



**SECOND QUARTER REPORT 2008
MCAN MORTGAGE CORPORATION**

MCAN MORTGAGE CORPORATION

REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 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 June 30, 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 August 7, 2008.

RESULTS OF OPERATIONS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of \$4.9 million for the second quarter of 2008, up from \$4.2 million a year earlier. Earnings per share for the quarter were \$0.35 compared to \$0.33 last year. Net income for the six months ended June 30, 2008 was \$10.0 million, up from \$8.6 million a year earlier, while earnings per share in the same period were \$0.71 compared to \$0.68 in 2007.

(in thousands, except for per share amounts)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Net investment income	\$ 6,062	\$ 5,140	\$ 12,126	\$ 10,584
Operating expenses	1,173	955	2,095	2,030
Income before income taxes	4,889	4,185	10,031	8,554
Provision for (recovery of) income taxes and large corporation taxes	-	(2)	-	(26)
Net income	\$ 4,889	\$ 4,187	\$ 10,031	\$ 8,580
Basic and diluted earnings per share	\$ 0.35	\$ 0.33	\$ 0.71	\$ 0.68
Dividends per share	\$ 0.23	\$ 0.23	\$ 0.46	\$ 0.54

The 2007 year-to-date earnings per share have been restated from \$0.69 to \$0.68 and 2007 second quarter earnings per share have been restated from \$0.34 to \$0.33 to reflect the dilutive impact of the rights offering that we completed in July 2007. The rights offering was dilutive as the shares were issued at \$10.50, a 7% discount from the market price at that time.

Net Investment Income

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Investment Income				
Mortgage interest	\$ 7,496	\$ 6,530	\$ 15,044	\$ 13,447
Interest on loans and investments	1,235	1,457	3,145	2,909
Interest on cash and cash equivalents	270	149	671	299
Fees	871	791	1,670	1,531
Equity income from MCAP Commercial LP	707	460	1,008	761
Securitization income	1,309	497	3,308	820
Marketable securities	3	421	7	911
Gain on sale of mortgages	4	4	-	5
	11,895	10,309	24,853	20,683
Financial Expenses				
Term deposit interest and expenses	5,229	4,293	10,587	8,597
Mortgage expenses	903	872	1,842	1,733
Provision for (recovery of) losses	(299)	4	298	(231)
	5,833	5,169	12,727	10,099
Net Investment Income	\$ 6,062	\$ 5,140	\$ 12,126	\$ 10,584

Net investment income for the second quarter increased by \$922,000 over 2007 and increased by \$1.5 million for the six months ended June 30, 2008.

Mortgage interest income for the quarter increased by \$966,000 from the prior year. The average portfolio size increased by \$58 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 7.14% in 2007 to 6.81% in 2008. Approximately 45% of our mortgages are floating rate (prime-based) loans, down from 52% at March 31, 2008, and the prime rate has dropped by 1.25% over the past twelve months. The increase of \$1.6 million for the six months ended June 30, 2008 was a result of a \$56 million increase in the average portfolio, partially offset by a decrease in the average mortgage yield from 7.20% to 6.97%. During the quarter, we increased our fixed rate mortgage portfolio and decreased our floating rate mortgage portfolio to minimize the reduction to net investment income due to compressed spreads.

Interest on loans and investments for the quarter decreased by \$222,000 from 2007 due to a significantly lower average prime rate. The increase of \$236,000 for the six months ended June 30, 2008 is primarily due to the recovery of unpaid interest upon the payout of a securitization investment in the first quarter.

Interest on cash and cash equivalents for the quarter and year to date increased over the prior year due to higher average cash balances in 2008.

Fees consist mostly of construction commitment fees, which are amortized into income over the term of the related loans. Fees earned in the quarter and year to date increased slightly over 2007 due to a higher average construction loan balance.

Equity income from our ownership interest in MCAP Commercial LP ("MCLP") was \$707,000 in the quarter compared to \$460,000 in 2007. For the six months ended June 30, 2008, equity income was \$1.0 million, up from \$761,000 in 2007. MCLP earned origination fees from large construction projects and significant income from its single-family operations in the quarter.

MCAN securitizes insured residential mortgages through the Canada Mortgage Bonds ("CMB") program. We recorded securitization income of \$1.3 million during the quarter, a significant increase from \$497,000 in the prior year. For the six months ended June 30, 2008, we recorded securitization income of \$3.3 million, up from \$820,000 in 2007. In both cases, the increase is due to significantly wider interest rate spreads between mortgages and government bonds compared to 2007. In addition, residual securitization income was higher in the current year due to more outstanding CMB issuances.

Marketable securities income was significantly lower for the quarter and six months ended June 30, 2008 as the portfolio was largely liquidated in the second half of 2007. In the prior year, gains from sales were \$388,000 in the second quarter and \$705,000 for the year to date.

Term deposit interest and expenses increased by \$936,000 during the quarter. The average term deposit interest rate increased to 4.55% in 2008 from 4.29% in 2007 due to an increase in market rates for new fundings, and the average outstanding balance

increased by \$58 million as a result of increased capacity from the rights offering. The increase of \$2.0 million for the six months ended June 30, 2008 is due to a \$53 million increase in the average balance and an increase in the average interest rate from 4.26% to 4.62%.

Mortgage expenses for the quarter and year to date increased slightly over the prior year. Although our average mortgage portfolio increased significantly over 2007, the decrease in mortgage expenses from our construction loans (which have a higher servicing rate) nearly offset the increase in mortgage expenses from our single-family mortgages, which have a lower servicing rate.

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 in the first quarter, 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. We did not record any additional write-downs in the second quarter, as we believe that our best estimate of net realizable value is still appropriate.

Allowances for loan losses were decreased by \$299,000 during the quarter, which consisted of a recovery of mortgage provisions of \$269,000, reversals of specific mortgage provisions of \$24,000 and a recovery of \$6,000 of provisions related to loans receivable and other investments. There was an increase in allowances of \$4,000 for the same period of 2007, which consisted of mortgage provisions of \$26,000 and a \$22,000 recovery of provisions on loans receivable and other investments. The current year decrease was the result of a \$14 million decrease in outstanding mortgages during the quarter compared to an \$8 million increase during the same period of last year. For the six months ended June 30, 2008, allowances for loan losses were increased by \$298,000, compared to a decrease of \$231,000 in the prior year. Mortgage balances have increased by \$26 million for the year to date versus a \$16 million decrease in 2007.

Write-offs were \$50,000 for the quarter, compared to \$1,000 in the prior year. The current quarter charge relates primarily to an individual construction loan.

Impaired loans net of specific allowances were 0.93%, compared to 0.76% at March 31, 2008 and 0.43% at June 30, 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 June 30, 2008, refer to note 3 to the consolidated financial statements. There were no other assets in arrears at quarter end.

Operating Expenses

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Salaries and benefits	\$ 453	\$ 418	\$ 887	\$ 942
General and administrative	720	537	1,208	1,088
	\$ 1,173	\$ 955	\$ 2,095	\$ 2,030

Income Taxes

(in thousands)

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Provision (recovery) against income	\$ -	\$ (2)	\$ -	\$ (26)
Charge to retained earnings	241	478	1,925	886
	\$ 241	\$ 476	\$ 1,925	\$ 860

We have had a significant increase in our future taxes payable during 2008, which are charged directly to retained earnings. The increase is primarily due to the future tax liability that arises from the fair valuation of CMB interest rate swaps (when they are in an asset position) and the upfront gains on securitization from the CMB program.

Cash Flows

Operating activities provided cash flows of \$4.3 million in the quarter and provided \$1.7 million in the prior year. The increase is a result of higher receivables in 2007. Operating activities provided cash flows of \$5.9 million for the six months ended June 30, 2008, comparable to \$5.0 million provided in 2007.

Investing activities provided cash flows of \$9.3 million in the quarter and provided \$7.2 million in 2007 due to net mortgage reductions in 2008 compared to net mortgage fundings in 2007, partially offset by net loan and investment fundings in the current year versus net reductions last year. Investing activities used cash flows of \$28 million for the six months ended June 30, 2008 and provided \$29 million last year. There were significant net mortgage advances in the current year versus net mortgage reductions and \$12 million of marketable securities sales in 2007.

Financing activities used \$8.4 million of cash in the quarter and used \$2.7 million in 2007 as a result of higher net term deposit repayments in 2008. Financing activities used cash flows of \$17 million for the six months ended June 30, 2008 and used \$39 million last year. Net term deposit repayments were significantly higher in 2007.

Selected Quarterly Financial Data

(in thousands, except for per share amounts)

	2006		2007				2008	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net investment income	\$4,377	\$6,232	\$5,444	\$5,140	\$4,083	\$4,259	\$6,064	\$6,062
Operating expenses	923	1,080	1,075	955	1,000	1,079	922	1,173
Income before income taxes	3,454	5,152	4,369	4,185	3,083	3,180	5,142	4,889
Provision for (recovery of) income taxes and large corporations taxes	(18)	(54)	(24)	(2)	-	-	-	-
Net income	\$3,472	\$5,206	\$4,393	\$4,187	\$3,083	\$3,180	\$5,142	\$4,889
Basic and diluted earnings per share	\$0.28	\$0.42	\$0.35	\$0.33	\$0.21	\$0.23	\$0.36	\$0.35
Dividends per share								
Regular	\$0.21	\$0.21	\$0.19	\$0.23	\$0.23	\$0.23	\$0.12	\$0.23
Capital gains	-	-	0.12	-	-	-	0.11	-
Total	\$0.21	\$0.21	\$0.31	\$0.23	\$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 half of 2008 was comparable to the first two quarters of 2007, but with higher securitization income.

FINANCIAL POSITION

As of June 30, 2008, total consolidated assets were \$552 million, a decrease of \$895,000 from March 31, 2008.

Assets

(in thousands)	June 30, 2008		March 31, 2008		December 31, 2007	
Cash and cash equivalents	\$ 14,993	2.7%	\$ 9,817	1.8%	\$ 53,804	9.7%
Marketable securities	109	-	126	-	156	-
Mortgages	438,656	79.5	452,210	81.8	412,685	74.0
Loans and investments	75,543	13.7	66,633	12.1	71,286	12.8
Equity investment in MCLP	18,103	3.3	17,396	3.1	17,095	3.1
Other assets	4,608	0.8	6,725	1.2	2,399	0.4
	\$ 552,012	100.0%	\$ 552,907	100.0%	\$ 557,425	100.0%

Cash increased by \$5 million during the quarter. We manage our cash and cash equivalents in the \$20 to 30 million range.

Mortgages decreased by \$14 million in the quarter, primarily due to a decrease of \$32 million in residential construction loans, partially offset by an increase of \$17 million in uninsured 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").

Loans and investments increased by \$9 million, primarily due to a \$6 million increase in the CMB interest-only strips, which are retained interests in the securitized mortgages consisting of the discounted value of future mortgage interest and principal reinvestment interest receipts less coupon interest payments. The interest-only strips increase (decrease) in value as cash is paid (received), and we made our semi-annual coupon interest payments during the quarter while collecting three months of mortgage interest and principal reinvestment interest. In addition, we recognized a new interest-only strip of \$2 million upon the closing of this quarter's issuance. There was also an increase of \$3 million in insured mortgage-backed securities. 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 \$707,000, representing equity income for the quarter.

Liabilities and shareholders' equity

(in thousands)

	June 30 2008	March 31 2008	Increase (Decrease)	December 31 2007
Liabilities				
Term deposits	\$ 437,255	\$ 442,582	\$ (5,327)	\$ 445,368
Accounts payable and accrued charges	5,357	6,256	(899)	8,089
Future taxes payable	3,358	1,181	2,177	961
	445,970	450,019	(4,049)	454,418
Shareholders' equity				
Share capital	97,337	97,190	147	96,370
Contributed surplus	510	510	-	510
Retained earnings	8,238	6,853	1,385	6,654
Accumulated other comprehensive income (loss)	(43)	(1,665)	1,622	(527)
	106,042	102,888	3,154	103,007
	\$ 552,012	\$ 552,907	\$ (895)	\$ 557,425

Term deposits decreased by \$5 million during 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 \$147,000, which was raised through the dividend reinvestment plan for the June 30, 2008 dividend.

Retained earnings increased by \$1.4 million during the quarter. The increase was a result of quarterly income of \$4.9 million, offset by the second quarter dividend of \$3.3 million and a charge to retained earnings of \$241,000 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 larger proportion of higher yielding fixed rate mortgages. In addition, there was an increase in the value of available for sale CMB interest-only strips as a result of an increase in expected future interest rates. This increase was offset by a decrease 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	\$ 399,912	\$ 37,343	\$ -	\$ 437,255
Operating lease	148	480	-	628
Mortgage fundings	125,572	-	-	125,572
CMB obligations	367	1,661	31	2,059
	\$ 525,999	\$ 39,484	\$ 31	\$ 565,514

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.

FUTURE CHANGES IN ACCOUNTING POLICY

For the fiscal year commencing January 1, 2011, we will cease to use Canadian generally accepted accounting principles ("GAAP") and will adopt International Financial Reporting Standards ("IFRS"). The impact of the transition to IFRS on our consolidated financial statements is not yet determinable.

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 June 30, 2008 and has concluded that such disclosure controls and procedures are effective.

Internal Control over Financial Reporting

During the interim period ended June 30, 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 had expected to fully invest our remaining capacity from the rights offering by the end of the second quarter, but were underinvested by \$47 million at quarter end. We are continuing to seek new mortgage sources and expect to be fully invested by the end of the third quarter of 2008. 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. The availability of mortgage product and the yields thereon is based on market competition.

Decreases in the prime rate during 2008 are expected to have an adverse effect on net investment income over the next several quarters. In order to minimize the reduction to net investment income due to spread compression on floating rate mortgages, we increased our fixed rate mortgage portfolio and decreased our floating rate mortgage portfolio in the second quarter. We are generally targeting fixed rate mortgages, rather than floating rate mortgages for the balance of the year. Higher profitability from

the CMB program has largely offset the reduction in spread income. As a result, we remain optimistic about our income prospects for the remainder of the year. Subsequent to the end of the quarter, we earned approximately \$3.5 million from the sale of mortgages.

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 stable 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 third quarter dividend of \$0.25 per share (increased from \$0.23 per share) to be paid September 30, 2008 to shareholders of record as of September 15, 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	June 30 2008	December 31 2007	June 30 2007
Assets				
Investments				
Cash and cash equivalents		\$ 14,993	\$ 53,804	\$ 12,711
Marketable securities		109	156	735
Mortgages	3	438,656	412,685	380,138
Loans and investments	5	75,543	71,286	52,210
Equity investment in MCAP Commercial LP		18,103	17,095	17,216
		547,404	555,026	463,010
Other assets		4,608	2,399	5,063
		\$ 552,012	\$ 557,425	\$ 468,073
Liabilities and Shareholders' Equity				
Liabilities				
Term deposits		\$ 437,255	\$ 445,368	\$ 377,775
Accounts payable and accrued charges		5,357	8,089	2,433
Future taxes payable		3,358	961	1,176
		445,970	454,418	381,384
Shareholders' Equity				
Share capital	6	97,337	96,370	79,724
Contributed surplus		510	510	510
Retained earnings		8,238	6,654	6,856
Accumulated other comprehensive income (loss)		(43)	(527)	(401)
		106,042	103,007	86,689
		\$ 552,012	\$ 557,425	\$ 468,073

See accompanying notes

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

For the Quarters Ended June 30	Note	2008	2007
Investment Income			
Mortgage interest		\$ 7,496	\$ 6,530
Interest on loans and investments		1,235	1,457
Interest on cash and cash equivalents		270	149
Fees		871	791
Equity income from MCAP Commercial LP		707	460
Securitization income	4	1,309	497
Marketable securities		3	421
Gain on sale of mortgages		4	4
		11,895	10,309
Financial Expenses			
Term deposit interest and expenses		5,229	4,293
Mortgage expenses		903	872
Provision for (recovery of) losses		(299)	4
		5,833	5,169
Net Investment Income		6,062	5,140
Operating Expenses			
Salaries and benefits		453	418
General and administrative		720	537
		1,173	955
Income Before Income Taxes		4,889	4,185
Provision for (recovery of) income taxes and large corporations taxes		-	(2)
Net Income		\$ 4,889	\$ 4,187
Basic and diluted earnings per share		\$ 0.35	\$ 0.33
Dividends per share		\$ 0.23	\$ 0.23
Weighted average number of basic and diluted shares (000's)		14,189	12,579

See accompanying notes

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

For the Six Months Ended June 30	Note	2008	2007
Investment Income			
Mortgage interest		\$ 15,044	\$ 13,447
Interest on loans and investments		3,145	2,909
Interest on cash and cash equivalents		671	299
Fees		1,670	1,531
Equity income from MCAP Commercial LP		1,008	761
Securitization income	4	3,308	820
Marketable securities		7	911
Gain on sale of mortgages		-	5
		24,853	20,683
Financial Expenses			
Term deposit interest and expenses		10,587	8,597
Mortgage expenses		1,842	1,733
Provision for (recovery of) losses		298	(231)
		12,727	10,099
Net Investment Income		12,126	10,584
Operating Expenses			
Salaries and benefits		887	942
General and administrative		1,208	1,088
		2,095	2,030
Income Before Income Taxes		10,031	8,554
Provision for (recovery of) income taxes and large corporations taxes		-	(26)
Net Income		\$ 10,031	\$ 8,580
Basic and diluted earnings per share		\$ 0.71	\$ 0.68
Dividends per share		\$ 0.46	\$ 0.54
Weighted average number of basic and diluted shares (000's)		14,169	12,548

See accompanying notes

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

For the Quarters Ended June 30	2008	2007
Share capital		
Balance, beginning of period	\$ 97,190	\$ 79,451
Common shares issued	147	273
Balance, end of period	97,337	79,724
Contributed surplus		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	510	510
Retained earnings		
Balance, beginning of period	6,853	6,017
Net income	4,889	4,187
Income taxes charged to retained earnings	(241)	(478)
Dividends declared	(3,263)	(2,870)
Balance, end of period	8,238	6,856
Accumulated other comprehensive income		
Balance, beginning of period	(1,665)	1,088
Other comprehensive income (loss)	1,622	(1,489)
Balance, end of period	(43)	(401)
Total shareholders' equity	\$ 106,042	\$ 86,689

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

For the Quarters Ended June 30	2008	2007
Net income	\$ 4,889	\$ 4,187
Other comprehensive income (loss), net of income taxes		
Change in unrealized gain on available for sale marketable securities	(14)	(84)
Transfer of gains on sale of marketable securities to net income	-	(305)
Change in unrealized gain on available for sale mortgages	1,189	(886)
Change in unrealized gain on available for sale loans and investments	445	(14)
Change in cash flow hedges	2	(200)
Other comprehensive income (loss)	1,622	(1,489)
Comprehensive income	\$ 6,511	\$ 2,698

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

For the Six Months Ended June 30	2008	2007
Share capital		
Balance, beginning of period	\$ 96,370	\$ 78,211
Common shares issued	967	1,513
Balance, end of period	97,337	79,724
Contributed surplus		
Balance, beginning of period	510	510
Changes to contributed surplus	-	-
Balance, end of period	510	510
Retained earnings		
Balance, beginning of period	6,654	5,890
Net income	10,031	8,580
Income taxes charged to retained earnings	(1,925)	(886)
Dividends declared	(6,522)	(6,728)
Balance, end of period	8,238	6,856
Accumulated other comprehensive income		
Balance, beginning of period	(527)	1,261
Other comprehensive income (loss)	484	(1,662)
Balance, end of period	(43)	(401)
Total shareholders' equity	\$ 106,042	\$ 86,689

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

For the Six Months Ended June 30	2008	2007
Net income	\$ 10,031	\$ 8,580
Other comprehensive income (loss), net of income taxes		
Change in unrealized gain on available for sale marketable securities	(38)	(38)
Transfer of gains on sale of marketable securities to net income	-	(555)
Change in unrealized gain on available for sale mortgages	1,498	(1,015)
Change in unrealized gain on available for sale loans and investments	(980)	198
Change in cash flow hedges	4	(252)
Other comprehensive income (loss)	484	(1,662)
Comprehensive income	\$ 10,515	\$ 6,918

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

For the Quarters Ended June 30	2008	2007
Cash Provided by (used for):		
Operating Activities		
Net income	\$ 4,889	\$ 4,187
Adjusted for non-cash items:		
Equity income	(699)	(456)
Provision for (recovery of) losses	(299)	54
Securitization income	(1,099)	(489)
Amortization of other assets	252	175
Amortization of mortgage discounts	(22)	-
Gain on sale of mortgages	(4)	(4)
Distributions from MCAP Commercial LP	-	136
Decrease (increase) in accounts receivable	1,107	(2,422)
Increase in accounts payable and accrued charges	155	473
Cash flows from operating activities	4,280	1,654
Investing Activities		
Mortgage advances	(426,241)	(624,108)
Mortgage reductions	120,471	116,412
Proceeds on sale of mortgages	320,303	497,614
Decrease (increase) in loans and investments	(5,050)	12,534
Additions to other assets	(144)	(271)
Marketable securities	-	5,059
Cash flows from investing activities	9,339	7,240
Financing Activities		
Issue of term deposits	154,631	142,955
Repayment of term deposits	(159,958)	(143,063)
Issue of common shares	147	273
Dividends paid	(3,263)	(2,870)
Cash flows for financing activities	(8,443)	(2,705)
Increase in cash and cash equivalents	5,176	6,189
Cash and cash equivalents, beginning of period	9,817	6,827
Cash and cash equivalents, end of period	\$ 14,993	\$ 13,016

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

For the Six Months Ended June 30	2008	2007
Cash Provided by (used for):		
Operating Activities		
Net income	\$ 10,031	\$ 8,580
Adjusted for non-cash items:		
Equity income	(996)	(761)
Provision for (recovery of) losses	298	(181)
Securitization income	(2,975)	(812)
Amortization of other assets	453	396
Amortization of mortgage discounts	(22)	-
Gain on sale of mortgages	-	(5)
Distributions from MCAP Commercial LP	-	885
Decrease (increase) in accounts receivable	419	(3,080)
Increase (decrease) in accounts payable and accrued charges	(1,333)	22
Cash flows from operating activities	5,875	5,044
Investing Activities		
Mortgage advances	(987,779)	(1,099,092)
Mortgage reductions	183,848	193,392
Proceeds on sale of mortgages	776,530	919,379
Decrease in loans and investments	30	4,176
Additions to other assets	(405)	(500)
Marketable securities	-	11,705
Cash flows (for) from investing activities	(27,776)	29,060
Financing Activities		
Issue of term deposits	279,683	229,790
Repayment of term deposits	(287,796)	(260,749)
Issue of common shares	967	1,513
Dividends paid	(9,764)	(9,327)
Cash flows for financing activities	(16,910)	(38,773)
Decrease in cash and cash equivalents	(38,811)	(4,669)
Cash and cash equivalents, beginning of period	53,804	17,685
Cash and cash equivalents, end of period	\$ 14,993	\$ 13,016

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. Mortgages

As at June 30	Principal	Allowance	2008 Net	2007 Net
Single-family mortgages				
- Uninsured	\$ 180,411	\$ 1,101	\$ 179,310	\$ 77,213
- Uninsured (completed inventory loans)	33,187	281	32,906	43,234
- Insured	26,891	-	26,891	39,216
Construction loans				
- Residential	165,539	1,448	164,091	196,543
- Non-residential	7,217	63	7,154	100
Commercial	25,141	215	24,926	22,303
	438,386	3,108	435,278	378,609
Fair value adjustment	1,319	-	1,319	(454)
	439,705	3,108	436,597	378,155
Accrued interest	2,059	-	2,059	1,983
	\$ 441,764	\$ 3,108	\$ 438,656	\$ 380,138

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.

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 JUNE 30, 2008 (Dollar amounts in thousands except for per share amounts)

The geographical breakdown of mortgages by province is as follows:

As at June 30	2008		2007	
Ontario	\$ 196,707	44.8%	\$ 199,216	52.4%
Alberta	143,634	32.7	99,812	26.3
British Columbia	66,892	15.3	62,642	16.5
Other	31,423	7.2	18,468	4.8
	\$ 438,656	100.0%	\$ 380,138	100.0%

Outstanding commitments for future fundings of mortgages intended for the Company's portfolio are \$125,572 at June 30, 2008 (2007 - \$112,878). Substantially all of these commitments relate to floating rate loans.

The details of the mortgage allowances are as follows:

	2008		2007		2007	
	General	Specific	Total	General	Specific	Total
Balance, beginning of quarter	\$ 3,380	\$ 71	\$ 3,451	\$ 3,366	\$ -	\$ 3,366
Provisions (recoveries)	(269)	(24)	(293)	26	-	26
Write-offs	(50)	-	(50)	(1)	-	(1)
Balance, end of quarter	\$ 3,061	\$ 47	\$ 3,108	\$ 3,391	\$ -	\$ 3,391

Mortgages past due but not impaired at June 30, 2008 are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single-family - uninsured	\$ 9,104	\$ 5,214	\$ 2,389	\$ -	\$ 16,707
Single-family - insured	1,164	136	66	75	1,441
Residential construction	-	242	-	-	242
	\$ 10,268	\$ 5,592	\$ 2,455	\$ 75	\$ 18,390

At June 30, 2008, the Company had \$4,223 of impaired loans (2007 - \$1,487), as follows: uninsured single-family (\$4,223, 2007 - \$457) and residential construction (\$nil, 2007 - \$1,030).

4. Securitization Income

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Gain on securitization	\$ 1,181	\$ 457	\$ 2,345	\$ 777
Residual securitization income	128	40	963	43
	\$ 1,309	\$ 497	\$ 3,308	\$ 820

During the quarter, the Company securitized \$235,593 (2007 - \$228,930) of insured residential mortgages through the Canada Mortgage Bonds ("CMB") program. The Company participated in the securitization with MCAP Service Corporation ("MSC"). For the six months ended June 30, 2008, the Company has securitized \$559,207 (2007 - \$422,435) of mortgages.

Upon sale, the Company recognized an interest-only strip of \$1,988 (2007 - \$1,223), which is a retained interest in the securitized mortgages, included in securitization investments (note 5). The Company's interest-only strips consist of the discounted value of future mortgage interest and principal reinvestment interest receipts less coupon interest payments. In addition, the Company established a liability for future mortgage servicing and other costs totalling \$288 (2007 - \$295) that is included in accounts payable and accrued charges. The Company subcontracts CMB servicing obligations to MSC. The total outstanding interest-only strips at June 30, 2008 were \$11,624 (2007 - \$3,069), while total outstanding CMB liabilities were \$1,853 (2007 - \$549).

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 and interest-only strips classified as held for trading. Despite higher yield income on the interest-only strips and penalty income, residual securitization income decreased significantly from the first quarter. Fair value changes had a negative impact to income of \$247 in the quarter compared to a positive impact of \$599 in the first quarter.

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

	For the Quarters Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Proceeds from new securitizations	\$ 237,634	\$ 227,129	\$ 564,051	\$ 422,195
Net cash flows received on interest-only strips	\$ (2,407)	\$ 1	\$ 956	\$ 1

5. Loans and Investments

		2008	2007
Securitization investments	(a)	\$ 38,720	\$ 27,455
Loans receivable and other investments	(b)	36,823	24,755
		\$ 75,543	\$ 52,210

(a) Securitization Investments

Investments in Securitization Programs

As at June 30	Principal	Allowance	2008 Net	2007 Net
Subordinated loans - residential mortgage securitization programs	\$ 8,880	\$ -	\$ 8,880	\$ 15,203
Asset-backed commercial paper	4,122	1,200	2,922	-
Deferred purchase price receivable - residential construction mortgage loan securitization program				
- senior position	7,369	-	7,369	5,529
- first loss position	3,263	-	3,263	2,449
Bonds - residential mortgage securitization program	-	-	-	342
Bonds - commercial securitization program	458	-	458	458
	\$ 24,092	\$ 1,200	\$ 22,892	\$ 23,981

Of the investments in securitization programs, \$19,512 are invested in bank-sponsored securitization programs, while the remaining \$3,380 of these investments are non bank-sponsored, consisting of asset-backed commercial paper of \$2,922 and bonds of \$458.

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 was taken on the commercial paper in the first quarter based on the Company's best estimate of net realizable value. The Company did not record any additional write-downs in the second quarter, as the estimate of net realizable value is still appropriate. This investment is classified as held for trading.

Other Securitization Investments

As at June 30	2008	2007
CMB - interest-only strips	\$ 11,624	\$ 3,069
Insured mortgage-backed securities	2,999	405
Other securitization assets	1,205	-
	\$ 15,828	\$ 3,474
Total securitization investments	\$ 38,720	\$ 27,455

(b) Loans Receivable and Other Investments

Loans receivable and other investments consist of various loans to private entities and employees. At June 30, 2008, loans receivable and other investments was net of an allowance of \$280 (2007 - \$205).

6. Share Capital

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

Issued	Number of Shares	2008	Number of Shares	2007
Balance, January 1	14,097,994	\$ 96,370	12,372,939	\$ 78,211
Issued				
Dividend reinvestment plan	69,665	631	88,728	1,038
Executive Share Purchase Plan	38,941	336	45,791	526
Share issue costs	-	-	-	(51)
Balance, June 30	14,206,600	\$ 97,337	12,507,458	\$ 79,724

As at August 7, 2008, the Company had 14,206,600 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.

7. Derivative Financial Instruments

As part of the CMB program, the Company enters into “pay-floating, receive-fixed” interest rate swaps. The purpose of these swaps is to hedge interest rate risk on the interest-only strips. The Company receives interest on reinvested CMB principal collections, the discounted future value of which is included in the interest-only strips. To September 30, 2007, the majority of the swaps were designated as cash flow hedges, wherein changes in fair value were recognized in accumulated other comprehensive income. However, the swaps qualifying as cash flow hedges were de-designated as of October 1, 2007, and 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	\$ -	\$ 2,151	\$ -	\$ 2,151	\$ (406)
CMB interest rate swaps - outstanding notional	\$ -	\$ 57,814	\$ -	\$ 57,814	\$ 208

The interest rate swaps are included in other assets if positive, and accounts payable and accrued liabilities if negative. Changes in the fair value of the swaps are included in residual securitization income.

8. 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.

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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 minimum Tier 1 and Total capital ratios for the Company are 7% and 10% respectively.

As at June 30	2008	2007
Tax Act Test		
Income tax assets	\$ 542,478	\$ 466,815
Income tax capital	\$ 102,531	\$ 87,365
Income tax assets to capital ratio	5.29	5.34
Regulatory Tests (OSFI)		
Tier 1 capital		
Share capital	\$ 97,337	\$ 79,724
Contributed surplus	510	510
Retained earnings	8,238	6,856
Unrealized loss on available for sale marketable securities	(72)	-
Tier 1 capital deductions	(5,123)	-
	<u>100,890</u>	<u>87,090</u>
Tier 2 capital		
Unrealized gain on available for sale marketable securities	-	14
Tier 2 capital deductions	(1,964)	-
	<u>(1,964)</u>	<u>14</u>
Deductions from total capital	<u>-</u>	<u>(2,449)</u>
Total capital	<u>\$ 98,926</u>	<u>\$ 84,655</u>
Total regulatory assets	\$ 561,217	\$ 477,928
Capital ratios		
Tier 1 capital to risk-weighted assets ratio	19.37%	20.11%
Total capital to risk-weighted assets ratio	19.00%	19.55%
Assets to capital multiple	5.67	5.65

The Company's capital positions were calculated based on Basel II as at June 30, 2008 and Basel I as at June 30, 2007. As of June 30, 2008, the Company was in compliance with the capital guidelines issued by OSFI under Basel II.

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

As at June 30	2008		2007	
	Balance	Risk-Weighted	Balance	Risk-Weighted
On-Balance Sheet Assets				
Cash and cash equivalents	\$ 14,993	\$ 3,799	\$ 12,711	\$ 2,879
Marketable securities	109	109	735	735
Mortgages	438,656	296,474	380,138	302,625
Loans and investments	75,543	86,300	52,210	49,356
Equity investment in MCLP	18,103	18,103	17,216	17,216
Other assets	4,608	2,458	5,063	5,063
	<u>\$ 552,012</u>	<u>\$ 407,243</u>	<u>\$ 468,073</u>	<u>\$ 377,874</u>
Off-Balance Sheet Assets				
Letters of credit		6,145		5,311
Mortgage funding commitments		62,786		49,816
		<u>68,931</u>		<u>55,127</u>
Derivative Financial Instruments				
Interest rate swaps		488		-
Charge for operational risk		44,063		-
Total Risk-Weighted Assets		<u>\$ 520,725</u>		<u>\$ 433,001</u>

9. 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 are included in note 16 to the 2007 consolidated financial statements.

An immediate and sustained 1% increase (decrease) to market interest rates at June 30, 2008 would have a positive (adverse) effect of \$647 (\$951 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 10.

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.

10. Interest Rate Sensitivity

	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 5 Years	Over 5 Years	Non- Interest Sensitive	2008 Total	2007 Total
ASSETS								
Investments								
Cash and cash equivalents	\$ 14,993	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,993	\$ 12,711
Marketable securities	-	-	-	-	-	109	109	735
Mortgages	193,261	62,230	46,719	124,504	4,325	7,617	438,656	380,138
Loans and investments	35,799	3,400	77	12,432	12,954	10,881	75,543	52,210
Equity investment in MCAP Commercial LP	-	-	-	-	-	18,103	18,103	17,216
	244,053	65,630	46,796	136,936	17,279	36,710	547,404	463,010
Other assets	-	-	-	-	-	4,608	4,608	5,063
Total Assets	\$ 244,053	\$ 65,630	\$ 46,796	\$ 136,936	\$ 17,279	\$ 41,318	\$ 552,012	\$ 468,073
Yield	6.36%	6.77%	7.51%	7.15%	7.69%	-	-	-
LIABILITIES AND SHAREHOLDERS' EQUITY								
Term deposits	\$ -	\$ 154,146	\$ 245,766	\$ 37,343	\$ -	\$ -	\$ 437,255	\$ 377,775
Accounts payable and accrued charges	-	-	-	-	-	5,357	5,357	2,433
Future taxes payable	-	-	-	-	-	3,358	3,358	1,176
Shareholders' equity	-	-	-	-	-	106,042	106,042	86,689
Total Liabilities and Shareholders' Equity	\$ -	\$ 154,146	\$ 245,766	\$ 37,343	\$ -	\$ 114,757	\$ 552,012	\$ 468,073
Yield	-	4.68%	4.08%	4.66%	-	-	-	-
GAP	\$ 244,053	\$ (88,516)	\$ (198,970)	\$ 99,593	\$ 17,279	\$ (73,439)	\$ -	\$ -
YIELD SPREAD	6.36%	2.09%	3.43%	2.49%	7.69%	-	-	-

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. Subsequent Event

Subsequent to the end of the quarter, the Company earned approximately \$3.5 million from the sale of mortgages.

13. Comparative Amounts

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

14. Future Changes in Accounting Policy

For the fiscal year commencing January 1, 2011, the Company will cease to use GAAP and will adopt International Financial Reporting Standards (“IFRS”). The impact of the transition to IFRS on the Company’s consolidated financial statements is not yet determinable.