



MCAN MORTGAGE CORPORATION

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OPERATIONS**

DECEMBER 31, 2007

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 or through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

A NOTE ABOUT FORWARD LOOKING STATEMENTS

This report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company. These 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	4,109	3,856	3,585	253	6.6%
Income before income taxes	14,817	15,115	14,129	(298)	(2.0%)
Provision for (recovery of) income taxes and large corporations taxes	(26)	(96)	13	70	(72.9%)
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
Investment Income			
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)
	42,138	37,597	32,790
Financial Expenses			
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
	23,212	18,626	15,076
Net Investment Income	\$ 18,926	\$ 18,971	\$ 17,714

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
	\$ 4,109	\$ 3,856	\$ 3,585

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
	\$ 847	\$ (483)	\$ 315

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
Investment Income		
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
	10,594	11,968
Financial Expenses		
Term deposit interest and expenses	5,543	4,461
Mortgage expenses	1,078	848
Provision for (recovery of) losses	(286)	427
	6,335	5,736
Net Investment Income	\$ 4,259	\$ 6,232

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
	\$ 1,079	\$ 1,080

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	\$3,076	\$3,457	\$3,472	\$5,206	\$4,393	\$4,187	\$3,083	\$3,180
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	\$0.55	\$0.21	\$0.21	\$0.21	\$0.31	\$0.23	\$0.23	\$0.23

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
	\$ 557,629	100.0%	\$ 498,107	100.0%	\$ 434,369	100.0%

Cash equivalents include treasury bills, term deposits and bankers' acceptances. These investments ensure adequate liquidity to meet maturing term deposit and new mortgage commitments. We manage our cash and cash equivalents in the \$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
Liabilities					
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
Shareholders' equity					
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
	\$ 557,629	\$ 498,107	\$ 434,369	\$ 59,522	\$ 123,260

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.

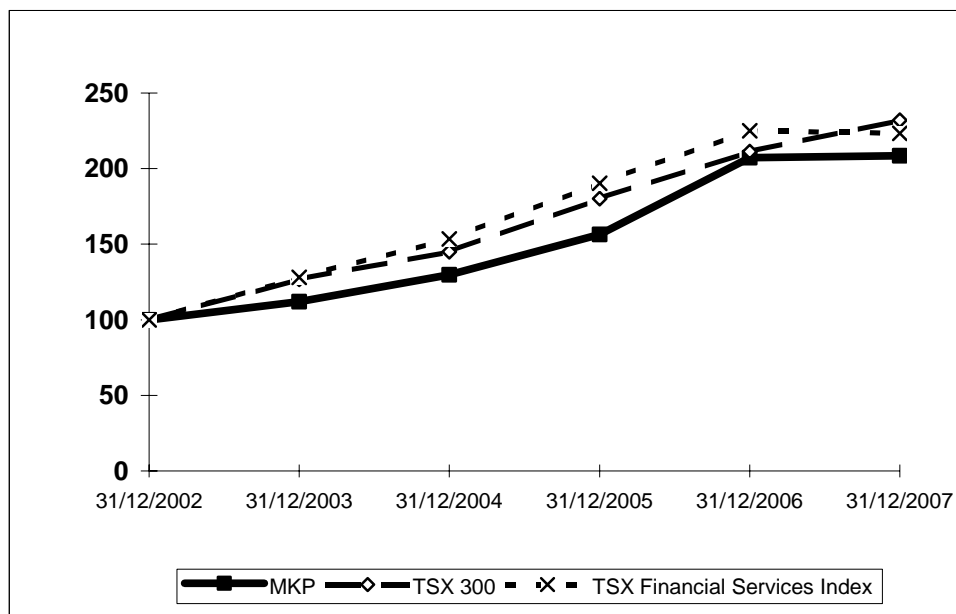
During the year, the expected future interest earned on reinvested CMB principal collections was reduced as a result of a CMHC advisory changing permitted investments. As a result, the interest-only strips from the March and June 2007 CMB issuances were written down.

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
	\$ 1.00	\$ 1.18	\$ 0.97
Taxable Dividends	\$ 0.88	\$ 1.06	\$ 0.855
Capital Gains Dividends	0.12	0.12	0.115
	\$ 1.00	\$ 1.18	\$ 0.97

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
	\$ 514,061	\$ 44,217	\$ -	\$ 558,278

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
Tax Act Test			
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
Regulatory Test (OSFI)			
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.