



MCAN MORTGAGE CORPORATION

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

MARCH 31, 2008

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 and our website at 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)

For the Quarters Ended March 31	2008	2007
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)

For the Quarters Ended March 31	2008	2007
Investment Income		
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
	12,958	10,374
Financial Expenses		
Term deposit interest and expenses	5,358	4,304
Mortgage expenses	939	861
Provision for (recovery of) losses	597	(235)
	6,894	4,930
Net Investment Income	\$ 6,064	\$ 5,444

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)

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

Income Taxes

(in thousands)

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

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	<u>\$3,457</u>	<u>\$3,472</u>	<u>\$5,206</u>	<u>\$4,393</u>	<u>\$4,187</u>	<u>\$3,083</u>	<u>\$3,180</u>	<u>\$5,142</u>
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	<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.21</u>	<u>\$0.31</u>	<u>\$0.23</u>	<u>\$0.23</u>	<u>\$0.23</u>	<u>\$0.23</u>

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
	\$ 552,907	100.0%	\$ 557,425	100.0%

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)
Liabilities			
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)
Shareholders' equity			
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)
	\$ 552,907	\$ 557,425	\$ (4,518)

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
	\$ 498,538	\$ 44,687	\$ 20	\$ 543,245

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

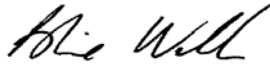
Our primary objective is to fully invest the balance sheet while maintaining acceptable and sustainable returns. We are subject to maximum asset levels under both the Income Tax Act (Canada) (the "Tax Act") and the Trust and Loan Companies Act. The maximum asset level permitted under the Tax Act, which 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.