	856	-	856
Write-offs	(4)	-	(4)	(6)	-	(6)
<b>Balance, end of year</b>	<b>\$ 3,217</b>	<b>\$ 67</b>	<b>\$ 3,284</b>	<b>\$ 3,607</b>	<b>\$ -</b>	<b>\$ 3,607</b>

At December 31, 2007, the Company had \$2,369 of impaired loans (2006 - \$1,009).

## 6. Loans and Investments

	Loans and receivables	Held to maturity	Available for sale	Held for trading	Other	2007 Total	2006 Total
Securitization investments (a)	\$ 1,558	\$ 23,548	\$ 8,122	\$ 3,153	\$ -	\$ 36,381	\$ 24,325
Loans receivable and other investments (b)	31,533	2,528	-	-	844	34,905	29,052
	<b>\$ 33,091</b>	<b>\$ 26,076</b>	<b>\$ 8,122</b>	<b>\$ 3,153</b>	<b>\$ 844</b>	<b>\$ 71,286</b>	<b>\$ 53,377</b>

### (a) Securitization Investments

#### Investments in Securitization Programs

	Principal	Allowance	2007 Net	2006 Net
Subordinated loans - residential mortgage securitization programs	\$ 13,939	\$ 794	\$ 13,145	\$ 12,229
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	6,657	-	6,657	7,494
- first loss position	2,946	-	2,946	3,317
Bonds - residential mortgage securitization program	342	-	342	827
Bonds - commercial securitization program	458	-	458	458
	<b>\$ 24,342</b>	<b>\$ 794</b>	<b>\$ 23,548</b>	<b>\$ 24,325</b>

Of the investments in securitization programs, \$20,738 are invested in bank-sponsored securitization programs, while the remaining \$2,810 of these investments are non bank-sponsored.

#### Other Securitization Investments

	Note	2007	2006
CMB - interest-only strip	8	\$ 7,226	\$ -
Insured mortgage-backed securities		4,049	-
Other securitization assets		1,558	-
		<b>\$ 12,833</b>	<b>\$ -</b>
<b>Total securitization investments</b>		<b>\$ 36,381</b>	<b>\$ 24,325</b>

The subordinated loans - residential mortgage securitization programs consist of subordinated loans under two separate programs. One loan bears interest at 10% (2006 - 10%) and has an outstanding balance of \$11,135 at December 31, 2007 (2006 - \$8,339). The loan is rated BB high by Dominion Bond Rating Service ("DBRS"). The other loan bears interest at 12% (2006 - 12%) and has an outstanding balance (net of write-down) of \$2,010 at December 31, 2007 (2006 - \$3,890). This loan has been impacted by repricing in debt markets. The Company has not received sufficient information to assess fully the degree to which this investment has been impaired. A write-down of \$794 has been taken based on available information. Both loans are subordinate to senior debt holders and senior to the deferred purchase price payable to MCLP. The loans are classified as held to maturity.

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, 2007 (2006 - 11%) in priority to the more junior interests in the DPPR. The senior position is rated BBB by DBRS. MCAN

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also purchased a 25% interest in the most junior 4% (the “first loss position”) for which it receives 25% of the residual cash flow from the program. The receivables are classified as held to maturity.

The bonds - residential mortgage securitization program bear interest at the benchmark Government of Canada Bond rate plus 2.25%. At December 31, 2007, the bonds had a weighted average yield of 6.21% (2006 - 6.07%). The bonds are subordinate to senior debt holders and senior to the second subordinated loan discussed above. The bonds are rated A by DBRS. The bonds are classified as held to maturity.

The bonds - commercial securitization program bear interest at CDOR plus 2.5%. At December 31, 2007, the bonds had a weighted average yield of 7.16% (2006 - 6.83%). 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. The bonds are classified as held to maturity.

The Company holds CMHC-insured mortgage-backed securities with a weighted average yield of 5.14%. The securities are classified as available for sale.

On a quarterly basis, the Company compares the carrying value of the investments in securitization programs 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.

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

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

	Note	Principal	Allowance	2007 Net	2006 Net
Loan receivable from Warehouse Trust		\$ 9,829	\$ -	\$ 9,829	\$ 6,009
Loans receivable - employees	14	1,117	-	1,117	715
Loan receivable - bridge lending fund		3,217	42	3,175	-
Loans receivable - other		16,269	184	16,085	16,668
Investment in mortgage trusts		2,565	37	2,528	2,520
Other loans and investments		2,171	-	2,171	3,140
		<b>\$ 35,168</b>	<b>\$ 263</b>	<b>\$ 34,905</b>	<b>\$ 29,052</b>

Warehouse Trust, a VIE, is a residential construction mortgage loan accumulation entity which is beneficially owned by MCLP. The loan represents a line of credit to acquire interests in construction and commercial mortgage loans or other loans originated by MCLP. The loan receivable bears interest at prime plus 0.55%, 6.55% at December 31, 2007 (2006 - 6.55%).

During 2007, the Company entered into a bridge lending fund in which it has a fixed proportionate share. As funds are advanced to borrowers of the lending fund, the Company advances its proportionate share to the fund to finance the loans. There is no fixed interest rate on the loan, but the Company is entitled to its pro-rata share of interest and fees collected from borrowers.

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, 2007 (2006 - 10%) and have an aggregate outstanding balance of \$6,716 at December 31, 2007 (2006 - \$4,724). One loan has been advanced to a private company bearing interest at prime plus 1½%, 7½% at December 31, 2007 (2006 - 7%). This loan has an outstanding balance of \$9,369 at December 31, 2007 (2006 - \$11,944). All of these loans are payable on demand.

All loans receivable and other investments are classified as loans and receivables except for the investment in mortgage trusts, which is classified as held to maturity, and an \$844 item included in other loans and investments classified as other.

**7. Equity Investment in MCAP Commercial LP**

	<b>2007</b>	<b>2006</b>
Balance, beginning of year	\$ 17,340	\$ 16,811
Equity income	890	1,840
Distributions received	(1,135)	(1,311)
	<b>\$ 17,095</b>	<b>\$ 17,340</b>

Equity income includes a \$34 gain on dilution (2006 - \$201) 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 22.8% to 22.0%.

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

**8. Asset Sales**

The Company securitizes insured residential mortgages through the CMB program, in which it participates with MSC. Upon sale, the Company recognizes an interest-only strip, which is a retained interest in the securitized mortgages. In addition, the Company recognizes liabilities for future mortgage servicing and other costs. The Company subcontracts CMB servicing obligations to MSC.

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

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

	<b>2007</b>
Gain on securitization	\$ 1,068
Write-down of interest-only strip	(222)
Residual securitization income	344
	<b>\$ 1,190</b>

Residual securitization income includes the net yield earned on the interest-only strip and the CMB liabilities, penalty income, refinancing and renewal gains, interest rate swap receipts (payments) and fair value changes in the interest rate swaps (note 19).

The interest-only strips from the March and June 2007 CMB issuances were written down during the year. Expected future yields were reduced as a result of a CMHC advisory changing permitted investments for CMB principal collections.

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

	<b>2007</b>
Proceeds from new securitizations	\$ 1,089,404
Net cash flows received on interest-only strip	245

December 31, 2007 (Dollar amounts in thousands except for per share amounts)

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

	<b>2007</b>
Prepayment rate (%)	14.4%
Discount rate (%)	6.4%
	<b>2007</b>
Interest-only strip	\$ 7,226
Impact of:	
Prepayment rate	14.4%
10% adverse change	\$ 158
20% adverse change	\$ 311
Discount rate	6.4%
10% adverse change	\$ 48
20% adverse change	\$ 95

The Company may sell other residential mortgages, commercial loans and residential construction loans. During the year, the Company sold \$1,233,974 (2006 - \$103,523) of mortgages outside of the CMB program, recognizing a gain on sale of \$22 (2006 - \$53). The Company has a retained interest in 0% (2006 - 4%) of these sales. Of the non-CMB mortgage sales, \$1,230,018 (2006 - \$73,240) were made to MCLP, Warehouse Trust and MSC. Purchasers of these transferred mortgages and loans have no recourse to the Company.

## 9. Capital Assets and Other Assets

	<b>2007</b>	<b>2006</b>
Capital assets	\$ 517	\$ 639
Deferred charges and prepaid expenses	1,191	419
Other receivables	691	42
Related party receivables - MCLP and MSC	-	344
	<b>\$ 2,399</b>	<b>\$ 1,444</b>

The composition of capital assets is as follows:

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	<b>2007</b>	<b>2006</b>
Furniture and fixtures	\$ 83	\$ 50	\$ 33	\$ 49	
Computer hardware	73	53	20	45	
Computer software	668	236	432	508	
Leasehold improvements	47	15	32	37	
	<b>\$ 871</b>	<b>\$ 354</b>	<b>\$ 517</b>	<b>\$ 639</b>	

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

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

## 10. Term Deposits

	2007	2006
Term deposits	\$ 437,419	\$ 401,987
Accrued interest	7,949	6,747
	<b>\$ 445,368</b>	<b>\$ 408,734</b>
<b>Fair value</b>	<b>\$ 450,809</b>	<b>\$ 412,335</b>

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2006 - 30 days to five years) and bear interest at rates ranging from 2.10% to 5.30% (2006 - 2.10% to 4.80%).

Term deposits are classified as other financial liabilities. 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.

## 11. Accounts Payable and Accrued Charges

	2007	2006
Accounts payable and accrued charges	\$ 2,877	\$ 1,057
Dividends payable	3,242	2,599
Deferred mortgage commitment fees	1,093	792
Related party payables - MCLP and MSC	1,081	-
	<b>\$ 8,293</b>	<b>\$ 4,448</b>

In 2007, the Company purchased certain corporate services and mortgage origination and administration services from MSC in the amount of \$5,141 (2006 - \$828). During 2007, the Company received \$nil (2006 - \$65) of mortgagor fees and interest from MSC.

In 2007, the Company purchased certain corporate services and mortgage origination and administration services from MCLP in the amount of \$3,566 (2006 - \$2,664). During 2007, the Company received \$2,537 (2006 - \$2,008) of mortgagor fees from MCLP.

During 2007, the Company received \$1,754 (2006 - \$804) of fees and interest from Warehouse Trust.

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

## 12. Credit Facilities

The Company has access to a line of credit from a Canadian chartered bank that is a \$50,000 facility bearing interest at prime plus 0.5%, 6.5% at December 31, 2007 (2006 - 6.5%). The facility has a sub limit of \$30,000 for letters of credit and \$30,000 for overdrafts, and is due and payable upon demand. The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with developer loans. At December 31, 2007, there were letters of credit in the amount of \$12,637 issued (2006 - \$9,106) and additional letters of credit in the amount of \$5,069 committed but not issued (2006 - \$7,343).

December 31, 2007 (Dollar amounts in thousands except for per share amounts)

### 13. Income Taxes

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.

	2007	2006
Income before income taxes	\$ 14,817	\$ 15,115
Less: dividends	(13,206)	(14,482)
Income subject to tax	1,611	633
Statutory rate of tax	43%	43%
Tax provision before the following:	693	272
Equity income	-	(619)
Provision for (recovery of) large corporations tax and corporate minimum tax	-	(57)
Permanent differences	154	(79)
<b>Tax provision (recovery) per financial statements</b>	<b>\$ 847</b>	<b>\$ (483)</b>
Presentation of tax provision in financial statements		
Provision against (recovery to) income	\$ (26)	\$ (96)
Charge (recovery) to retained earnings	873	(387)
	<b>\$ 847</b>	<b>\$ (483)</b>

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

	2007	2006
Provision for loan losses	\$ 1,766	\$ 1,651
Equity investment in MCAP Commercial LP	(147)	(373)
Dividends deductible for tax purposes	(1,030)	(1,337)
CMB related items	(2,686)	-
Marketable securities	5	(170)
Capital assets	(158)	(85)
Financial assets	68	-
Loss carryforward benefit	1,221	-
	<b>\$ (961)</b>	<b>\$ (314)</b>

The Company has loss carryforward amounts of \$2,931, the benefit of which has been recorded to future taxes, expiring as follows:

2026	\$ 288
2027	\$ 2,643

### 14. Share Capital and Contributed Surplus

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

Issued	Number of Shares	2007	Number of Shares	2006
Balance, beginning of year	12,372,939	\$ 78,211	12,140,680	\$ 75,880
Issued				
Rights offering	1,559,981	16,380	-	-
Dividend reinvestment plan	119,283	1,349	199,145	2,006
Share Purchase Plan	45,791	526	33,114	325
Share issue costs	-	(96)	-	-
<b>Balance end of year</b>	<b>14,097,994</b>	<b>\$ 96,370</b>	<b>12,372,939</b>	<b>\$ 78,211</b>

The Company issued 1,559,981 new common shares under a fully subscribed rights offering that expired on July 5, 2007.

During 2007, the Company issued 119,283 (2006 - 199,145) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

The Company had no potentially dilutive instruments for the years ended December 31, 2007 and 2006.

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 \$526 of loans under the Share Purchase Plan in 2007 (2006 - \$325). At December 31, 2007, \$1,117 of loans were outstanding (2006 - \$715) (note 6(b)). The loans under the Share Purchase Plan bear interest at prime plus 1%, 7% at December 31, 2007 (2006 - 7%), and have a five-year term. The shares are pledged as security for the loans and have a market value of \$1,254 at December 31, 2007 (2006 - \$1,015).

In 2007, 45,791 shares were issued out of treasury under the Share Purchase Plan (2006 - 33,114).

### 15. Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes unrealized gains and losses on available for sale marketable securities, mortgages and loans and investments, and cash flow hedges.

	2007	2006
Unrealized loss on available for sale marketable securities	\$ (34)	\$ -
Unrealized loss on available for sale mortgages	(454)	-
Unrealized loss on available for sale loans and investments	(1)	-
Unrealized loss on cash flow hedges	(38)	-
	<b>\$ (527)</b>	<b>\$ -</b>

### 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, 2007. 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 Company manages interest rate risk by matching the terms of invested assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced.

December 31, 2007 (Dollar amounts in thousands except for per share amounts)

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	2007 Total	2006 Total
<b>ASSETS</b>								
<b>Investments</b>								
Cash and cash equivalents	\$ 3,055	\$ 50,953	\$ -	\$ -	\$ -	\$ -	\$ 54,008	\$ 17,685
Marketable securities	-	-	-	-	-	156	156	12,473
Mortgages	236,405	31,198	51,304	86,888	4,995	1,895	412,685	395,788
Loans and investments	34,192	4,569	-	8,469	11,070	12,986	71,286	53,377
Equity investment in MCAP Commercial LP	-	-	-	-	-	17,095	17,095	17,340
	273,652	86,720	51,304	95,357	16,065	32,132	555,230	496,663
Capital assets and other assets	-	-	-	-	-	2,399	2,399	1,444
Total Assets	\$ 273,652	\$ 86,720	\$ 51,304	\$ 95,357	\$ 16,065	\$ 34,531	\$ 557,629	\$ 498,107
Yield	7.65%	5.55%	7.64%	7.11%	8.75%	-	-	-
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
Term deposits	\$ -	\$ 79,609	\$ 323,063	\$ 42,696	\$ -	\$ -	\$ 445,368	\$ 408,734
Accounts payable and accrued charges	-	-	-	-	-	8,293	8,293	4,448
Future taxes payable	-	-	-	-	-	961	961	314
Shareholders' equity	-	-	-	-	-	103,007	103,007	84,611
Total Liabilities and Shareholders' Equity	\$ -	\$ 79,609	\$ 323,063	\$ 42,696	\$ -	\$ 112,261	\$ 557,629	\$ 498,107
Yield	-	4.39%	4.66%	4.66%	-	-	-	-
<b>GAP</b>	<b>\$ 273,652</b>	<b>\$ 7,111</b>	<b>\$ (271,759)</b>	<b>\$ 52,661</b>	<b>\$ 16,065</b>	<b>\$ (77,730)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>YIELD SPREAD</b>	<b>7.65%</b>	<b>1.16%</b>	<b>2.98%</b>	<b>2.45%</b>	<b>8.75%</b>	<b>-</b>	<b>-</b>	<b>-</b>

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2007 would have a positive (adverse) effect of \$1,703 (2006 - \$1,525) to net interest income over the following twelve month period.

## 17. Earnings Per Share

The rights offering had an exercise price which was less than the fair value of the common shares at the date of issuance. Prior year earnings per share have been restated from \$1.24 to \$1.23 to reflect this dilution. Prior year dividends per share have not been restated to reflect this dilution.

## 18. 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, 2007 the ratio was 4.48 (2006 - 4.79).

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, 2007, the total capital ratio was 21.53% (2006 - 17.58%) and the Tier 1 capital ratio was 22.16% (2006 - 18.30%).

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, 2007, the Company had a regulatory assets to regulatory capital multiple of 5.66 (2006 - 6.22).

## 19. Derivative Financial Instruments

As part of the CMB program, the Company enters into “pay-floating, receive-fixed” interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strip. The Company receives interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strip. To September 30, 2007, the majority of the swaps were designated as cash flow hedges, wherein changes in fair value were recognized in accumulated other comprehensive income. However, the swaps qualifying as cash flow hedges were de-designated as of October 1, 2007, and now all changes in the fair value of the swaps are recognized to income.

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

	Less than one year	One to five years	Over five years	2007 Total	2006 Total
CMB interest rate swaps - fair value	\$ -	\$ 526	\$ -	\$ 526	\$ -
CMB interest rate swaps - outstanding notional	\$ -	\$ 15,146	\$ -	\$ 15,146	\$ -

The interest rate swaps are included in capital assets and other assets.

The Company has established a facility with an investment dealer to provide short positions in Government of Canada Bonds, which are used to manage interest rate risk on commitments and mortgages held for sale. There are no outstanding short positions at December 31, 2007 (2006 - nil).

## 20. Commitments

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

2008	\$ 109
2009	109
2010	110
2011	113
2012	85
Thereafter	-
	<b>\$ 526</b>

## 21. 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.

## 22. Guarantees

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

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

- guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to MCLP’s residential construction loan securitization program;
- guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to the warehousing of residential construction loans intended for MCLP’s residential construction loan securitization program;

December 31, 2007 (Dollar amounts in thousands except for per share amounts)

- (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.

MCLP has issued Class B units of \$9,603 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.

### **23. Comparative Amounts**

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

**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**

Partner, Crown Capital Partners, Partner, Crown Realty Partners; 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 & 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 & CEO, MCAN Mortgage Corporation; Director since April 2004.

**OFFICERS AND MANAGEMENT**

**Ian Sutherland**

Chairman of the Board

**Blaine Welch**

President & CEO

**Tammy Oldenburg**

Vice President & CFO

**Michael Misener**

Vice President, Investments  
Business Continuity/Disaster Recovery Coordinator  
Privacy Officer

**Sylvia Pinto**

Corporate Secretary

**Derek Sutherland**

Assistant Vice President, Investments  
Chief Anti-Money Laundering Officer  
Risk Officer  
Compliance Officer

**John Tyas**

Controller

**CORPORATE INFORMATION**

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**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 2007 Annual Report is available for viewing/printing on our web site at [www.mcanmortgage.com](http://www.mcanmortgage.com), or additionally on SEDAR at [www.sedar.com](http://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](mailto: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 1-800-564-6253, 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](mailto:mcanexecutive@mcanmortgage.com).

**Annual Meeting**

4:30 p.m., on May 8, 2008  
St. Andrew's Club and Conference Centre  
150 King Street West, 27<sup>th</sup> Floor  
Toronto, Ontario