



**FIRST QUARTER REPORT 2008  
MCAN MORTGAGE CORPORATION**

# MCAN MORTGAGE CORPORATION

## REPORT FOR THE FIRST QUARTER ENDED MARCH 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 interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2008 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2007. These items and additional continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) and our website at [www.mcanmortgage.com](http://www.mcanmortgage.com). Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2007 remain substantially unchanged. Information has been presented as of May 8, 2008.*

### RESULTS OF OPERATIONS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of \$5.1 million for the first quarter of 2008, up from \$4.4 million a year earlier. Earnings per share for the quarter were \$0.36 compared to \$0.35 last year.

(in thousands, except for per share amounts)

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
Net investment income	\$ 6,064	\$ 5,444
Operating expenses	922	1,075
Income before income taxes	5,142	4,369
Provision for (recovery of) income taxes and large corporations taxes	-	(24)
Net income	\$ 5,142	\$ 4,393
Basic and diluted earnings per share	\$ 0.36	\$ 0.35
Dividends per share	\$ 0.23	\$ 0.31

### Net Investment Income

(in thousands)

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
<b>Investment Income</b>		
Mortgage interest	\$ 7,548	\$ 6,917
Interest on loans and investments	1,910	1,452
Interest on cash and cash equivalents	401	150
Fees	799	740
Marketable securities	4	490
Equity income from MCAP Commercial LP	301	301
Securitization income	1,999	323
Gain (loss) on sale of mortgages	(4)	1
	<b>12,958</b>	<b>10,374</b>
<b>Financial Expenses</b>		
Term deposit interest and expenses	5,358	4,304
Mortgage expenses	939	861
Provision for (recovery of) losses	597	(235)
	<b>6,894</b>	<b>4,930</b>
<b>Net Investment Income</b>	<b>\$ 6,064</b>	<b>\$ 5,444</b>

Net investment income for the first quarter increased by \$620,000 from the prior year.

Mortgage interest income for the quarter increased by \$631,000 over 2007. The average portfolio size was higher by \$54 million as our additional capacity resulting from the rights offering was deployed. The increase was partially offset by a decrease in the average mortgage yield from 7.27% in 2007 to 7.13% in 2008, which was a result of a lower prime rate in the current year. The majority of our mortgages are floating rate (prime-based) loans.

Interest on loans and investments for the quarter increased by \$458,000 over last year due to a larger average portfolio and the recovery of unpaid interest upon the payout of a securitization investment.

Interest on cash and cash equivalents increased substantially over 2007 due to significantly higher average cash balances in the current year.

Fees consist mostly of construction commitment fees, which are amortized into income over the term of the related loans. Fees earned in the current quarter are comparable to the prior year.

Marketable securities income decreased by \$486,000 from last year due to lower distributions in 2008, as the quarter end portfolio balance was \$126,000 compared to \$6.3 million at March 31, 2007. In addition, there were no gains from sales in the current quarter compared to \$317,000 in the prior year.

Equity income from our ownership interest in MCAP Commercial LP ("MCLP") was \$301,000 in the quarter, unchanged from the prior year.

MCAN securitizes insured residential mortgages through the Canada Mortgage Bonds ("CMB") program. We recorded securitization income of \$2.0 million during the quarter, a substantial increase from \$323,000 in 2007. The increase is a result of a larger issuance size and significantly wider interest rate spreads between mortgages and government bonds compared to last year.

Term deposit interest and expenses increased by \$1.1 million during the quarter. The average term deposit interest rate increased to 4.68% in 2008 from 4.23% in 2007 due to a significant increase in market rates for new fundings, and the average outstanding balance increased by \$49 million as a result of increased capacity from the rights offering.

Mortgage expenses increased over the prior year, consistent with the increase in the size of the portfolio.

At December 31, 2007, we held an unrated subordinated loan investment in a securitization program which is subject to the proposed restructuring of Third Party ABCP by the Pan-Canadian Investors Committee (the "Montreal Accord"), on which we had recorded a write-down of \$794,000. To protect our investment, we acquired the assets of that securitization program, which included \$4.1 million of commercial paper of a securitization program previously R1 (high) rated which is also subject to the Montreal Accord. We reversed the \$794,000 write-down previously taken on the unrated subordinated loan upon its repayment and recorded a write-down of \$1.2 million on the new commercial paper based upon our best estimate of net realizable value.

Allowances for loan losses were increased by \$191,000 during the quarter, which consisted of mortgage provisions of \$164,000, a specific mortgage provision of \$4,000 and \$23,000 of provisions related to loans receivable and other investments. There was a decrease in allowances of \$235,000 for the same period of 2007, which consisted of a recovery of mortgage provisions of \$240,000 and a \$5,000 increase to loan and investment provisions. The current year increase was the result of a \$40 million increase in outstanding mortgages during the quarter compared to a \$24 million decrease during the same period of last year.

Impaired loans net of specific allowances were 0.76%, compared to 0.58% at December 31, 2007 and 0.27% at March 31, 2007. During the quarter, we had an increase in the number of impaired uninsured single-family mortgages. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts. For further details of mortgages past due but not impaired at March 31, 2008, refer to note 4 to the consolidated financial statements. There were no other assets in arrears at quarter end.

### Operating Expenses

(in thousands)

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
Salaries and benefits	\$ 434	\$ 524
General and administrative	488	551
	<b>\$ 922</b>	<b>\$ 1,075</b>

### Income Taxes

(in thousands)

For the Quarters Ended March 31	2008	2007
Provision (recovery) against income	\$ -	\$ (24)
Charge to retained earnings	1,684	408
	<b>\$ 1,684</b>	<b>\$ 384</b>

There has been a significant charge to retained earnings in the current quarter as a result of significant taxable income for the quarter from the CMB program. For tax purposes, we recognize CMB income on the cash basis. During the quarter, we collected three months of mortgage interest and principal reinvestment interest, but did not make any semi-annual coupon payments.

### Cash Flows

Operating activities provided cash flows of \$1.6 million in the quarter, comparable to \$3.2 million provided in 2007.

Investing activities used cash flows of \$37 million in the quarter compared to \$22 million provided in 2007 due to net mortgage fundings in 2008 versus net mortgage repayments in 2007.

Financing activities used \$8.5 million of cash in the quarter and used \$36 million in 2007 as a result of a significant decrease in net term deposit repayments in 2008.

### Selected Quarterly Financial Data

(in thousands, except for per share amounts)

	2006				2007			2008
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net investment income	\$4,380	\$4,377	\$6,232	\$5,444	\$5,140	\$4,083	\$4,259	\$6,064
Operating expenses	960	923	1,080	1,075	955	1,000	1,079	922
Income before income taxes	3,420	3,454	5,152	4,369	4,185	3,083	3,180	5,142
Provision for (recovery of) income taxes and large corporations taxes	(37)	(18)	(54)	(24)	(2)	-	-	-
Net income	\$3,457	\$3,472	\$5,206	\$4,393	\$4,187	\$3,083	\$3,180	\$5,142
Basic and diluted earnings per share	\$0.28	\$0.28	\$0.42	\$0.35	\$0.33	\$0.21	\$0.23	\$0.36
Dividends per share								
Regular	\$0.21	\$0.21	\$0.21	\$0.19	\$0.23	\$0.23	\$0.23	\$0.12
Capital gains	-	-	-	0.12	-	-	-	0.11
Total	\$0.21	\$0.21	\$0.21	\$0.31	\$0.23	\$0.23	\$0.23	\$0.23

The fourth quarter of 2006 had significant gains on sales of marketable securities and substantial equity income from MCLP, whose income can be volatile. Quarterly income in the first two quarters of 2007 was higher than previous quarters due to increased interest income from higher mortgage and loan portfolios, and securitization income from the CMB program. The third quarter of 2007 was significantly lower due to the write-down of securitization investments and the loss from the CMB program, while the fourth quarter of 2007 had a significant equity loss from MCLP due to write-downs taken on its securitization programs. The first quarter of 2008 was comparable to the first two quarters of 2007, but with higher securitization income.

## FINANCIAL POSITION

As of March 31, 2008, total consolidated assets were \$553 million, a decrease of \$5 million from December 31, 2007.

### Assets

(in thousands)	March 31, 2008		December 31, 2007	
Cash and cash equivalents	\$ 9,817	1.8%	\$ 53,804	9.7%
Marketable securities	126	-	156	-
Mortgages	452,210	81.8	412,685	74.0
Loans and investments	66,633	12.1	71,286	12.8
Equity investment in MCAP Commercial LP	17,396	3.1	17,095	3.1
Capital assets and other assets	6,725	1.2	2,399	0.4
	<b>\$ 552,907</b>	<b>100.0%</b>	<b>\$ 557,425</b>	<b>100.0%</b>

Cash decreased by \$44 million during the quarter due to significant mortgage growth.

Mortgages increased by \$40 million in the quarter, primarily due to increases of \$35 million in uninsured single-family mortgages, \$2 million in residential construction loans and \$4 million in commercial mortgages, partially offset by a decrease of \$4 million in insured single-family mortgages.

We invest in insured and uninsured single-family mortgages in Canada. The uninsured mortgages may not exceed 80% of the value of the real estate securing such loans ("LTV") and are usually below 75% LTV.

Loans and investments decreased by \$5 million, primarily due to the sale of insured mortgage-backed securities and a decrease in the fair value of the CMB interest-only strips. The quarter end balance includes \$3.4 million of non bank-sponsored securitization investments that are subject to the Montreal Accord.

Our equity investment in MCLP increased by \$301,000, representing equity income for the quarter.

### Liabilities and shareholders' equity

(in thousands)	March 31 2008	December 31 2007	Increase (Decrease)
<b>Liabilities</b>			
Term deposits	\$ 442,582	\$ 445,368	\$ (2,786)
Accounts payable and accrued charges	6,256	8,089	(1,833)
Future taxes payable	1,181	961	220
	450,019	454,418	(4,399)
<b>Shareholders' equity</b>			
Share capital	97,190	96,370	820
Contributed surplus	510	510	-
Retained earnings	6,853	6,654	199
Accumulated other comprehensive income (loss)	(1,665)	(527)	(1,138)
	102,888	103,007	(119)
	<b>\$ 552,907</b>	<b>\$ 557,425</b>	<b>\$ (4,518)</b>

Term deposits decreased by \$3 million during the quarter. Due to our excess cash at year-end, we did not need to raise additional deposits in the quarter. We issue term deposits that are insured pursuant to the standard terms of coverage set out by the Canada Deposit Insurance Corporation to fund our investment operations, and do not use capital markets (including asset-backed commercial paper) for liquidity.

Share capital increased by \$820,000, of which \$484,000 was raised through the dividend reinvestment plan for the January 2, 2008 and March 28, 2008 dividends. The remaining \$336,000 was raised through the Executive Share Purchase Plan.

Retained earnings increased by \$199,000 during the quarter. The increase was a result of quarterly income of \$5.1 million, offset by the first quarter dividend of \$3.3 million and a charge to retained earnings of \$1.7 million relating to current and future income taxes.

Accumulated other comprehensive income (loss) represents the changes in unrealized gains or losses (net of taxes) on available for sale financial assets and cash flow hedges. The change in the quarter is due to a significant decrease in the fair value of the available for sale CMB interest-only strips as a result of a drop in expected future interest rates. This decrease was offset by an

increase in the fair value of the CMB interest rate swaps, which are used to hedge interest rate risk on the interest-only strips. The change in the fair value of the interest rate swaps is recognized through income.

## 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, almost all of which relate to floating rate loans.

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	\$ 399,683	\$ 42,899	\$ -	\$ 442,582
Operating lease	109	390	-	499
Mortgage fundings	98,269	-	-	98,269
CMB obligations	477	1,398	20	1,895
	<b>\$ 498,538</b>	<b>\$ 44,687</b>	<b>\$ 20</b>	<b>\$ 543,245</b>

## CHANGES IN ACCOUNTING POLICY

On January 1, 2008, we adopted the new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") as follows: *Capital Disclosures*, *Financial Instruments - Disclosures* and *Financial Instruments - Presentation*. For further details, refer to Note 2 to the consolidated financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

### Disclosure Controls and Procedures

Company management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as of March 31, 2008 and has concluded that such disclosure controls and procedures are effective.

### Internal Control over Financial Reporting

During the interim period ended March 31, 2008, the Company did not make any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## OUTLOOK

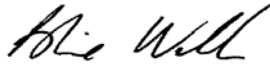
Our primary objective is to fully invest the balance sheet while maintaining acceptable and sustainable returns. We are subject to maximum asset levels under both the Income Tax Act (Canada) (the "Tax Act") and the Trust and Loan Companies Act. The maximum asset level permitted under the Tax Act, which is the most constraining for us, effectively limits assets to 6 times capital on a non-consolidated basis, measured at tax values. We manage our assets to a level of 5.75 times capital to provide a prudent cushion between the maximum and total actual assets. We have not yet fully levered our new capital from the rights offering, and as a result of this we were underinvested by \$41 million at quarter end. Our objective is to fully invest our remaining investment capacity from the rights offering by the second quarter. Maintaining our balance sheet at full investment will depend on our ability to find assets with satisfactory yields at manageable levels of risk. Our operations and income are a function of the interest rate environment and the availability of mortgage product at reasonable yields. Recent decreases in the prime rate will have an adverse effect on net investment income over the next several quarters. The availability of mortgage product for us and the yields thereon is based on market competition.

Slower economic activity has moderated housing market activity, compared to last year, and this is expected to continue for the balance of the year. While the credit environment is also less favourable than it was last year, the Canadian residential property market continues to exhibit healthy fundamentals.

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

#### DIVIDENDS

The Board of Directors declared a second quarter dividend of \$0.23 per share to be paid June 30, 2008 to shareholders of record as of June 16, 2008.



Blaine Welch  
President and Chief Executive Officer



Tammy Oldenburg  
Vice President and Chief Financial Officer

*This report may contain forward-looking statements, including statements regarding the business and anticipated financial performance of the Company. These forward looking statements can generally be identified as such because of the context of the statements and often include words such as the Company "believes", "anticipates", "expects", "plans", "estimates" or words of a similar nature. These statements are based on current expectations, and are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause such differences include legislative or regulatory developments, competition, technology change, global market activity, interest rates, changes in government and economic policy and general economic conditions in geographic areas where the Company operates. Reference is made to the risk factors disclosed in the Company's 2008 Annual Information Form, which are incorporated herein by reference. These and other factors should be considered carefully and undue reliance should not be placed on the Company's forward-looking statements. Subject to applicable securities law requirements, we do not undertake to update any forward-looking statements.*

#### **Notice required under National Instrument 51-102, "Continuous Disclosure Obligations," Part 4.3 (3)(a).**

The accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

The Company is in compliance with the interim Management's Discussion and Analysis of Operations requirements set out by National Instrument 51-102.

**CONSOLIDATED BALANCE SHEETS**  
(Unaudited) (dollars in thousands)

As at	Note	March 31 2008	December 31 2007	March 31 2007
<b>Assets</b>				
<b>Investments</b>				
Cash and cash equivalents		\$ 9,817	\$ 53,804	\$ 6,626
Marketable securities	3	126	156	6,337
Mortgages	4	452,210	412,685	372,113
Loans and investments	6	66,633	71,286	63,494
Equity investment in MCAP Commercial LP		17,396	17,095	16,891
		<b>546,182</b>	<b>555,026</b>	<b>465,461</b>
Capital assets and other assets		6,725	2,399	2,110
		<b>\$ 552,907</b>	<b>\$ 557,425</b>	<b>\$ 467,571</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Liabilities</b>				
Term deposits		\$ 442,582	\$ 445,368	\$ 377,883
Accounts payable and accrued charges		6,256	8,089	1,896
Future taxes payable		1,181	961	726
		<b>450,019</b>	<b>454,418</b>	<b>380,505</b>
<b>Shareholders' Equity</b>				
Share capital	7	97,190	96,370	79,451
Contributed surplus		510	510	510
Retained earnings		6,853	6,654	6,017
Accumulated other comprehensive income (loss)		(1,665)	(527)	1,088
		<b>102,888</b>	<b>103,007</b>	<b>87,066</b>
		<b>\$ 552,907</b>	<b>\$ 557,425</b>	<b>\$ 467,571</b>

*See accompanying notes*

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

<b>For the Quarters Ended March 31</b>	<b>Note</b>	<b>2008</b>	<b>2007</b>
<b>Investment Income</b>			
Mortgage interest		\$ 7,548	\$ 6,917
Interest on loans and investments		1,910	1,452
Interest on cash and cash equivalents		401	150
Fees		799	740
Marketable securities	3	4	490
Equity income from MCAP Commercial LP		301	301
Securitization income	5	1,999	323
Gain (loss) on sale of mortgages		(4)	1
		<b>12,958</b>	<b>10,374</b>
<b>Financial Expenses</b>			
Term deposit interest and expenses		5,358	4,304
Mortgage expenses		939	861
Provision for (recovery of) losses		597	(235)
		<b>6,894</b>	<b>4,930</b>
<b>Net Investment Income</b>		<b>6,064</b>	<b>5,444</b>
<b>Operating Expenses</b>			
Salaries and benefits		434	524
General and administrative		488	551
		<b>922</b>	<b>1,075</b>
<b>Income Before Income Taxes</b>		<b>5,142</b>	<b>4,369</b>
Provision for (recovery of) income taxes and large corporations taxes		-	(24)
<b>Net Income</b>		<b>\$ 5,142</b>	<b>\$ 4,393</b>
Basic and diluted earnings per share		\$ 0.36	\$ 0.35
Dividends per share		\$ 0.23	\$ 0.31
Weighted average number of basic and diluted shares (000's)		14,148	12,517

*See accompanying notes*

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

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
<b>Share capital</b>		
Balance, beginning of period	\$ 96,370	\$ 78,211
Common shares issued	820	1,240
Balance, end of period	<b>97,190</b>	<b>79,451</b>
<b>Contributed surplus</b>		
Balance, beginning of period	510	510
Changes to contributed surplus in period	-	-
Balance, end of period	<b>510</b>	<b>510</b>
<b>Retained earnings</b>		
Balance, beginning of period	6,654	5,890
Net income	5,142	4,393
Income taxes charged to retained earnings	(1,684)	(408)
Dividends declared	(3,259)	(3,858)
Balance, end of period	<b>6,853</b>	<b>6,017</b>
<b>Accumulated other comprehensive income</b>		
Balance, beginning of period	(527)	1,261
Other comprehensive income (loss)	(1,138)	(173)
Balance, end of period	<b>(1,665)</b>	<b>1,088</b>
<b>Total shareholders' equity</b>	<b>\$ 102,888</b>	<b>\$ 87,066</b>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited) (dollars in thousands)

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
<b>Net income</b>	<b>\$ 5,142</b>	<b>\$ 4,393</b>
<b>Other comprehensive income (loss), net of income taxes</b>		
Change in unrealized gain on available for sale marketable securities	(24)	46
Transfer of gains on sale of marketable securities to net income	-	(250)
Change in unrealized gain on available for sale mortgages	309	(129)
Change in unrealized gain on available for sale loans and investments	(1,425)	212
Change in cash flow hedges	2	(52)
Other comprehensive income (loss)	(1,138)	(173)
<b>Comprehensive income</b>	<b>\$ 4,004</b>	<b>\$ 4,220</b>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited) (dollars in thousands)

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
<b>Cash Provided by (used for):</b>		
<b>Operating Activities</b>		
Net income	\$ 5,142	\$ 4,393
Adjusted for non-cash items:		
Equity income	(297)	(305)
Provision for (recovery of) losses	597	(235)
Securitization income	(1,876)	(323)
Amortization of capital assets and other assets	201	221
Loss (gain) on sale of mortgages	4	(1)
Distributions from MCAP Commercial LP	-	749
Increase in accounts receivable	(688)	(658)
Decrease in accounts payable and accrued charges	(1,488)	(652)
<b>Cash flows from operating activities</b>	<b>1,595</b>	<b>3,189</b>
<b>Investing Activities</b>		
Mortgage advances	(561,538)	(474,984)
Mortgage reductions	63,377	76,980
Proceeds on sale of mortgages	456,227	421,765
Additions to capital assets and other assets	(261)	(229)
Decrease (increase) in loans and investments	5,080	(8,358)
Marketable securities	-	6,646
<b>Cash flows (for) from investing activities</b>	<b>(37,115)</b>	<b>21,820</b>
<b>Financing Activities</b>		
Issue of term deposits	125,052	86,835
Repayment of term deposits	(127,838)	(117,686)
Issue of common shares	820	1,240
Dividends paid	(6,501)	(6,457)
<b>Cash flows for financing activities</b>	<b>(8,467)</b>	<b>(36,068)</b>
Decrease in cash and cash equivalents	(43,987)	(11,059)
Cash and cash equivalents, beginning of period	53,804	17,685
<b>Cash and cash equivalents, end of period</b>	<b>\$ 9,817</b>	<b>\$ 6,626</b>

**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. MCAN holds a 25% voting interest in MCLP.

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods of application as the Company’s consolidated financial statements for the year ended December 31, 2007. Under GAAP, additional disclosures are required in the annual financial statements and accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and the accompanying notes included on pages 18 to 36 of the Company’s 2007 Annual Report. The interim consolidated financial statements include all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the periods presented.

**2. 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.

**3. Marketable Securities**

As at March 31	2008	2007
Marketable securities at cost	\$ 199	\$ 5,827
Unrealized gain (loss)	(73)	510
Marketable securities at fair value	\$ 126	\$ 6,337

For the Quarters Ended March 31	2008	2007
Marketable securities income	\$ 4	\$ 490
Change in unrealized gains	(30)	(303)
	\$ (26)	\$ 187

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2008  
MCAN MORTGAGE CORPORATION  
MARCH 31, 2008 (Dollar amounts in thousands except for per share amounts)

4. Mortgages

As at March 31	Principal	Allowance	2008 Net	2007 Net
Single-family mortgages				
- Uninsured	\$ 159,541	\$ 927	\$ 158,614	\$ 83,935
- Uninsured (completed inventory loans)	36,969	337	36,632	44,916
- Insured	24,987	-	24,987	36,685
Construction loans				
- Residential	196,189	1,741	194,448	171,655
- Non-residential	5,544	49	5,495	13
Commercial	30,476	397	30,079	32,108
	453,706	3,451	450,255	369,312
Fair value adjustment	(185)	-	(185)	663
	453,521	3,451	450,070	369,975
Accrued interest	2,140	-	2,140	2,138
	<b>\$ 455,661</b>	<b>\$ 3,451</b>	<b>\$ 452,210</b>	<b>\$ 372,113</b>

MCAN invests in insured and uninsured single-family mortgages in Canada. The uninsured mortgages may not exceed 80% of the value of the real estate securing such loans. Residential mortgages insured by Canada Mortgage and Housing Corporation 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.

The geographical breakdown of mortgages by province is as follows:

As at March 31	2008		2007	
Ontario	\$ 199,565	44.1%	\$ 228,987	61.5%
Alberta	166,799	36.9	80,186	21.6
British Columbia	61,400	13.6	42,437	11.4
Other	24,446	5.4	20,503	5.5
	<b>\$ 452,210</b>	<b>100.0%</b>	<b>\$ 372,113</b>	<b>100.0%</b>

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$98,269 at March 31, 2008 (2007 - \$128,231). Substantially all of these commitments relate to floating rate loans.

The details of the mortgage allowances are as follows:

	General	Specific	2008 Total	General	Specific	2007 Total
Balance, beginning of period	\$ 3,217	\$ 67	\$ 3,284	\$ 3,607	\$ -	\$ 3,607
Provisions (recoveries)	164	4	168	(240)	-	(240)
Write-offs	(1)	-	(1)	(1)	-	(1)
<b>Balance, end of period</b>	<b>\$ 3,380</b>	<b>\$ 71</b>	<b>\$ 3,451</b>	<b>\$ 3,366</b>	<b>\$ -</b>	<b>\$ 3,366</b>

Mortgages past due but not impaired at March 31, 2008 are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single-family - uninsured	\$ 7,985	\$ 4,330	\$ 2,949	\$ -	\$ 15,264
Single-family - insured	728	440	-	36	1,204
	<b>\$ 8,713</b>	<b>\$ 4,770</b>	<b>\$ 2,949</b>	<b>\$ 36</b>	<b>\$ 16,468</b>

At March 31, 2008, the Company had \$3,415 of impaired loans (2007 - \$916), as follows: uninsured single-family (\$2,567, 2007 - \$61), residential construction (\$848, 2007 - \$764) and insured single-family (2007 - \$91).

**5. Securitization Income**

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
Gain on securitization	\$ 1,164	\$ 320
Residual securitization income	835	3
	<b>\$ 1,999</b>	<b>\$ 323</b>

During the quarter, the Company securitized \$323,614 (2007 - \$193,505) of insured residential mortgages through the Canada Mortgage Bonds (“CMB”) program. The Company participated in the securitization with MCAP Service Corporation (“MSC”).

Upon sale, the Company recognized an interest-only strip of \$4,275 (2007 - \$1,405), which is a retained interest in the securitized mortgages, included in securitization investments (note 6). In addition, the Company established a liability for future mortgage servicing and other costs totalling \$413 (2007 - \$264) that is included in accounts payable and accrued charges. The Company subcontracts CMB servicing obligations to MSC. The total outstanding interest-only strips at March 31, 2008 were \$5,201 (2007 - \$1,749), while total outstanding CMB liabilities were \$1,688 (2007 - \$264).

During the quarter, there was a significant decrease in the fair value of the interest-only strips as a result of a drop in future expected interest rates. The Company receives interest on reinvested CMB principal collections, the discounted value of which is included in the interest-only strips. As rates decrease, the fair value of the interest-only strips also decreases as the majority of reinvestments are in floating-rate assets. However, the Company has entered into interest rate swaps to manage market interest rate exposures on the reinvested assets. The increase in the fair value of the interest rate swaps during the quarter offset the decrease in the fair value of the interest-only strips. For further details refer to note 8.

Residual securitization income includes the yield earned on 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.

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

<b>For the Quarters Ended March 31</b>	<b>2008</b>	<b>2007</b>
Proceeds from new securitizations	\$ 326,417	\$ 195,066
Net cash flows received on interest-only strips	\$ 3,363	\$ -

**6. Loans and Investments**

		<b>2008</b>	<b>2007</b>
Securitization investments	(a)	\$ 30,390	\$ 29,782
Loans receivable and other investments	(b)	36,243	33,712
		<b>\$ 66,633</b>	<b>\$ 63,494</b>

**(a) Securitization Investments**

**Investments in Securitization Programs**

<b>As at March 31</b>	<b>Principal</b>	<b>Allowance</b>	<b>2008 Net</b>	<b>2007 Net</b>
Subordinated loans - residential mortgage securitization programs	\$ 10,133	\$ -	\$ 10,133	\$ 13,872
Asset-backed commercial paper	4,122	1,200	2,922	-
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	6,845	-	6,845	7,304
- first loss position	3,030	-	3,030	3,232
Bonds - residential mortgage securitization program	-	-	-	823
Bonds - commercial securitization program	461	-	461	458
	<b>\$ 24,591</b>	<b>\$ 1,200</b>	<b>\$ 23,391</b>	<b>\$ 25,689</b>

Of the investments in securitization programs, \$20,008 are invested in bank-sponsored securitization programs, while the remaining \$3,383 of these investments are non bank-sponsored, consisting of asset-backed commercial paper of \$2,922 and bonds of \$461.

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 Dominion Bond Rating Service ("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.

A write-down of \$1,200 has been taken on the newly acquired commercial paper based on the Company's best estimate of net realizable value, as the investment is over 90 days in arrears and is therefore impaired. The new ABCP is classified as held for trading.

**Other Securitization Investments**

<b>As at March 31</b>	<b>2008</b>	<b>2007</b>
CMB - interest-only strips	\$ 5,201	\$ 1,749
Insured mortgage-backed securities	-	2,344
Other securitization assets	1,798	-
	<b>\$ 6,999</b>	<b>\$ 4,093</b>
<b>Total securitization investments</b>	<b>\$ 30,390</b>	<b>\$ 29,782</b>

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

Loans receivable and other investments consist of various loans to private entities and employees. At March 31, 2008, loans receivable and other investments was net of an allowance of \$286 (2007 - \$226).

**7. Share Capital**

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

<b>Issued</b>	<b>Number of Shares</b>	<b>2008</b>	<b>Number of Shares</b>	<b>2007</b>
Balance, beginning of period	14,097,994	\$ 96,370	12,372,939	\$ 78,211
Issued				
Dividend reinvestment plan	52,350	484	61,125	714
Executive Share Purchase Plan	38,941	336	45,791	526
<b>Balance, end of period</b>	<b>14,189,285</b>	<b>\$ 97,190</b>	<b>12,479,855</b>	<b>\$ 79,451</b>

As at May 8, 2008, the Company had 14,189,284 common shares outstanding. Shares are issued out of treasury for the dividend reinvestment plan and the Executive Share Purchase Plan at the average closing price for the 20 days preceding such issues.

## 8. Derivative Financial Instruments

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

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

	Less than one year	One to five years	Over five years	2008 Total	2007 Total
CMB interest rate swaps - fair value	\$ -	\$ 4,101	\$ 14	\$ 4,115	\$ (88)
CMB interest rate swaps - outstanding notional	\$ -	\$ 38,057	\$ -	\$ 38,057	\$ -

The interest rate swaps are included in capital assets and other assets if positive, and accounts payable and accrued liabilities if negative.

## 9. 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. The Company typically pays out all of its taxable income by way of dividends, so capital growth is achieved through rights offerings and the dividend reinvestment plan.

The Company's capital management is driven by the guidelines set out by the Tax Act and the Superintendent of Financial Institutions Canada (“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 is regulated by OSFI and has been granted a consolidated regulatory assets to capital ratio of 9:1. Of the two tests, the MIC test is significantly more constraining for the Company, and as a result of this, the Company manages its assets to a level of 5.75 times capital on a tax basis. 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 Tier 1 and Total capital ratios for the Company are 7% and 10% respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS / FIRST QUARTER REPORT 2008  
 MCAN MORTGAGE CORPORATION  
 MARCH 31, 2008 (Dollar amounts in thousands except for per share amounts)

<b>As at March 31</b>	<b>2008</b>	<b>2007</b>
<b>Tax Act Test</b>		
Income tax assets	\$ 549,752	\$ 467,391
Income tax capital	\$ 102,725	\$ 87,382
Income tax assets to capital ratio	5.35	5.35
<b>Regulatory Tests (OSFI)</b>		
Tier 1 capital		
Share capital	\$ 97,190	\$ 79,451
Contributed surplus	510	510
Retained earnings	6,853	6,017
Unrealized loss on available for sale marketable securities	(58)	-
Tier 1 capital deductions	(3,709)	-
	<u>100,786</u>	<u>85,978</u>
Tier 2 capital		
Unrealized gain on available for sale marketable securities	-	402
Tier 2 capital deductions	(1,849)	-
	<u>(1,849)</u>	<u>402</u>
Deductions from total capital	-	(3,232)
Total capital	<u>\$ 98,937</u>	<u>\$ 83,148</u>
Total regulatory assets	\$ 562,255	\$ 475,758
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	18.97%	19.77%
Total capital to risk-weighted assets ratio	18.63%	19.12%
Assets to capital multiple	5.68	5.72

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

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

<b>As at March 31</b>	<b>2008</b>		<b>2007</b>	
	<b>Balance</b>	<b>Risk-Weighted</b>	<b>Balance</b>	<b>Risk-Weighted</b>
<b>On-Balance Sheet Assets</b>				
Cash and cash equivalents	\$ 9,817	\$ 2,704	\$ 6,626	\$ 1,817
Marketable securities	126	126	6,337	6,337
Mortgages	452,210	325,860	372,113	292,842
Loans and investments	66,633	85,051	63,494	57,917
Equity investment in MCLP	17,396	17,396	16,891	16,891
Capital assets and other assets	6,725	2,608	2,110	2,110
	<u>\$ 552,907</u>	<u>\$ 433,745</u>	<u>\$ 467,571</u>	<u>\$ 377,914</u>
<b>Off-Balance Sheet Assets</b>				
Letters of credit		5,603		4,514
Mortgage funding commitments		49,135		52,423
		<u>54,738</u>		<u>56,937</u>
<b>Derivative Financial Instruments</b>				
Interest rate swaps		858		-
Charge for operational risk		41,850		-
<b>Total Risk-Weighted Assets</b>		<u>\$ 531,191</u>		<u>\$ 434,851</u>

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

### Interest Rate Risk

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.

The Company's interest rate risk management practices and sensitivity analysis are included in note 16 to the 2007 consolidated financial statements.

An immediate and sustained 1% increase (decrease) to market interest rates at March 31, 2008 would have a positive (adverse) effect of \$1,173 (\$915 in 2007) to net investment income over the following twelve month period.

### 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. All members of management are subject to limits on their ability to commit the Company to credit risk. Credit and commitment exposure is closely monitored through a reporting process that includes a formal quarterly review involving senior management and the 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.

### 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 liquid investments and credit facilities in excess of 20% of term deposits maturing within 100 days. In addition, all marketable securities and single-family mortgages are readily marketable within a time frame of one to three months, 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 the Canada Deposit Insurance Corporation. 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. For further details on the Company's liquid assets and ability to meet liability obligations, refer to note 16 to the 2007 consolidated financial statements.

## 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. Market risk on marketable securities is managed through prudent investment selection and diversification by security and industry.

## 11. Guarantees

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

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

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

MCLP has issued Class B units of \$9,603 to management of MCLP, which were financed by bank loans to management. Under certain circumstances, the Company may be required to contribute up to 25% of the fair value of the Class B units to MCLP in order to repurchase the Class B units or to repay the bank financing and subrogate the bank’s position.

## 12. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year.