



**CONSOLIDATED FINANCIAL STATEMENTS 2007
MCAN MORTGAGE CORPORATION**

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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

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

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



Blaine Welch
President and Chief Executive Officer



Tammy Oldenburg
Vice President and Chief Financial Officer

Toronto, Canada,
January 31, 2008

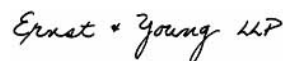
AUDITORS' REPORT

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
Assets			
Investments			
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
		555,230	496,663
Capital assets and other assets	9	2,399	1,444
		\$ 557,629	\$ 498,107
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	10	\$ 445,368	\$ 408,734
Accounts payable and accrued charges	11	8,293	4,448
Future taxes payable	13	961	314
		454,622	413,496
Shareholders' Equity			
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)	-
		103,007	84,611
		\$ 557,629	\$ 498,107

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
Investment Income			
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
		42,138	37,597
Financial Expenses			
Term deposit interest and expenses		18,996	14,710
Mortgage expenses		3,699	3,037
Provision for losses		517	879
		23,212	18,626
Net Investment Income		18,926	18,971
Operating Expenses			
Salaries and benefits		1,878	1,785
General and administrative		2,231	2,071
		4,109	3,856
Income Before Income Taxes		14,817	15,115
Provision for (recovery of) income taxes and large corporations taxes	13	(26)	(96)
Net Income		\$ 14,843	\$ 15,211
Basic and diluted earnings per share	17	\$ 1.12	\$ 1.23
Dividends per share		\$ 1.00	\$ 1.18
Weighted average number of basic and diluted shares (000's)		13,306	12,395

See accompanying notes

MCAN MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands)

Years Ended December 31	2007	2006
Share capital		
Balance, beginning of year	\$ 78,211	\$ 75,880
Common shares issued	18,159	2,331
Balance, end of year	96,370	78,211
Contributed surplus		
Balance, beginning of year	510	510
Changes to contributed surplus	-	-
Balance, end of year	510	510
Retained earnings		
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	6,654	5,890
Accumulated other comprehensive income		
Balance, beginning of year	1,261	-
Other comprehensive income (loss)	(1,788)	-
Balance, end of year	(527)	-
Total shareholders' equity	\$ 103,007	\$ 84,611

MCAN MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

Years Ended December 31	2007	2006
Net income	\$ 14,843	\$ 15,211
Other comprehensive income (loss), net of income taxes		
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)	-
Comprehensive income	\$ 13,055	\$ 15,211

See accompanying notes

MCAN MORTGAGE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

Years Ended December 31	Note	2007	2006
Cash provided by (used for):			
Operating Activities			
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)
Cash flows from operating activities		16,480	14,849
Investing Activities			
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)
Cash flows for investing activities		(22,387)	(79,950)
Financing Activities			
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)
Cash flows from financing activities		42,230	49,693
Increase (decrease) in cash and cash equivalents		36,323	(15,408)
Cash and cash equivalents, beginning of year		17,685	33,093
Cash and cash equivalents, end of year		\$ 54,008	\$ 17,685
Supplementary Information			
Interest paid during the year		\$ 16,385	\$ 10,912
Taxes paid during the year		\$ 507	\$ 266

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

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

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
	\$ 54,008	\$ 17,685

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.

4. Marketable Securities

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

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)
	\$ 100	\$ 1,087

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
	\$ 415,969	\$ 3,284	\$ 412,685	\$ 395,788

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.

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

The details of the mortgage provisions are as follows:

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

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
	\$ 33,091	\$ 26,076	\$ 8,122	\$ 3,153	\$ 844	\$ 71,286	\$ 53,377

(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
	\$ 24,342	\$ 794	\$ 23,548	\$ 24,325

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	-
		\$ 12,833	\$ -
Total securitization investments		\$ 36,381	\$ 24,325

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

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
		\$ 35,168	\$ 263	\$ 34,905	\$ 29,052

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 1 $\frac{3}{8}$ %, 7 $\frac{3}{8}$ % 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

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

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

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.

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

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.

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

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.

	2007
Prepayment rate (%)	14.4%
Discount rate (%)	6.4%
	2007
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

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

The composition of capital assets is as follows:

	2007		2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
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
	\$ 871	\$ 354	\$ 517	\$ 639

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
	\$ 445,368	\$ 408,734
Fair value	\$ 450,809	\$ 412,335

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	-
	\$ 8,293	\$ 4,448

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).

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)
Tax provision (recovery) per financial statements	\$ 847	\$ (483)
Presentation of tax provision in financial statements		
Provision against (recovery to) income	\$ (26)	\$ (96)
Charge (recovery) to retained earnings	873	(387)
	\$ 847	\$ (483)

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	-
	\$ (961)	\$ (314)

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)	-	-
Balance end of year	14,097,994	\$ 96,370	12,372,939	\$ 78,211

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)	-
	\$ (527)	\$ -

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

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.

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
ASSETS								
Investments								
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%	-	-	-
LIABILITIES AND SHAREHOLDERS' EQUITY								
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%	-	-	-	-
GAP	\$ 273,652	\$ 7,111	\$ (271,759)	\$ 52,661	\$ 16,065	\$ (77,730)	\$ -	\$ -
YIELD SPREAD	7.65%	1.16%	2.98%	2.45%	8.75%	-	-	-

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	-
	\$ 526

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:

- (a) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to MCLP's residential construction loan securitization program;
- (b) guarantee of the performance of MFC and MCLP pursuant to various agreements with respect to the warehousing of residential construction loans intended for MCLP's residential construction loan securitization program;
- (c) guarantee of the premises lease with respect to the premises occupied by MFC, MCLP and the Company at 200 King Street West, Toronto with a current monthly rent of \$108 increasing to \$116 in 2010 and expiring in September 2014; and
- (d) guarantee of the lease of furniture, fixtures and equipment between MCAP Leasing Inc. as lessor and MFC and MCLP as lessees with monthly lease payments of \$24 expiring in July 2008.

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.