MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

DECEMBER 31, 2008

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

(in thousands)	2008	2007	2006	Change from 2007	Change from 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.

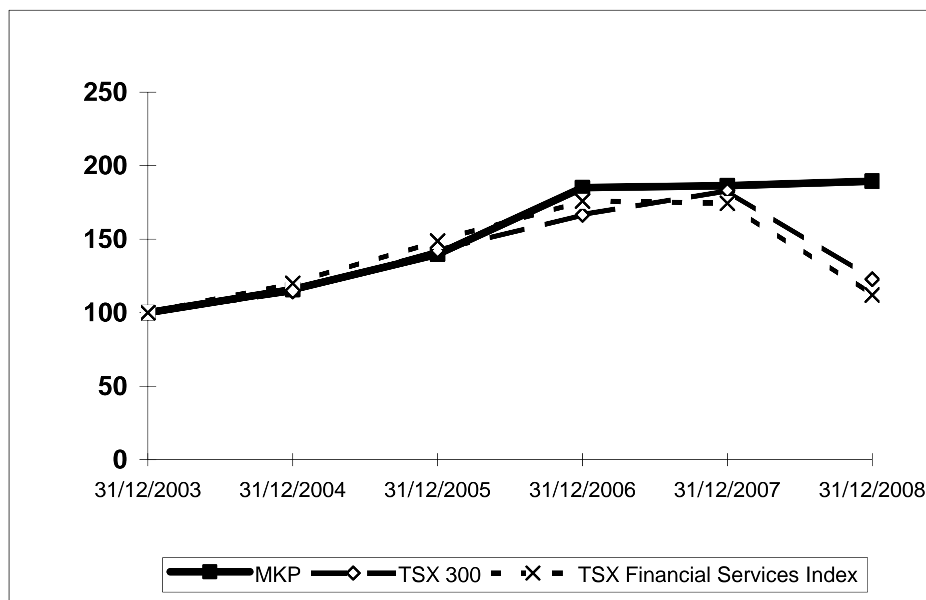
As part of the CMB program, we enter into "pay-floating, receive-fixed" interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. We receive interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only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