ANNUAL REPORT 2008
MCAN MORTGAGE CORPORATION

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") enjoyed record earnings in 2008 despite turbulence in financial markets throughout the year. Our continued participation in the Canada Mortgage Bonds ("CMB") program and strategic mortgage portfolio acquisitions made significant contributions to net income.

This past year saw what many consider to be an unprecedented crisis in the global financial system, causing major declines in world equity markets in the last half of 2008 and continuing into 2009. The United States entered into a period of recession in early 2008 which has spread to other parts of the world, including Canada. During 2007, the Canadian market for third party-sponsored asset backed commercial paper ("ABCP") entered into a period of turmoil, which coincides with the economic contractions experienced in the United States and parts of Europe in connection with subprime mortgages and structured derivatives and investment products. Property values have declined significantly in the United States, and more moderate declines have now spread to Canada. We only invest in Canadian mortgages, and we are limited to investing in mortgages with a loan to value ratio not exceeding 80% unless they are insured. We have a modest exposure to securitizations and a relatively small exposure to non bank-sponsored securitizations. We have been proactive in writing down our ABCP exposure to 51% of its original value.

In July 2007, we closed a fully subscribed rights offering which raised gross proceeds of approximately $16.4 million with 1,559,981 new common shares issued. In 2008, our shareholders' equity increased by $13.2 million from retained earnings and the reinvestment of dividends. We have strived to be opportunistic in deploying our surplus capital.

In 2007, we reduced our marketable securities portfolio by $12.2 million to $156,000 and liquidated the remaining balance in early 2008, thereby avoiding the over 30% decline that occurred in the market during 2008.

Our relatively conservative risk-based approach to capital and balance sheet management has put MCAN in what we consider to be a strong capital and liquidity position. This has allowed us to take advantage of opportunities in 2008, and we expect this to continue in 2009.

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

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

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

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

At our fall 2007 strategic planning meeting, we established our objectives for 2008. Our performance against these objectives is discussed below.

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

At the start of 2008, we had available investment capacity after our July 2007 rights offering, at which point we aspired to fully invest our remaining capacity by the second quarter of 2008. However, various opportunities arose during 2008 to acquire mortgage portfolios on a profitable basis, and as a result of this, we retained investment capacity during the year to take advantage of these opportunities. While it is generally more profitable for the Company to be more fully invested, the incremental income from these acquired mortgages significantly exceeded any foregone spread income from traditional mortgage fundings.

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

We fund the balance sheet with equity and through the issuance of term deposits. The rights offering completed in 2007 resulted in a significant capital increase for the Company and facilitated modest 2008 asset growth. We have now administered our term deposit business internally for three years. The term deposit system has assisted in providing operational efficiencies and improved customer service to our deposit brokers.

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

We strive to provide clear and straightforward communications to our regulators and investors. On an ongoing basis, we ensure that we are in compliance with all relevant current and pending legislation set out by our various regulators. During 2008, we focused on compliance with the new regulations of Basel II and other ongoing regulatory compliance requirements.

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

We continue to be closely aligned to MCAP Commercial LP ("MCLP") through our equity ownership in the partnership. In addition, MCLP and MCAP Service Corporation ("MSC") originate and service the majority of our mortgage portfolio.

We have participated jointly with MCLP in regards to the acquisition of mortgage portfolios that occurred in 2008. Through the investment and asset management expertise of MCAN and MCLP management, both companies recognized significant incremental income during the year.

During 2008, we continued to support MCLP by providing various subordinate and first loss investments for securitization programs managed by MCLP. We also provided warehouse financing to a residential construction loan accumulation entity, which is beneficially owned by MCLP. We plan to continue supporting these programs in the years to come.

2008 marked the second year of our securitization of residential mortgages through the CMB program. We participate in the CMB program with MSC. We plan to continue our participation in the CMB program as it represented a significant component of net income in 2008.

In setting our strategic plan for 2009, we maintained the four objectives discussed above, but have restated them as follows:

- To optimally invest the balance sheet to earn acceptable and sustainable risk weighted returns.
- To ensure adequate funding is and remains available through a variety of cost effective sources.
- To operate at a standard of compliance and disclosure that reinforces the trust and confidence of all stakeholders.
- To participate in the success of MCLP through direct support for specific asset strategies and programs.

To the extent that desirable acquisition opportunities present themselves, we intend to keep ourselves in a position to take advantage of them as they become available. Although the turbulence in financial markets is likely to continue throughout the year, we believe that our strong capital base and investment capacity position us well for 2009.

Blaine Welch
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2008, which have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and have been presented in Canadian currency. This MD&A has been prepared as at February 26, 2009.

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 2009 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 $30.3 million for the year ended December 31, 2008, up from $14.8 million in the prior year. Earnings per share were $2.14 compared to $1.12 in the prior year, an increase of 91%.

The current turmoil in the general economy, and specifically in the financial and real estate markets, has impacted us both positively and negatively. In our core spread business, decreases in the prime rate that have not been matched by corresponding decreases in the cost of our term deposits have compressed the spread on our mortgage portfolio, of which over 50% is floating rate (prime-based). However, the changing interest rate environment has had a positive impact on our participation in the Canada Mortgage Bonds ("CMB") program. Also, the market turmoil has created opportunities for us, in conjunction with MCAP Commercial LP ("MCLP"), to acquire portfolios from other lenders at favourable pricing, and the aggressive management of these portfolios resulted in significant incremental income during the year. While 2008 results were significantly higher than historical results, it must be cautioned that the primary contributing activities are significantly more volatile than our core activities.

Selected Financial Information

(in thousands, except for per share amounts)	2008	2007	2006	Change from 2007	%
Net investment income	$ 36,082	$ 18,926	$ 18,971	$ 17,156	90.6%
Operating expenses	5,734	4,109	3,856	1,625	39.5%
Income before income taxes	30,348	14,817	15,115	15,531	104.8%
Provision for (recovery of) income taxes and large corporations taxes	-	(26)	(96)	26	(100.0%)
Net income	$ 30,348	$ 14,843	$ 15,211	$ 15,505	104.5%
Basic and diluted earnings per share	$ 2.14	$ 1.12	$ 1.23	$ 1.02	91.1%
Dividends per share	$ 0.96	$ 1.00	$ 1.18	$ (0.04)	(4.0%)
Assets	$ 570,154	$ 557,425	$ 498,107	$ 12,729	2.3%
Liabilities	453,545	454,418	413,496	(873)	(0.2%)
Shareholders' equity	116,609	103,007	84,611	13,602	13.2%
Number of common shares outstanding at year-end	14,224	14,098	12,373	126	0.9%
Book value per common share	$ 8.20	$ 7.31	$ 6.84	$ 0.89	12.2%
Common share price - close	$ 9.10	$ 9.96	$ 11.40	$ (0.86)	(8.6%)
Market capitalization	$ 129,438	$ 140,416	$ 141,052	$ (10,978)	(7.8%)

Net Investment Income

(in thousands)	2008	2007	2006
Investment Income			
Mortgage interest	$ 33,429	$ 28,669	$ 24,642
Interest on loans and investments	5,617	5,728	4,528
Interest on cash and cash equivalents	1,109	1,299	571
Fees	5,051	3,384	3,161
Equity income from MCAP Commercial LP	3,025	890	1,840
Securitization income	7,761	1,190	-
Gain on sale of mortgages	5,326	22	53
Marketable securities	(97)	956	2,802
	61,221	**42,138**	**37,597**
Financial Expenses			
Term deposit interest and expenses	20,684	18,996	14,710
Mortgage expenses	3,524	3,699	3,037
Provision for losses	931	517	879
	25,139	**23,212**	**18,626**
Net Investment Income	**$ 36,082**	**$ 18,926**	**$ 18,971**

Net investment income was $36.1 million in 2008, an increase of $17.2 million from $18.9 million in 2007. During the year, we acquired several portfolios of discounted mortgages and realized a partial recovery of the discounts during the year (included in mortgage interest income). We also received fees from MCLP from a profit sharing arrangement relating to discounted mortgages acquired by MCLP. In addition, net investment income increased as a result of higher securitization income earned through our participation in the CMB program and equity income from MCLP, and gains from sales of mortgages.

Mortgage interest income increased by $4.8 million over the prior year. This variance was a result of an increase in the average mortgage yield to 7.66% in the current year from 7.31% in the prior year and a $46 million increase in the average mortgage portfolio (from $385 million in 2007 to $431 million in 2008) as a result of higher investment capacity from the rights offering completed in 2007. The increase in yield despite decreases in the prime rate was a result of higher effective yields on the mortgages in the acquired portfolios, as we realized $2.9 million of discount income during the year. The portion of the discount that we expect to recover is amortized into income over the remaining term of the respective mortgages. Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. Payout volumes for the year were significantly higher than anticipated.

The prime rate decreased by 2.5% for the twelve months ended December 31, 2008. This decrease has negatively impacted mortgage interest income, as approximately 56% of our mortgages at year end were floating rate. However, this negative impact has been more than offset by the higher effective yields on the mortgages in the acquired portfolios.

Interest on loans and investments decreased by $111,000 over the prior year. The effect of a lower average prime rate slightly exceeded that of a higher average balance.

Interest on cash and cash equivalents decreased by $190,000 over the prior year due to a lower average prime rate in 2008.

Fees increased by $1.7 million over 2007, primarily due to $2.1 million received from MCLP in regards to the profit sharing arrangement noted above. Fees also include commitment, extension, renewal and letter of credit fees earned on our mortgage portfolio.

Equity income of $3.0 million from our ownership in MCLP increased significantly from $890,000 in the prior year. In 2008, MCLP recognized significant income from its share of income from the mortgages in the acquired portfolios. In 2007, MCLP recorded write-downs on certain of its securitization programs as a result of disruption in financial markets.

Securitization income from our participation in the CMB program was $7.8 million, up from $1.2 million in the prior year. Up-front gains from securitization were significantly higher in 2008 due to wider interest rate spreads between mortgages and government bonds. Residual securitization income also increased significantly, although $2.7 million of the current year income relates to fair value changes.

During 2008, we earned $5.3 million from sales of mortgages, primarily from the acquired portfolios. In 2007, we had minimal gains from sale of mortgages.

Marketable securities income consists primarily of losses from sales, as we sold the remainder of our portfolio in 2008. Gains from sales of marketable securities were $696,000 in the prior year.

Term deposit interest and expenses increased by $1.7 million over 2007. The increase was due to a $42 million increase in the average term deposit balance to $438 million in 2008 from $396 million in 2007 as a result of increased capacity from the rights offering, partially offset by a decrease in the average term deposit rate to 4.39% in 2008 from 4.43% in 2007.

Mortgage expenses, consisting primarily of mortgage servicing expenses, were $3.5 million compared to $3.7 million in the prior year. Although the average mortgage portfolio increased during the year, our portfolio of residential construction loans (which attract a higher servicing rate) decreased, while our single family mortgage portfolio (which attracts a lower servicing rate) increased.

Write-offs were 2.3 basis points ($100,000) on average mortgage balances, compared to 0.1 basis points ($4,000) in the prior year.

Provisions for losses in the current and prior year were as follows:

	2008	2007
Mortgages - general provision (recovery)	$ (478,000)	$ (386,000)
Mortgages - specific provision	97,000	67,000
Loans and investments - general provision	106,000	42,000
Securitization investments - write-down	2,000,000	794,000
Securitization investments - recovery of write-down	(794,000)	-
	$ 931,000	**$ 517,000**

At December 31, 2007, we had investments in a residential mortgage non bank-sponsored securitization program subject to the proposed restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord"). The investments consisted of a $2.0 million subordinated loan (net of a $794,000 allowance) and a $342,000 investment in a bond rated A by Dominion Bond Rating Service ("DBRS"). To protect our investment, we purchased the assets of that securitization program, including $4.1 million of ABCP previously rated R1 (high) by DBRS from another securitization program subject to the Montreal Accord, which resulted in the repayment of the aforementioned securitization investments in full and the reversal of the related allowance. We recorded write-downs of $2.0 million on the ABCP during the year to reflect declines in our estimate of net realizable value.

Impaired loans net of specific allowances ended the year at 0.80% of the total loan portfolio, compared to 0.58% at December 31, 2007. We continue to proactively monitor loan arrears, and to take prudent steps to collect overdue accounts.

Operating Expenses

(in thousands)	2008	2007	2006
Salaries and benefits	$ 2,226	$ 1,878	$ 1,785
General and administrative	3,508	2,231	2,071
	$ 5,734	**$ 4,109**	**$ 3,856**

Operating expenses increased by $1.6 million over the prior year due to increased compensation and other expenses relating to the acquired portfolios.

Income Taxes

(in thousands)	2008	2007	2006
Provision (recovery) against income	$ -	$ (26)	$ (96)
Charge (recovery) to retained earnings	6,059	873	(387)
	$ 6,059	**$ 847**	**$ (483)**

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 2008, 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 $13 million in 2008 and provided $16 million in 2007. Although current year net income increased significantly over 2007, it had a significant non-cash component.

Investing activities provided cash flows of $22 million in 2008 and used $22 million in 2007. The variance is a result of net mortgage inflows in 2008 compared to net mortgage outflows and a net inflow of marketable securities in 2007.

Financing activities used cash flows of $31 million in 2008 and provided $42 million in 2007. There was a net term deposit outflow in 2008 compared to a net inflow in the prior year; both changes are consistent with the respective change in assets (not including fair market value changes in other assets). In addition, we received inflows from the rights offering in 2007.

Summary of Three Year Results of Operations

Net income in 2008 increased by $14.8 million over 2007. We had significant mortgage interest income, fee income and gains from sales relating to discounted mortgages acquired by MCAN and MCLP. In addition, we had significantly higher securitization income from our participation in the CMB program and an increase in equity income from MCLP.

The decrease in net income in 2007 over 2006 of $368,000 was due to lower marketable securities income and equity income from MCLP, partially offset by new securitization income and higher spread income.

Operating expenses have increased annually since 2006, consistent with the growth in our asset base. The increase in 2008 was also due to compensation relating to the acquired mortgage portfolios.

SUMMARY OF FOURTH QUARTER RESULTS

The Company reported net income for the quarter ended December 31, 2008 of $9.9 million ($0.70 per share), up from $3.2 million ($0.23 per share) a year earlier as follows:

(in thousands, except for per share amounts)

For the Quarters Ended December 31	**2008**	**2007**
Net investment income	$ 11,471	$ 4,259
Operating expenses	1,551	1,079
Income before income taxes	9,920	3,180
Provision for income taxes and large corporations taxes	-	-
Net income	$ 9,920	$ 3,180
Basic and diluted earnings per share	$ 0.70	$ 0.23
Dividends per share	$ 0.25	$ 0.23

Net Investment Income

(in thousands)

For the Quarters Ended December 31	**2008**	**2007**
Investment Income		
Mortgage interest	$ 8,643	$ 7,984
Interest on loans and investments	1,133	1,372
Interest on cash and cash equivalents	183	542
Fees	1,783	995
Equity income from MCAP Commercial LP	788	(817)
Securitization income	2,765	511
Gain on sale of mortgages	1,851	2
Marketable securities	-	5
	17,146	**10,594**
Financial Expenses		
Term deposit interest and expenses	4,901	5,543
Mortgage expenses	877	1,078
Provision for (recovery of) losses	(103)	(286)
	5,675	**6,335**
Net Investment Income	**$ 11,471**	**$ 4,259**

Net investment income increased by $7.2 million over the prior year. The increase is primarily due to increases in equity income from MCLP ($1.6 million), gains from sales of mortgages ($1.8 million), securitization income ($2.3 million) and fees ($788,000).

Mortgage interest income increased by $659,000 due to a $12 million increase in the average balance, a 0.56% increase in the yield on the portfolio and the realization of discount income. Interest on loans and investments was comparable to the prior year. Fee income increased as a result of profit sharing on MCLP's realized discount income. Equity income from our ownership in MCLP was $788,000 in the quarter as a result of MCLP's gains from mortgage sales, compared to a loss of $817,000 last year. We had a $2.3 million increase in securitization income from the CMB program, mostly due to fair market value adjustments.

Term deposit interest and expenses decreased by $642,000 as a result of a 0.64% decrease in the average interest rate. Mortgage expenses were $877,000 compared to $1.1 million in the same period of the prior year. Recoveries of losses were $103,000 in 2008 compared to $286,000 in 2007. Impaired loans net of specific allowances were 0.80%, compared to 0.58% at December 31, 2007 and 0.84% at September 30, 2008.

Operating Expenses

Operating expenses were $1.6 million for the quarter, up from $1.1 million last year due to increased compensation relating to the acquired portfolios.

(in thousands)

For the Quarters Ended December 31	**2008**	**2007**
Salaries and benefits	$ 682	$ 511
General and administrative	869	568
	$ 1,551	**$ 1,079**

SELECTED QUARTERLY FINANCIAL DATA

(in thousands, except per share amounts)

	2008				**2007**			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Net investment income	$6,064	$6,062	$12,485	$11,471	$5,444	$5,140	$4,083	$4,259
Operating expenses	922	1,173	2,088	1,551	1,075	955	1,000	1,079
Income before income taxes	5,142	4,889	10,397	9,920	4,369	4,185	3,083	3,180
Provision for (recovery of) income taxes and large corporations taxes	-	-	-	-	(24)	(2)	-	-
Net income	$5,142	$4,889	$10,397	$9,920	$4,393	$4,187	$3,083	$3,180
Basic and diluted earnings per share	$0.36	$0.35	$0.73	$0.70	$0.35	$0.33	$0.21	$0.23
Dividends per share								
Regular	$0.12	$0.23	$0.25	$0.25	$0.19	$0.23	$0.23	$0.23
Capital gains	0.11	-	-	-	0.12	-	-	-
Total	$0.23	$0.23	$0.25	$0.25	$0.31	$0.23	$0.23	$0.23

Quarterly income in the first two quarters of 2007 had 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 due to write-downs taken on its securitization programs. The first half of 2008 was comparable to the first two quarters of 2007, but with higher securitization income. The second half of 2008 had substantially higher net income than previous quarters due to significant income from the sale of mortgages and income earned as a result of the portfolio acquisitions noted above.

FINANCIAL POSITION

Total assets were up $13 million from December 31, 2007. This change consisted of increases of $4 million in cash, $4 million in loans and investments and $23 million in other assets, partially offset by a $20 million decrease in mortgages.

Assets

(in thousands)	2008		2007		2006	
Cash and cash equivalents	$ 58,071	10.2%	$ 53,804	9.7%	$ 17,685	3.5%
Mortgages	393,010	68.9	412,685	74.0	395,788	79.5
Loans and investments	75,367	13.2	71,286	12.8	53,377	10.7
Equity investment in MCLP	18,300	3.2	17,095	3.1	17,340	3.5
Other assets	25,406	4.5	2,399	0.4	1,444	0.3
Marketable securities	-	-	156	-	12,473	2.5
	$ 570,154	**100.0%**	**$ 557,425**	**100.0%**	**$ 498,107**	**100.0%**

Cash equivalents include 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 to $30 million range. The year-end balance was high as we received proceeds from a mortgage sale and had a significant volume of mortgage repayments near the end of 2008.

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 appraiser at the time of funding. Insured single family mortgages 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 decreased by $20 million in 2008 (see Note 4 to the consolidated financial statements). The change was a result of decreases of $44 million in construction loans and $3 million in commercial mortgages, partially offset by an increase of $26 million in uninsured single-family mortgages.

We invest in insured and uninsured residential mortgages in Canada, which we believe are of significantly 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. We do not invest in the United States mortgage market.

A decline in Canadian residential property values of up to 15% in some markets has been predicted by some forecasters. Such a decline and the expected increase in unemployment may result in an increase in arrears and potential loan losses. Loan to property value ratios are generally under 75% in our portfolio and our borrowers have indicated good payment discipline in the past. Our account management and that of our mortgage servicers is proactive in managing arrears. We believe that these factors will mitigate loan losses. We continue to regard residential mortgages as a solid investment asset class.

As at December 31, 2008, we held discounted mortgages with a net discount of $33 million. We retain 50% of any recoveries of that amount, and we pay the remaining 50% to MCLP. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from two years for the fixed rate mortgages to 23 years for the floating rate mortgages. As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered. However, we do expect that material amounts will be realized over the next few years.

Loans and investments consist of investments in securitization programs, the interest-only strips from the CMB program, insured mortgage-backed securities and loans to related parties and private companies (see Note 5 to the consolidated financial statements). Loans and investments increased by $4 million in 2008. A significant increase in our investment in mortgage-backed securities was partially offset by the partial repayment of certain existing loans and investments.

As at December 31, 2008, we had $2.6 million of securitization investments subject to the Montreal Accord, which was finalized on January 21, 2009. The restructured ABCP, which represents the majority of this balance, was converted into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes of the existing ABCP rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes. Our restructured ABCP has been written down to 51% of its original book value.

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.

Other assets at December 31, 2008 consist almost entirely of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps increased significantly during 2008 as a result of a substantial decrease in forward interest rates. Other assets also include capital assets, prepaid expenses, accounts receivable and deferred costs.

Liabilities and shareholders' equity

				Change from	
(in thousands)	**2008**	**2007**	**2006**	**2007**	**2006**
Liabilities					
Term deposits	$ 426,663	$ 445,368	$ 408,734	$ (18,705)	$ 17,929
Securitization liabilities	7,095	-	-	7,095	7,095
Accounts payable and accrued charges	12,186	8,089	4,448	4,097	7,738
Future taxes payable	7,601	961	314	6,640	7,287
	453,545	454,418	413,496	(873)	40,049
Shareholders' equity					
Share capital	97,493	96,370	78,211	1,123	19,282
Contributed surplus	510	510	510	-	-
Retained earnings	17,313	6,654	5,890	10,659	11,423
Accumulated other comprehensive income (loss)	1,293	(527)	-	1,820	1,293
	116,609	103,007	84,611	13,602	31,998
	$ 570,154	**$ 557,425**	**$ 498,107**	**$ 12,729**	**$ 72,047**

Term deposit liabilities decreased by $19 million during the year, comparable to the change in assets (not including fair market value changes in other assets).

Securitization liabilities relate to CMB interest-only strips in liability positions, discussed below in the "CMB Program" commentary.

Total shareholders' equity of $117 million was up $14 million from December 31, 2007. The increase is primarily due to the significant excess of 2008 net income ($30.3 million) over dividends declared ($13.6 million). Since we are able to deduct dividends paid up to 90 days after year-end from taxable income, there is sometimes a year-end disconnect between these two components of retained earnings. In addition, there are generally differences between income for accounting purposes and taxable income. We issued $787,000 of new shares on a quarterly basis under the dividend reinvestment plan at the average closing price for the 20 days preceding such issues. There was also a $6.1 million charge to retained earnings related to current and future income taxes and a $1.8 million increase in accumulated other comprehensive income.

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. The interest-only strips consist of the discounted value of future mortgage interest and principal reinvestment receipts less fixed coupon interest payments. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance, which was the case with certain interest-only strips in 2008. 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 strips, is added to taxable income as received over the duration of the issuance.

In addition, we earn residual securitization income, which includes the net yield earned on the interest-only strips 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 $955 million of mortgages through the CMB program. We recorded $10.6 million of interest-only strips and $1.2 million of liabilities on the respective closing dates.

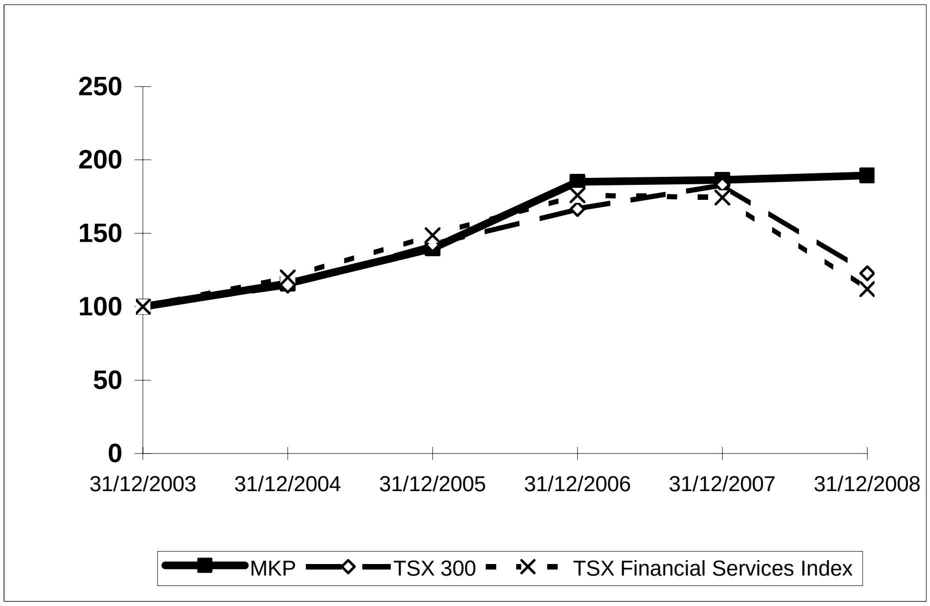
As part of the CMB program, we enter into "pay-floating, receive-fixed" interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. We receive interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips. The significant increase in the fair market value of the interest rate swap assets was comparable to the significant decrease in the fair value of the interest-only strips.

The interest-only strips from the March and June 2007 CMB issuances were written down during the year. Both issuances have had higher than anticipated principal repayment levels, which has decreased expected future cash flows as the assets in which principal collections are reinvested generally yield less than the securitized mortgages.

PERFORMANCE CHARTS

Shareholder Return

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of $100 on December 31, 2003) on its common shares during the period from January 1, 2004 to December 31, 2008, 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 2003	Dec 31 2004	Dec 31 2005	Dec 31 2006	Dec 31 2007	Dec 31 2008	Compound Annual Growth
MCAN	100	116	140	185	186	189	13.6%
TSX	100	114	142	167	183	123	4.2%
TSX Financial Services	100	120	149	176	174	112	2.3%

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

Ten Year Financial Summary

(in thousands, except per share amounts)

				As at December 31		
	Net Income	Earnings Per Share	Dividends Per Share	Total Assets	Shareholders' Equity	Market Capitalization
2008	$ 30,348	$ 2.14	$ 0.96	$ 570,154	$ 116,609	$ 129,438
2007	14,843	1.12	1.00	557,425	103,007	140,416
2006	15,211	1.23	1.18	498,107	84,611	141,052
2005	14,116	1.18	0.97	434,369	81,164	116,918
2004	11,601	1.12	1.11	454,365	74,965	103,374
2003	8,247	0.84	0.68	369,477	61,741	83,747
2002	5,430	0.58	0.68	327,059	58,383	80,293
2001	6,795	0.85	0.68	222,397	48,149	72,656
2000	6,210	0.80	0.68	243,567	42,945	54,103
1999	2,705	0.70	0.72	211,434	36,017	62,564

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, 2008, there were 14,223,506 common shares outstanding. At February 26, 2009, there were 14,256,753 common shares outstanding. Additional information related to the share capital is included in Note 15 to the consolidated financial statements.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"), 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	**2008**	**2007**	**2006**
First Quarter - Regular Dividend	$ 0.23	$ 0.23	$ 0.21
First Quarter - Extra Dividend	-	0.08	0.34
Second Quarter	0.23	0.23	0.21
Third Quarter	0.25	0.23	0.21
Fourth Quarter	0.25	0.23	0.21
	$ 0.96	**$ 1.00**	**$ 1.18**
Taxable Dividends	$ 0.85	$ 0.88	$ 1.06
Capital Gains Dividends	0.11	0.12	0.12
	$ 0.96	**$ 1.00**	**$ 1.18**

The Board of Directors declared a first quarter dividend of $0.68 per share to be paid March 31, 2009 to shareholders of record as of March 16, 2009. The dividend comprises the regular quarterly dividend of $0.25 and a $0.43 extra dividend.

In 2006 and 2007, there was an extra dividend paid in the first quarter in addition to the regular dividend due to significant capital gains realized from the sale of our marketable securities portfolio. In 2008, there was no extra dividend distributed as a result of the effect of the CMB program on taxable income. However, we maintained the regular quarterly dividend with the payment of the March 2008 dividend, which created a loss for tax purposes of $0.19 per share. The March 2009 extra dividend is necessary to pay out the balance of 2008 taxable income to shareholders. In 2008, taxable income was significantly lower than income for accounting purposes as a result of our participation in the CMB program.

OFF BALANCE SHEET ARRANGEMENTS

We commit to fund mortgages to borrowers in advance of funding at agreed upon interest rates. Substantially all of these commitments relate to floating rate construction loans. At December 31, 2008, outstanding commitments for future fundings of mortgages intended for our portfolio were $65 million.

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, 2008, there were no outstanding short positions. Details of our commitments and hedges are included in Notes 4 and 20 to the consolidated financial statements.

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

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	$ 415,179	$ 11,484	$ -	$ 426,663
Operating lease	148	407	-	555
Mortgage fundings	58,190	6,466	-	64,656
CMB obligations	662	1,688	-	2,350
	$ 474,179	**$ 20,045**	**$ -**	**$ 494,224**

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 2008, we purchased mortgage and loan origination services and certain corporate services at a cost of $3.7 million from MCLP and $4.2 million from MSC, while we received fees of $2.4 million from MCLP and $1.1 million of fees and interest from Warehouse Trust, an entity of which MCLP is the primary beneficiary.

Corporate services include premises and systems. The fees received from MCLP and Warehouse Trust 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 2008, we paid MCLP $2.9 million of fees relating to a profit sharing arrangement on a portfolio of discounted mortgages. We received $2.1 million from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

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 aggregate number of common shares issued pursuant to the Share Purchase Plan may not exceed 480,000, provided that the number of common shares which may be issued pursuant to the Share Purchase Plan together with common shares which may be issued pursuant to any other MCAN share compensation agreements may not exceed 10% of the outstanding common shares, and the common shares which may be issued pursuant to the Share Purchase Plan to any one person may not exceed 5% of the outstanding common shares. At December 31, 2008, $1.4 million of loans were outstanding. Subsequent to year-end, loans of $154,000 were advanced under the Share Purchase Plan and the approved amount of loans was increased from $1,520,000 to $1,620,000. The loans under the Share Purchase Plan bear interest at prime plus 1% and have a five-year term. MCAN, at its discretion, reimburses executive officers the interest amount in connection with loans provided pursuant to the Share Purchase Plan. Additional information related to the Share Purchase Plan is included in Note 15 to the consolidated financial statements.

During 2008, an amount equal to $75,000 was paid to one of the Company's directors on account of consulting services and general advice relating to MCAN's acquisition of mortgage portfolios during 2008.

CAPITAL MANAGEMENT

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. As a MIC under the Tax Act, we are limited 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. As a loan company under the *Trust and Loan Companies Act* (the "Trust Act"), the Superintendent of Financial Institutions Canada ("OSFI") regulates our consolidated regulatory assets to capital and has granted us a maximum consolidated regulatory assets to capital ratio. 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 target minimum Tier 1 and Total capital ratios are both 15%.

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)	**2008**	**2007**	**2006**
Tax Act Test			
Income Tax Assets	$ 551,589	$ 552,531	$ 499,714
Income Tax Capital	$ 115,998	$ 100,780	$ 86,245
Income Tax Assets to Capital ratio	4.76	5.48	5.79
Maximum Assets (non-consolidated)	$ 695,988	$ 604,680	$ 517,470
Maximum Assets to Capital ratio	6.00	6.00	6.00
Regulatory Test (OSFI)			
Regulatory Assets	$ 578,124	$ 569,269	$ 505,508
Regulatory Capital	$ 107,991	$ 100,554	$ 81,294
Regulatory Assets to Capital ratio	5.35	5.66	6.22
Maximum Regulatory Assets (consolidated)	$ 971,919	$ 904,986	$ 731,646
Total Regulatory Capital to Risk-Weighted Assets ratio	23.69%	21.53%	17.58%
Minimum Total Regulatory Capital to Risk-Weighted Assets ratio	10.00%	10.00%	10.00%
Tier 1 Regulatory Capital to Risk-Weighted Assets ratio	24.09%	22.16%	18.30%
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 on a tax basis 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.

For additional information on our capital management, refer to Note 18 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, marketable securities, mortgages, loans and investments, term deposits and derivative financial instruments, which are discussed throughout this MD&A.

The use of financial instruments exposes us to interest rate, credit, liquidity and market risk. A discussion of these risks and how these risks are managed is located in the "Risk Factors" section of the 2009 Annual Information Form, which is incorporated herein by reference.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with the instrument is located in the Results from Operations and Financial Position sections of the MD&A. Information on the determination of the fair market value of financial instruments is located in the Critical Accounting Policies and Estimates section of the MD&A.

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 single family mortgages are readily marketable within a time frame of one to three months, providing us with added flexibility to meet our liquidity needs. We have access to capital through our ability to issue term deposits insured pursuant to the standard terms of coverage set out by CDIC. 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. We believe that 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.

During 2008, our liquidity management was enhanced with the formalization of a Liquidity Risk Management Framework that included the introduction of multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the ICB on a quarterly basis.

Our liquidity position over the last three years is as follows:

As at December 31	2008	2007	2006
Tier 1 liquidity			
Cash and cash equivalents	$ 58,071	$ 53,804	$ 17,685
Banking facility	30,000	30,000	20,000
	88,071	83,804	37,685
Tier 2 liquidity			
75% of eligible insured single family mortgages	9,864	11,001	25,897
Total liquidity	$ 97,935	$ 94,805	$ 63,582
100 day term deposit maturities	$ 131,696	$ 101,634	$ 118,665
Liquidity ratios			
Tier 1 liquidity to 100 day term deposit maturities	67%	82%	32%
Total liquidity to 100 day term deposit maturities	74%	93%	54%

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

For a further analysis of our liquidity risks and position as at December 31, 2008, please refer to the "Risk Factors" section of the 2009 Annual Information Form, which is incorporated herein by reference.

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 2009 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. The Board of Directors is actively involved in the risk management process, providing oversight and guidance on an ongoing basis and at least quarterly. Internal audit is involved in the risk management process to provide validation of its effectiveness, with reports provided to senior management and the Board of Directors.

For a discussion of the various risks that we are exposed to, please refer to the "Risk Factors" section of the 2009 Annual Information Form, which is incorporated herein by reference.

All material outsourcing arrangements are required to comply with OSFI guideline B-10, *Outsourcing of Business Activities, Functions and Processes.* Our Chief Risk Officer and senior management regularly review outsourcing arrangements to provide reasonable assurances that the outsourcing arrangements are in compliance with OSFI's guideline. These reviews account for the materiality of the outsourcing arrangement and the status of the risk management program associated with the outsourced arrangement.

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. Management reports to the Board of Directors on the status of risk management at least quarterly.

PEOPLE

As at December 31, 2008, we had twelve employees, unchanged from December 31, 2007.

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 quarterly basis. Senior management liaises with regulators to keep them apprised of Company progress and changes to our business. Our Chief Compliance Officer reports quarterly to 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.

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.

OUTLOOK

The continuing disruption in debt markets has afforded us with opportunities to acquire mortgages on a profitable basis. While these transactions are opportunistic and cannot necessarily be planned, we expect that the disruption in debt markets will not materially improve for several months, and as such, future acquisition opportunities may present themselves. We plan to retain investment capacity so that we can take advantage of these opportunities.

Decreases in the prime rate during 2008 and early 2009 are expected to have an adverse effect on net investment income over the next several quarters. New term deposit funding rates have not decreased to this extent, which will continue to compress spread income in the near term. With the exception of the floating rate mortgages purchased as part of the portfolio acquisitions, we have increased our fixed rate mortgage portfolio and decreased our floating rate mortgage portfolio in 2008 in order to minimize this compression. We are generally targeting fixed rate mortgages, rather than floating rate mortgages. Higher profitability from the CMB program and the acquired portfolios has more than offset the reduction in spread income.

Slower economic activity has moderated housing market activity, compared to last year, and we expect this to continue for the balance of the year. Arrears on single family mortgages have risen due to job losses and we expect this to continue throughout the balance of the year. While property values have declined over the past year, the magnitude has been moderate in most markets and we do not anticipate further declines to be severe.

The disruption in debt markets has not yet resolved itself and this could be several months away. Management does not believe that this disruption has materially affected the capital or liquidity of the Company.

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. Financial assets are 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, 2008, the Company did not have any hedge accounting relationships.

For further details on financial instruments, please refer to Notes 2, 4, 5, 9, 10, 11, 19 and 20 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. The general provision is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. 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.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

The current economic conditions in Canada have resulted in a significant softening in residential and commercial real estate markets. We expect these markets to continue to see slower sales and increased vacancy rates in 2009. We believe that the new stimulus package proposed by the Federal government will take time to improve conditions in Canada. As a result, we expect a 15% to 20% decline in housing starts, as well as continued price declines of 5% to 15% in certain markets.

In addition to considering the current economic conditions, we assessed the probability of default, expected loss as a result of default and the loan exposure at the time of default when establishing our general allowance. Based on historical trends, our current mortgage portfolios are performing within an acceptable range that required no further adjustment to our allowance assumptions. Our overall arrears trends increased during 2008, although losses to date have been nominal. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions.

We believe that we have established adequate provisioning rates given the current economic concerns. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

On an ongoing basis, we compare the carrying value of our 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.

Additional details of our accounting policies and balances of the allowances for credit losses can be found in Notes 2, 4 and 5 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 strips, which represent 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 strips 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 strips 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 14 to the consolidated financial statements. We will continue to proactively monitor on a quarterly basis that this is an appropriate position.

CHANGES IN ACCOUNTING POLICY

On January 1, 2008, we adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), *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.

On January 1, 2008, we adopted the new standards of the CICA, *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.

FUTURE CHANGES IN ACCOUNTING POLICY

International Financial Reporting Standards

For the fiscal year commencing January 1, 2011, we will cease to use GAAP and will adopt International Financial Reporting Standards ("IFRS"). We have commenced a project whose purpose is to identify and assess the impact of the transition to IFRS on the consolidated financial statements and to develop a plan to complete the transition. The plan will address key areas such as accounting policies, financial reporting, information systems, education and training, disclosure controls and procedures, internal controls over financial reporting and other business activities.

As part of the plan, we are currently identifying differences in accounting policies on an ongoing basis and with respect to certain choices to effect conversion in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*. We have completed the diagnostic phase of the plan, which has identified the following accounting differences that may potentially have a significant impact:

- First-time adoption of IFRS
- Allowance for credit losses
- Securitization
- Equity investments
- Financial statement preparation, presentation and disclosure

We acknowledge that the above list does not include all possible significant items that will occur upon the transition to IFRS. The impact on our information technology, data systems and processes will be dependent on the magnitude of the change resulting from these and other items.

We are monitoring the potential impact of changes to financial reporting processes, internal controls over financial reporting and disclosure controls and procedures. We have not yet quantified the effects of the potential significant differences between GAAP and IFRS nor their materiality. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. We will continue to assess the impact of adopting IFRS and will update our MD&A disclosures on a quarterly basis to report on the progress of our IFRS plan.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As of December 31, 2008, an evaluation was carried out of the effectiveness of disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that those disclosure controls and procedures were effective as at the end of the financial year ended December 31, 2008.

Also at December 31, 2008, an evaluation was carried out of the effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and financial statements compliance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer will certify that those internal controls over financial reporting were effective as at the end of the financial year ended December 31, 2008.

These evaluations were conducted in accordance with the standards of the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of *National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings.* A Disclosure Committee, comprised of members of senior management, assists the Chief Executive Officer and Chief Financial Officer in their responsibilities.

There were no changes in our internal controls over financial reporting that occurred during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

2008 CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

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

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

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

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

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

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

Blaine Welch
President and Chief Executive Officer

Tammy Oldenburg
Vice President and Chief Financial Officer

Toronto, Canada,
February 5, 2009

AUDITORS' REPORT

To the Shareholders of MCAN Mortgage Corporation

We have audited the consolidated balance sheets of MCAN Mortgage Corporation as at December 31, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada,
February 5, 2009

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

As at December 31	Note	2008	2007
Assets			
Investments			
Cash and cash equivalents	3	$ 58,071	$ 53,804
Mortgages	4	393,010	412,685
Loans and investments	5	75,367	71,286
Equity investment in MCAP Commercial LP	6	18,300	17,095
Marketable securities	7	-	156
		544,748	**555,026**
Other assets	9	25,406	2,399
		$ 570,154	**$ 557,425**
Liabilities and Shareholders' Equity			
Liabilities			
Term deposits	10	$ 426,663	$ 445,368
Securitization liabilities	11	7,095	-
Accounts payable and accrued charges	12	12,186	8,089
Future taxes payable	14	7,601	961
		453,545	**454,418**
Shareholders' Equity			
Share capital	15	97,493	96,370
Contributed surplus	15	510	510
Retained earnings		17,313	6,654
Accumulated other comprehensive income (loss)	16	1,293	(527)
		116,609	**103,007**
		$ 570,154	**$ 557,425**

See accompanying notes

On behalf of the Board:

Blaine Welch
President and Chief Executive Officer

David G. Broadhurst
Director, Chairman of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands except for per share amounts)

Years Ended December 31	Note	2008	2007
Investment Income			
Mortgage interest		$ 33,429	$ 28,669
Interest on loans and investments		5,617	5,728
Interest on cash and cash equivalents		1,109	1,299
Fees		5,051	3,384
Equity income from MCAP Commercial LP	6	3,025	890
Securitization income	8	7,761	1,190
Marketable securities		(97)	956
Gain on sale of mortgages	8	5,326	22
		61,221	**42,138**
Financial Expenses			
Term deposit interest and expenses		20,684	18,996
Mortgage expenses		3,524	3,699
Provision for losses		931	517
		25,139	**23,212**
Net Investment Income		**36,082**	**18,926**
Operating Expenses			
Salaries and benefits		2,226	1,878
General and administrative		3,508	2,231
		5,734	**4,109**
Income Before Income Taxes		**30,348**	**14,817**
Provision for (recovery of) income taxes and large corporations taxes	14	-	(26)
Net Income		**$ 30,348**	**$ 14,843**
Basic and diluted earnings per share		$ 2.14	$ 1.12
Dividends per share		$ 0.96	$ 1.00
Weighted average number of basic and diluted shares (000's)		14,192	13,306

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands)

Years Ended December 31	Note	2008	2007
Share capital			
Balance, beginning of year		$ 96,370	$ 78,211
Common shares issued		1,123	18,159
Balance, end of year		**97,493**	**96,370**
Contributed surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		-	-
Balance, end of year		**510**	**510**
Retained earnings			
Balance, beginning of year		6,654	5,890
Net income		30,348	14,843
Income taxes charged to retained earnings	14	(6,059)	(873)
Dividends declared		(13,630)	(13,206)
Balance, end of year		**17,313**	**6,654**
Accumulated other comprehensive income			
Balance, beginning of year		(527)	1,261
Other comprehensive income (loss)		1,820	(1,788)
Balance, end of year		**1,293**	**(527)**
Total shareholders' equity		**$ 116,609**	**$ 103,007**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

Years Ended December 31	2008	2007
Net income	$ 30,348	$ 14,843
Other comprehensive income (loss), net of income taxes		
Change in unrealized gain on available for sale marketable securities	(74)	(91)
Transfer of losses (gains) on sale of marketable securities to net income	108	(549)
Change in unrealized gain on available for sale mortgages	2,429	(1,109)
Transfer of gains on sale of mortgages to net income	(373)	-
Change in unrealized gain on available for sale loans and investments	(278)	(1)
Change in cash flow hedges	8	(38)
Other comprehensive income (loss)	1,820	(1,788)
Comprehensive income	**$ 32,168**	**$ 13,055**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

Years Ended December 31	Note	2008	2007
Cash provided by (used for):			
Operating Activities			
Net income		$ 30,348	$ 14,843
Adjusted for non-cash items:			
Equity income		(3,028)	(880)
Provision for losses		901	546
Securitization income		(5,854)	(1,169)
Amortization of other assets		823	871
Amortization of mortgage (discounts) premiums		(4,960)	5
Gain on sale of mortgages	8	(5,326)	(22)
Distributions from MCAP Commercial LP	6	1,820	1,135
Decrease (increase) in other receivables		281	(304)
Increase (decrease) in accounts payable and accrued charges		(2,174)	1,251
Cash flows from operating activities		**12,831**	**16,276**
Investing Activities			
Mortgage advances		(2,827,412)	(2,746,158)
Mortgage reductions		361,472	411,259
Proceeds on sale of mortgages		2,497,369	2,312,601
Increase in loans and investments		(8,202)	(11,319)
Additions to other assets		(1,122)	(1,013)
Marketable securities		229	12,243
Cash flows from (for) investing activities		**22,334**	**(22,387)**
Financing Activities			
Issue of term deposits		606,298	646,240
Repayment of term deposits		(625,003)	(609,606)
Issue of common shares		1,123	18,159
Dividends paid		(13,316)	(12,563)
Cash flows (for) from financing activities		**(30,898)**	**42,230**
Increase in cash and cash equivalents		4,267	36,119
Cash and cash equivalents, beginning of year		53,804	17,685
Cash and cash equivalents, end of year		**$ 58,071**	**$ 53,804**

Supplementary Information

Interest paid during the year		**$ 20,196**	**$ 16,385**
Taxes paid during the year		**$ 505**	**$ 507**

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. Financial assets are 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, 2008, the Company did not have any hedge accounting relationships.

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

Equity Accounting

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.

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.

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 general provision is established by considering historical loss trends during economic cycles, the risk profile of the Company's current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience.

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.

The Company participates 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 and other costs. At this time, the Company recognizes an upfront gain on securitization.

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) Origination costs paid on the Company's mortgage portfolio are deferred and amortized over the term of the mortgage.

(c) Commissions paid on the issue of term deposits are deferred and amortized over the term of the term deposit.

Discount Income Recognition

The Company may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss in addition to the general mortgage allowance, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

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.

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

Variable Interest Entities

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

Changes in Accounting Policy

On January 1, 2008, the Company adopted the new accounting standard of the Canadian Institute of Chartered Accountants ("CICA"), *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.

On January 1, 2008, the Company adopted the new standards of the CICA, *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.

Specific Accounting Policies

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

Future Changes in Accounting Policy

For the fiscal year commencing January 1, 2011, the Company will cease to use GAAP and will adopt International Financial Reporting Standards ("IFRS"). The Company has commenced a project whose purpose is to identify and assess the impact of the transition to IFRS on the consolidated financial statements and to develop a plan to complete the transition. The impact of the transition to IFRS on the Company's consolidated financial statements is not yet determinable.

3. Cash and Cash Equivalents

	2008	2007
Cash and cash equivalents	$ 28,099	$ 2,851
Bankers' acceptances and term deposits	29,968	50,919
Accrued interest	4	34
	$ 58,071	**$ 53,804**

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, which approximates fair value.

4. Mortgages

	Principal	Allowance	2008 Net
Single family mortgages			
- Uninsured	$ 154,602	$ 1,001	$ 153,601
- Uninsured (completed inventory loans)	32,477	369	32,108
- Insured	27,694	-	27,694
Construction loans			
- Residential	144,893	1,263	143,630
- Non-residential	8,085	70	8,015
Commercial	23,911	100	23,811
	391,662	2,803	388,859
Fair value adjustment	2,023	-	2,023
	393,685	2,803	390,882
Accrued interest	2,128	-	2,128
	$ 395,813	**$ 2,803**	**$ 393,010**

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

	Principal	Allowance	2007 Net
Single family mortgages			
- Uninsured	$ 126,376	$ 883	$ 125,493
- Uninsured (completed inventory loans)	34,027	219	33,808
- Insured	29,661	-	29,661
Construction loans			
- Residential	192,860	1,726	191,134
- Non-residential	4,575	41	4,534
Commercial	26,740	415	26,325
	414,239	3,284	410,955
Fair value adjustment	(573)	-	(573)
	413,666	3,284	410,382
Accrued interest	2,303	-	2,303
	$ 415,969	**$ 3,284**	**$ 412,685**

MCAN does not invest in the United States mortgage market. The Company invests in insured and uninsured single family mortgages in Canada, which are lower risk than United States sub-prime mortgages. The uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to provide interim mortgage financing on fully completed residential units (condominium or freehold).

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

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

Mortgages are classified as available for sale. There were no significant fluctuations in mortgage balances during the year.

Principal balances presented above are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2008, the Company holds discounted mortgages with a net discount of $33,290 (2007 - $nil). Upon the payout of a mortgage, the remaining unamortized discount is recognized as income. The Company retains 50% of any recoveries of the discount and pays the remaining 50% to MCLP (refer to note 12 for profit sharing fees paid to/from MCLP in 2008). In addition, the Company amortizes the portion of the discount that it expects to recover into income over the remaining term of the mortgage. The amount of the discount ultimately recovered is dependent on the value of the real estate securing the mortgage, as well as the financial capacity of the borrower. Additionally, these mortgages have maturity dates ranging from two years for the fixed rate mortgages to 23 years for the floating rate mortgages. As such, it is difficult to accurately estimate the timing and quantum of the discount ultimately recovered. However, the Company expects that material amounts will be realized over the next few years.

The composition of the discount at December 31, 2008 is as follows:

	Gross Discount	Amortized Discount	Net Discount
Fixed rate	$ 10,812	$ 113	$ 10,699
Floating rate	22,638	47	22,591
	$ 33,450	**$ 160**	**$ 33,290**

The geographical breakdown of mortgages by province is as follows:

	Single Family	Construction	Commercial	2008 Total	
Ontario	$ 99,325	$ 51,688	$ 4,791	$ 155,804	39.6%
Alberta	62,815	64,983	-	127,798	32.5
British Columbia	26,187	33,870	17,657	77,714	19.8
Other	28,204	1,898	1,592	31,694	8.1
	$ 216,531	**$ 152,439**	**$ 24,040**	**$ 393,010**	**100.0%**

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

	Single Family	Construction	Commercial	2007 Total	
Ontario	$ 95,410	$ 59,460	$ 14,403	$ 169,273	41.0%
Alberta	56,693	65,738	3,587	126,018	30.5
British Columbia	23,864	63,438	-	87,302	21.2
Other	13,171	8,406	8,515	30,092	7.3
	$ 189,138	**$ 197,042**	**$ 26,505**	**$ 412,685**	**100.0%**

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are $64,656 at December 31, 2008 (2007 - $110,910). Substantially all of these commitments relate to floating rate construction loans.

The details of the mortgage allowances are as follows:

	General	Specific	2008 Total	General	Specific	2007 Total
Balance, beginning of year	$ 3,217	$ 67	$ 3,284	$ 3,607	$ -	$ 3,607
Provisions (recoveries)	(478)	97	(381)	(386)	67	(319)
Write-offs	(100)	-	(100)	(4)	-	(4)
Balance, end of year	**$ 2,639**	**$ 164**	**$ 2,803**	**$ 3,217**	**$ 67**	**$ 3,284**

At December 31, 2008, the Company had $164 of specific provisions (2007 - $67), as follows: uninsured single family ($164, 2007 - $nil) and residential construction ($nil, 2007 - $67).

Mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2008 Total
Single family - uninsured	$ 11,732	$ 5,414	$ 4,747	$ -	$ 21,893
Single family - insured	880	423	108	-	1,411
Residential construction	7,108	-	199	-	7,307
	$ 19,720	**$ 5,837**	**$ 5,054**	**$ -**	**$ 30,611**

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	2007 Total
Single family - uninsured	$ 6,889	$ 4,697	$ 857	$ -	$ 12,443
Single family - insured	515	80	84	176	855
	$ 7,404	**$ 4,777**	**$ 941**	**$ 176**	**$ 13,298**

Impaired loans are as follows:

	Single Family	Residential Construction	2008 Total	Single Family	Residential Construction	2007 Total
Ontario	$ 1,609	$ -	$ 1,609	$ 359	$ 842	$ 1,201
Alberta	1,436	-	1,436	1,168	-	1,168
British Columbia	393	-	393	-	-	-
Other	-	-	-	-	-	-
	$ 3,438	**$ -**	**$ 3,438**	**$ 1,527**	**$ 842**	**$ 2,369**

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

5. Loans and Investments

		Loans and receivables	Held to maturity	Available for sale	Held for trading	Other	2008 Total	2007 Total
Securitization investments	(a)	$ 1,023	$ 18,332	$ 15,051	$ 5,337	$ -	$ 39,743	$ 36,381
Loans receivable and other investments	(b)	32,260	2,516	-	-	848	35,624	34,905
		$ 33,283	**$ 20,848**	**$ 15,051**	**$ 5,337**	**$ 848**	**$ 75,367**	**$ 71,286**

(a) Securitization Investments

Investments in Securitization Programs

	Principal	Allowance	2008 Net	2007 Net
Subordinated loans - residential mortgage securitization programs	$ 8,035	$ -	$ 8,035	$ 13,145
Asset-backed commercial paper	4,122	2,000	2,122	-
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	6,819	-	6,819	6,657
- first loss position	3,020	-	3,020	2,946
Bonds - commercial securitization program	458	-	458	458
Bonds - residential mortgage securitization program	-	-	-	342
	$ 22,454	**$ 2,000**	**$ 20,454**	**$ 23,548**

Of the investments in securitization programs, $17,874 are invested in bank-sponsored securitization programs, while the remaining $2,580 of these investments are non bank-sponsored, consisting of asset-backed commercial paper of $2,122 (net) and bonds of $458.

Other Securitization Investments

	Note	2008	2007
CMB - interest-only strips	8, 11	$ 3,215	$ 7,226
Insured mortgage-backed securities		15,051	4,049
Other securitization assets		1,023	1,558
		$ 19,289	**$ 12,833**
Total securitization investments		**$ 39,743**	**$ 36,381**

The subordinated loan - residential mortgage securitization program bears interest at 10% (2007 - 10%) and has an outstanding balance of $8,035 at December 31, 2008 (2007 - $11,135). The loan is rated BB high by Dominion Bond Rating Service ("DBRS") and is classified as held to maturity.

At December 31, 2007, the Company had investments in a residential mortgage non bank-sponsored securitization program subject to the proposed restructuring of Third Party Structured Asset-Backed Commercial Paper ("ABCP") by the Pan-Canadian Investors Committee (the "Montreal Accord"). The investments consisted of a $2,010 subordinated loan (net of a $794 allowance) and a $342 investment in a bond rated A by DBRS. To protect its investment, the Company purchased the assets of that securitization program, including $4,122 of ABCP previously rated R1 (high) by DBRS from another securitization program subject to the Montreal Accord, which resulted in the repayment of the aforementioned securitization investments in full and the reversal of the related allowance. At December 31, 2008, the ABCP was designated as held for trading using the fair value option.

The Company recorded write-downs of $2,000 on the ABCP during the year to reflect declines in the Company's estimate of net realizable value. To December 31, 2008, the Company has not recognized any interest income on the ABCP.

The Montreal Accord restructuring was finalized on January 21, 2009. At this time, the restructured ABCP was converted into Master Asset Vehicle II ("MAV II") investments as follows: class A-1 notes of the existing ABCP rated A by DBRS (66.7%), class A-2 notes rated A by DBRS (25.7%) and unrated B (4.6%) and C (3.0%) notes.

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%, 8.5% at December 31, 2008

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

(2007 - 11%) in priority to the more junior interests in the DPPR. The senior position is rated BBB low 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 - commercial securitization program bear interest at CDOR plus 2.5%, 4.12% at December 31, 2008 (2007 - 6.21%). These bonds were subject to the Montreal Accord, and were converted to Master Asset Vehicle III ("MAV III") class 20 A-1 notes as part of the completion of the restructuring on January 21, 2009. DBRS did not provide a rating for these notes. The bonds are classified as held to maturity.

The interest-only strips in asset positions are designated as follows: held for trading using the fair value option ($3,215, 2007 - $3,153), available for sale ($nil, 2007 - $4,073).

The Company holds insured mortgage-backed securities with a weighted average yield of CDOR minus 0.11%, 1.51% at December 31, 2008 (2007 - 5.14%). The securities are classified as available for sale.

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	2008 Net	2007 Net
Loan receivable from Warehouse Trust		$ 7,978	$ 106	$ 7,872	$ 9,829
Loans receivable - employees	15	1,373	-	1,373	1,117
Loan receivable - bridge lending fund		5,313	70	5,243	3,175
Loans receivable - other		14,459	156	14,303	16,085
Investment in mortgage trusts		2,553	37	2,516	2,528
Other equity investment		3,025	-	3,025	-
Other loans and investments		1,292	-	1,292	2,171
		$ 35,993	**$ 369**	**$ 35,624**	**$ 34,905**

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%, 4.05% at December 31, 2008 (2007 - 6.55%).

The Company participates in 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. During 2008, the Company earned $412 on this loan (2007 - $153).

The other loans receivable have been made to two private companies. Three loans made to one company bear interest at prime plus 4%, 7.5% at December 31, 2008 (2007 - 10%) and have an aggregate outstanding balance of $3,584 at December 31, 2008 (2007 - $6,716). One loan has been advanced to a private company bearing interest at the greater of 6⅛% and prime plus 1⅜%, 6⅛% at December 31, 2008 (2007 - 7⅜%). This loan has an outstanding balance of $10,719 at December 31, 2008 (2007 - $9,369). All of these loans are payable on demand.

During 2008, the Company funded a $3,000 equity investment in a private entity with a fixed yield of 10%.

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 $848 item included in other loans and investments that is not a financial asset.

6. Equity Investment in MCAP Commercial LP

	2008	2007
Balance, beginning of year	$ 17,095	$ 17,340
Equity income	3,025	890
Distributions received	(1,820)	(1,135)
Balance, end of year	**$ 18,300**	**$ 17,095**

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

Equity income in 2007 included a $34 gain on dilution of the Company's investment in MCLP. In 2007, 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.

7. Marketable Securities

	2008	2007
Marketable securities at cost, less allowance	$ -	$ 199
Unrealized gains (losses)	-	(43)
Marketable securities at fair value	**$ -**	**$ 156**

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. The interest-only strips consist of the discounted value of future mortgage interest and principal reinvestment receipts less fixed coupon interest payments. The interest-only strips are generally in asset positions, however they can potentially go into liability positions upon a significant decrease in forward interest rates after issuance, which was the case in 2008. In addition, the Company recognizes liabilities for future mortgage servicing and other costs, which are included in accounts payable and accrued liabilities. The Company subcontracts CMB servicing obligations to MSC.

During the year, the Company securitized $954,863 (2007 - $1,086,131) of mortgages as part of the CMB program. The Company recorded interest-only strips of $10,585 (2007 - $7,672) and servicing and other liabilities of $1,219 (2007 - $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.

	2008	2007
Gain on securitization	$ 3,256	$ 1,068
Write-down of interest-only strips	(232)	(222)
Residual securitization income	4,737	344
	$ 7,761	**$ 1,190**

Residual securitization income includes the net yield earned on the interest-only strips 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 20) and interest-only strips classified as held for trading. Fair value changes had a positive impact on residual securitization income of $2,728 during the year. In general, fair value changes in the interest rate swaps largely offset those in the interest-only strips, however the magnitude of the drop in forward interest rates over the year led to significant non-cash residual securitization income.

The interest-only strips from the March and June 2007 CMB issuances were written down during the year. Both issuances have had higher than anticipated principal repayment levels, which has decreased expected future cash flows as the assets in which principal collections are reinvested generally yield less than the securitized mortgages. These two interest-only strips were also written down in 2007, as expected future cash flows were reduced as a result of a CMHC advisory changing permitted investments for reinvested principal collections.

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

	2008	2007
Proceeds from new securitizations	$ 962,232	$ 1,089,404
Net cash flows received on interest-only strips	$ 1,842	$ 245
Net cash flows paid on CMB servicing and other liabilities	$ 479	$ 101

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

The following table outlines the key assumptions used to measure the fair value of the interest-only strips 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.

	2008	2007
Prepayment rate (%)	14.4%	14.4%
Discount rate (%)	5.9%	6.4%

	2008	2007
Net interest-only strip asset (liability)	$ (3,880)	$ 7,226
Impact of:		
Prepayment rate	14.4%	14.4%
10% adverse change	$ 880	$ 158
20% adverse change	$ 1,742	$ 311
Discount rate	5.9%	6.4%
10% adverse change	$ (231)	$ 48
20% adverse change	$ (455)	$ 95

In addition to the aforementioned sales, the Company may sell other residential mortgages, commercial loans and residential construction loans. During the year, the Company sold $1,543,489 (2007 - $1,233,974) of these mortgages, recognizing a gain on sale of $5,326 (2007 - $22). Of these mortgage sales, $1,347,835 (2007 - $1,230,018) were made to MCLP, Warehouse Trust and MSC. The Company has a retained interest in 0% (2007 - 0%) of these sales. Purchasers of these transferred mortgages and loans have no recourse to the Company.

9. Other Assets

	Note	2008	2007
Interest rate swaps - CMB program	11, 20	$ 23,541	$ 526
Capital assets		356	517
Deferred charges and prepaid expenses		1,099	665
Other receivables		410	691
		$ 25,406	**$ 2,399**

As part of its participation in the CMB program, the Company has entered into "pay-floating, receive-fixed" interest rate swaps to hedge against interest rate risk on reinvested CMB principal collections. The fair market value of the swaps, which consists of the discounted value of future cash flows from both components of the swap, increased significantly during 2008. The increase was a result of a significant drop in forward interest rates, which substantially reduced the present value of the "pay-floating" obligation.

The composition of capital assets is as follows:

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
Furniture and fixtures	$ 83	$ 67	$ 16	$ 33
Computer hardware	58	53	5	20
Computer software	681	373	308	432
Leasehold improvements	47	20	27	32
	$ 869	**$ 513**	**$ 356**	**$ 517**

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

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

10. Term Deposits

	2008	2007
Term deposits	$ 419,669	$ 437,419
Accrued interest	6,994	7,949
	$ 426,663	**$ 445,368**
Fair value	**$ 432,494**	**$ 450,809**

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years (2007 - 30 days to five years) and bear interest at rates ranging from 1.60% to 5.25% (2007 - 2.10% to 5.30%). The Company's term deposits are insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation ("CDIC").

Term deposits are classified as other financial liabilities and are presented at amortized cost. The estimated fair value of term deposits as presented above is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

11. Securitization Liabilities

	Note	2008	2007
CMB - interest only strips	8	$ 7,095	$ -

As at December 31, 2008, certain CMB interest-only strips were in a liability position, primarily due to a significant decrease in forward interest rates during 2008. CMB interest-only strips in an asset position at December 31, 2008 totalled $3,215 (note 5). On a net basis, CMB interest-only strips were in a liability position of $3,880 at December 31, 2008 (2007 - net asset position of $7,226). The aforementioned decrease in forward interest rates significantly reduced the fair market value of all outstanding interest-only strips, as future estimated reinvestment income decreased significantly in line with the drop in forward interest rates.

The Company's interest rate risk that arises from the reinvestment of CMB principal collections in primarily floating rate assets is hedged by interest rate swaps, which were in a significant asset position at December 31, 2008 (note 9).

Certain interest-only strips were designated as available for sale financial assets at the time of their respective issuances, wherein all changes in the unrealized fair value of the interest-only strips were recognized through accumulated other comprehensive income. As at December 31, 2008, all of these interest-only strips were in liability positions. Since financial liabilities can only be designated as held for trading or other, the interest-only strips previously designated as available for sale financial assets are now designated as held for trading financial liabilities. All fair value changes previously recognized through accumulated other comprehensive income have been reversed and are now recognized through income.

12. Accounts Payable and Accrued Charges

	2008	2007
Accounts payable and accrued charges	$ 4,695	$ 2,673
Dividends payable	3,556	3,242
Deferred mortgage commitment fees	977	1,093
Related party payables - MCLP and MSC	2,958	1,081
	$ 12,186	**$ 8,089**

During 2008, the Company purchased certain corporate services and mortgage origination and administration services from MSC in the amount of $4,172 (2007 - $5,141).

During 2008, the Company purchased certain corporate services and mortgage origination and administration services from MCLP in the amount of $3,705 (2007 - $3,566). During 2008, the Company received $2,371 (2007 - $2,537) of mortgage fee income from MCLP.

During 2008, the Company paid fees in the amount of $2,941 (2007 - $nil) to MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages. During 2008, the Company received $2,133 (2007 - $nil) of fees from MCLP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

As part of the aforementioned profit sharing arrangements, MCLP pays MCAN 50% of any recoveries of discounts on mortgages held on MCLP's balance sheet. In addition, MCAN reimburses MCLP for 50% of any credit losses on discounted mortgages held on MCLP's balance sheet, and vice versa. Management does not expect any significant losses as a result of the profit sharing agreement.

During 2008, the Company received $1,055 (2007 - $1,754) 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.

13. 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%, 4% at December 31, 2008 (2007 - 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, 2008, there were letters of credit in the amount of $12,910 issued (2007 - $12,637) and additional letters of credit in the amount of $5,734 committed but not issued (2007 - $5,069).

14. Income Taxes

The provision for (recovery of) taxes recorded in the consolidated statements of income relates to large corporations, corporate minimum and other taxes which cannot be recovered from the payment of future dividends.

	2008	2007
Income before income taxes	$ 30,348	$ 14,817
Less: dividends	(13,630)	(13,206)
Income subject to tax	16,718	1,611
Statutory rate of tax	42%	43%
Tax provision before the following:	7,022	693
Provision for (recovery of) large corporations tax and corporate minimum tax	-	(24)
Permanent differences		
CMB-related items	146	163
Non-taxable portion of capital gains	(675)	(349)
Rate and other differences	(434)	32
Non-deductible portion of capital gains dividends	-	332
Tax provision per financial statements	**$ 6,059**	**$ 847**
Presentation of tax provision in financial statements		
Provision against (recovery to) income	$ -	$ (26)
Charge to retained earnings	6,059	873
	$ 6,059	**$ 847**

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

	2008	2007
Provision for loan losses	$ 2,065	$ 1,766
Equity investment in MCAP Commercial LP	246	(147)
Dividends deductible for tax purposes	(4,035)	(1,030)
CMB related items	(6,457)	(2,686)
Capital assets	(110)	(158)
Financial assets	(416)	68
Loss carryforward benefit	1,106	1,221
Marketable securities	-	5
	$ (7,601)	**$ (961)**

The Company has loss carryforward amounts of $3,548, the benefit of which has been recorded to future taxes, which expire in 2028.

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15. Share Capital and Contributed Surplus

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

Issued	**Number of Shares**	**2008**	**Number of Shares**	**2007**
Balance, beginning of year	14,097,994	$ 96,370	12,372,939	$ 78,211
Issued				
Dividend reinvestment plan	86,571	787	119,283	1,349
Executive Share Purchase Plan	38,941	336	45,791	526
Rights offering	-	-	1,559,981	16,380
Share issue costs	-	-	-	(96)
Balance, end of year	**14,223,506**	**$ 97,493**	**14,097,994**	**$ 96,370**

During 2008, the Company issued 86,571 (2007 - 119,283) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 20 days preceding such issue.

During 2007, the Company issued 1,559,981 new common shares under a fully subscribed rights offering.

The Company had no potentially dilutive instruments for the years ended December 31, 2008 and 2007.

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 $336 of loans under the Share Purchase Plan in 2008 (2007 - $526). At December 31, 2008, $1,373 of loans were outstanding (2007 - $1,117) (note 5(b)). The loans under the Share Purchase Plan bear interest at prime plus 1%, 4.5% at December 31, 2008 (2007 - 7%), and have a five-year term. The shares are pledged as security for the loans and have a market value of $1,500 at December 31, 2008 (2007 - $1,254).

In 2008, 38,941 shares were issued out of treasury under the Share Purchase Plan (2007 - 45,791).

16. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes unrealized gains and losses (net of future taxes) on available for sale marketable securities, mortgages and loans and investments, and cash flow hedges.

	Note	**2008**	**2007**
Unrealized gain (loss) on available for sale mortgages	4	$ 1,602	$ (454)
Unrealized loss on available for sale loans and investments	5	(279)	(1)
Unrealized loss on cash flow hedges		(30)	(38)
Unrealized loss on available for sale marketable securities	7	-	(34)
		$ 1,293	**$ (527)**

17. 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.

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

The interest rate sensitivity analysis is based on the Company's balance sheet as at December 31, 2008 and does not incorporate mortgage and loan prepayments. The analysis 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	2008 Total	2007 Total
ASSETS								
Investments								
Cash and cash equivalents	$ 28,099	$ 29,972	$ -	$ -	$ -	$ -	$ 58,071	$ 53,804
Mortgages	216,570	36,701	43,119	86,319	782	9,519	393,010	412,685
Loans and investments	46,349	414	-	3,470	12,113	13,021	75,367	71,286
Equity investment in MCAP Commercial LP	-	-	-	-	-	18,300	18,300	17,095
Marketable securities	-	-	-	-	-	-	-	156
	291,018	67,087	43,119	89,789	12,895	40,840	544,748	555,026
Other assets	-	-	-	-	-	25,406	25,406	2,399
Total Assets	$ 291,018	$ 67,087	$ 43,119	$ 89,789	$ 12,895	$ 66,246	$ 570,154	$ 557,425
Yield	3.27%	4.79%	7.85%	7.36%	8.02%	-	-	-
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	$ -	$ 117,443	$ 297,736	$ 11,484	$ -	$ -	$ 426,663	$ 445,368
Securitization liabilities	-	-	-	7,095	-	-	7,095	-
Accounts payable and accrued charges	-	-	-	-	-	12,186	12,186	8,089
Future taxes payable	-	-	-	-	-	7,601	7,601	961
Shareholders' equity	-	-	-	-	-	116,609	116,609	103,007
Total Liabilities and Shareholders' Equity	$ -	$ 117,443	$ 297,736	$ 18,579	$ -	$ 136,396	$ 570,154	$ 557,425
Yield	-	3.65%	4.01%	5.52%	-	-	-	-
GAP	**$ 291,018**	**$ (50,356)**	**$ (254,617)**	**$ 71,210**	**$ 12,895**	**$ (70,150)**	**$ -**	**$ -**
YIELD SPREAD	**3.27%**	**1.14%**	**3.84%**	**1.84%**	**8.02%**	**-**	**-**	**-**

An immediate and sustained 1% increase (decrease) to market interest rates at December 31, 2008 would have a positive (adverse) effect of $1,181 (2007 - $1,703) to net investment income over the following twelve month period.

An immediate 1% increase (decrease) to market interest rates at December 31, 2008 would have an adverse (positive) effect to accumulated other comprehensive income of $702 (2007 - $957).

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

18. Capital Management

The Company's primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk weighted returns for shareholders. Through its risk management and corporate governance framework, the Company assesses current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. The Company typically pays out all of its taxable income by way of dividends. Capital growth is achieved through retained earnings, rights offerings and the dividend reinvestment plan.

The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI. As a MIC under the Tax Act, the Company is limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on the non-consolidated balance sheet measured at its tax value. As a loan company under the Trust Act, the Company has been granted a maximum consolidated regulatory assets to capital ratio by OSFI. The Company manages its assets to a level of 5.75 times capital on a tax basis to provide a prudent cushion between its limit and total actual assets. The Company manages its capital to comply with the requirements of the MIC test and OSFI regulations at all times.

OSFI has issued a new regulatory capital management framework, Basel II, which was adopted by the Company effective January 1, 2008. The primary changes for the Company are revisions to the risk-weighting of certain assets and the calculation of regulatory capital. The Company has implemented the standardized approach to calculating risk-weighted assets for credit risk and the basic indicator approach for the calculation of operational risk. Basel II has not had a significant impact on the Company's regulatory capital and risk-weighted assets.

Tier 1 capital includes common shares, contributed surplus, retained earnings and certain components of accumulated other comprehensive income. Tier 1 and Tier 2 capital are both reduced by 50% of unrated securitization exposures and Tier 1 capital is reduced by a portion of gains on securitization. OSFI's target minimum Tier 1 and Total capital ratios for the Company are 7% and 10%, respectively. The Company's target minimum Tier 1 and Total capital ratios are both 15%.

As at December 31	**2008**	**2007**
Tax Act Test		
Income tax assets	$ 551,589	$ 552,531
Income tax capital	$ 115,998	$ 100,780
Income tax assets to capital ratio	4.76	5.48
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	$ 97,493	$ 96,370
Contributed surplus	510	510
Retained earnings	17,313	6,654
Unrealized loss on available for sale marketable securities	-	(34)
Tier 1 capital deductions	(5,511)	-
	109,805	103,500
Tier 2 capital		
Tier 2 capital deductions	(1,814)	-
	(1,814)	-
Deductions from total capital	-	(2,946)
Total capital	$ 107,991	$ 100,554
Total regulatory assets	$ 578,124	$ 569,269
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	24.09%	22.16%
Total capital to risk-weighted assets ratio	23.69%	21.53%
Assets to capital multiple	5.35	5.66

The Company's capital positions were calculated based on Basel II as at December 31, 2008 and Basel I as at December 31, 2007. As at December 31, 2008, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

The Company's assets, analyzed on a risk-weighted basis, are as follows:

	2008		2007	
As at December 31	**Balance**	**Risk-Weighted**	**Balance**	**Risk-Weighted**
On-Balance Sheet Assets				
Cash and cash equivalents	$ 58,071	$ 12,092	$ 53,804	$ 11,191
Mortgages	393,010	265,668	412,685	320,636
Loans and investments	75,367	72,093	71,286	64,291
Equity investment in MCLP	18,300	18,300	17,095	17,095
Marketable securities	-	-	156	156
Other assets	25,406	1,865	2,399	2,399
	$ 570,154	$ 370,018	$ 557,425	$ 415,768
Off-Balance Sheet Assets				
Letters of credit		6,455		6,319
Mortgage funding commitments		32,328		44,764
		38,783		51,083
Derivative Financial Instruments				
Interest rate swaps		4,813		160
Charge for operational risk		42,175		-
Total Risk-Weighted Assets		$ 455,789		$ 467,011

19. Financial Instruments

The majority of the Company’s consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, marketable securities, mortgages, loans and investments, term deposits and derivative financial instruments.

Of the financial instruments carried on the consolidated balance sheet at fair value, only marketable securities are valued using published market prices quoted in active markets. All other financial instruments carried at fair value (mortgages, certain loans and investments and derivative financial instruments) are estimated using valuation techniques based on observable market data such as market interest rates currently charged for similar financial investments to expected maturity dates.

The fair value of the Company’s mortgages considers the existing terms of the portfolio of mortgages (e.g. interest rate, term to maturity, risk rating) relative to the current market for similar mortgages.

The Company held certain investments at December 31, 2008 that were subject to the Montreal Accord, and as such there was no active market for these instruments at that time. The Company calculated the fair value of these investments by discounting the expected future cash flows using an average interest rate of 2.67% (the prevailing interest rate at that time on the restructured notes) with the assumption that no interest would be received for the first five years and incorporating a principal loss assumption of 7% related to the amount of unrated notes to be received in the restructuring. These cash flows were discounted at 10%, which is the yield that the Company would expect to receive on similar investments. The Company performed a sensitivity analysis on this calculation by adjusting the duration of the period for which the investments were held to create a scenario in which the investment was sold after three years and a 50% principal loss was sustained.

The various risks to which the Company is exposed as a result of the use of financial instruments are as follows:

Interest Rate Risk

The Company’s exposure to interest rate risk is discussed in note 17.

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Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from the Company's mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. 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. In the current economic environment, the Company has increased its monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears. 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 monthly review involving senior management and a formal quarterly review involving the Investment Committee ("ICB"). Furthermore, the Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of its investments. The Company's policies establish limits on concentration by asset class, geographic region, dollar amount and borrower.

The Company's maximum credit risk exposure on its individual financial assets is equal to the par value of the respective assets.

Liquidity Risk

Liquidity risk is the risk that cash inflows, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that the Company may eventually collect the amounts outstanding. The Company closely monitors its liquidity position to ensure that it has sufficient cash to meet liability obligations as they become due. The ICB is responsible for the review and approval of liquidity policies. In general, the Company maintains a standard level of liquid investments and credit facilities of at least 20% of term deposits maturing within 100 days. In addition, all single family mortgages are readily marketable within a time frame of one to three months, providing the Company with added flexibility to meet its liquidity needs. The Company has access to funding through its ability to issue term deposits insured pursuant to the standard terms of coverage set out by CDIC. These term deposits also provide the Company with the ability to fund asset growth as needed. There is also a $30,000 banking facility in place to fund asset growth or meet short-term obligations as required. The Company's liquidity position and access to funding support its ability to meet current and future commitments. The Company's liquid investments and credit facilities were 67% of term deposits maturing within 100 days at December 31, 2008.

The Company's sources and uses of liquidity are outlined in the table below. The Company manages its net liquidity surplus/deficit by raising term deposits as mentioned above.

	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	2008 Total	2007 Total
Sources of liquidity						
Cash and cash equivalents	$ 58,071	$ -	$ -	$ -	$ 58,071	$ 53,804
Mortgages	117,175	117,902	123,370	34,563	393,010	412,685
Loans and investments	15,464	24,914	18,519	16,470	75,367	71,286
Marketable securities	-	-	-	-	-	156
	190,710	142,816	141,889	51,033	526,448	537,931
Uses of liquidity						
Term deposits	117,443	297,736	11,484	-	426,663	445,368
Securitization liabilities	-	-	7,095	-	7,095	-
Accounts payable and accrued charges	11,209	-	-	-	11,209	6,850
	128,652	297,736	18,579	-	444,967	452,218
Unfunded mortgage commitments	6,466	51,724	6,466	-	64,656	110,910
	135,118	349,460	25,045	-	509,623	563,128
Net liquidity surplus (deficit)	**$ 55,592**	**$ (206,644)**	**$ 116,844**	**$ 51,033**	**$ 16,825**	**$ (25,197)**

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. For the Company, market risk factors include interest rates, real estate values and commodity prices, among others.

December 31, 2008 (Dollar amounts in thousands except for per share amounts)

20. 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 strips. The Company receives interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips. 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 all changes in the fair value of the swaps since that time have been recognized to income.

The following table outlines the Company's derivative financial instruments by term to maturity:

	Less than one year	One to five years	Over five years	2008 Total	2007 Total
CMB interest rate swaps - fair value	$ -	$ 23,541	$ -	$ 23,541	$ 526
CMB interest rate swaps - outstanding notional	$ -	$105,281	$ -	$105,281	$ 15,146

The interest rate swaps are included in 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, 2008 (2007 - nil).

21. Commitments

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

2009	$ 148
2010	148
2011	148
2012	111
2013 and thereafter	-
	$ 555

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; and

(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.

Management does not expect any losses as a result of these guarantees.

MCLP has issued Class B units 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. At December 31, 2008, the outstanding bank loan balances were $8,449.

23. Comparative Amounts

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

DIRECTORS

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

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

Brian A. Johnson
Partner, Crown Capital Partners and Crown Realty Partners; Member of Investment Committee; Member of Audit Committee; Director since January 2001.

David A. MacIntosh
Corporate Director; Chairman of Investment Committee; Member of Audit Committee; Director since January 2000

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

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

Robert A. Stuebing
Corporate Director; Member of Investment Committee; Director since April 2004.

Ian Sutherland
Chairman, MCAN Mortgage Corporation
Director since January 1991.

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

OFFICERS AND MANAGEMENT

Ian Sutherland
Chairman of the Board

Blaine Welch
President and CEO

Tammy Oldenburg
Vice President and CFO

Michael Misener
Vice President, Investments
Business Continuity/Disaster Recovery Coordinator

Paco Lai
Senior Manager, Cash Operations
Chief Compliance and Privacy Officer

Sylvia Pinto
Corporate Secretary

Derek Sutherland
Assistant Vice President, Investments
Chief Anti-Money Laundering and Risk Officer

John Tyas
Controller

CORPORATE INFORMATION

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Goodmans LLP
Toronto, Ontario

Auditors
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Toronto, Ontario

Public Listing
Toronto Stock Exchange
Exchange symbol MKP

Bank
Bank of Montreal
First Canadian Place
Toronto, Ontario

Corporate Information
This MCAN Mortgage Corporation 2008 Annual Report is available for viewing/printing on our web site at www.mcanmortgage.com, or additionally on SEDAR at www.sedar.com. To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, 200 King Street West, Suite 400, Toronto, Ontario M5H 3T4, by phone 416-591-5214 or 1-800-387-4405, or e-mail spinto@mcanmortgage.com.

Registrar and Transfer Agent
For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar at 1-800-564-6253, or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

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

Annual Meeting
4:30 p.m., on May 12, 2009
The Toronto Board of Trade
1 First Canadian Place, Suite 350
77 Adelaide Street West
Toronto, Ontario