



MCAN MORTGAGE CORPORATION

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

JUNE 30, 2008

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

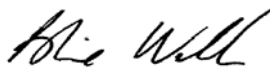
the CMB program has largely offset the reduction in spread income. As a result, we remain optimistic about our income prospects for the remainder of the year. Subsequent to the end of the quarter, we earned approximately \$3.5 million from the sale of mortgages.

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.