PRESS RELEASE
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Stock market symbol
TSX: MKP

MCAN MORTGAGE CORPORATION ANNOUNCES SECOND QUARTER EARNINGS AND THIRD QUARTER DIVIDEND OF $0.32 PER SHARE

Toronto, Ontario – August 11, 2017. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported Q2 2017 net income of $8.9 million, down from $13.6 million in Q2 2016. Earnings per share decreased to $0.39 in Q2 2017 from $0.59 in Q2 2016. The decreases were largely driven by the recognition of $3.8 million of distribution income in Q2 2016 from our investment in Crown Realty II Limited Partnership ("Crown LP").

Highlights

Net Income

Q2 2017

- Net income was $8.9 million in Q2 2017, a decrease of $4.7 million (34%) from $13.6 million in Q2 2016.
- Earnings per share decreased by $0.20 (34%) to $0.39 in Q2 2017 from $0.59 in Q2 2016.
- Decrease of 7.7% in return on average shareholders' equity to 12.37% in Q2 2017 from 20.10% in Q2 2016.
- The decreases in the above amounts in Q2 2017 were largely driven by the above-noted recognition of $3.8 million of distribution income from Crown LP in Q2 2016, in addition to lower corporate mortgage interest and equity income from MCAP Commercial LP ("MCAP") in Q2 2017.

Year to Date 2017

- For 2017 year to date, we earned net income of $19.2 million, a decrease of $2.2 million (10%) from $21.4 million in 2016.
- Earnings per share decreased by $0.10 (11%) to $0.83 per share for 2017 year to date from $0.93 per share in 2016.
- Return on average shareholders' equity decreased to 13.37% for 2017 year to date from 16.02% in 2016.
- The decreases in the above amounts in 2017 were primarily due to lower corporate mortgage interest income from a lower average portfolio balance and lower equity income from MCAP. Year to date distribution income from Crown LP was comparable to 2016.

Dividend

- Consistent with the prior quarter, the Board of Directors (the "Board") declared a 2017 third quarter dividend of $0.32 per share to be paid on September 29, 2017 to shareholders of record as of September 15, 2017. This dividend represents a 10% increase over the corresponding 2016 dividend of $0.29 per share.

Corporate Activity

- Corporate assets totalled $1.20 billion at June 30, 2017, a net increase of $68 million from $1.13 billion at March 31, 2017. Q2 2017 activity included increases of $51 million in mortgages and $14 million in cash.
- The corporate mortgage portfolio increased by $51 million during Q2 2017 to $912 million from $861 million, comprised of increases of $33 million in completed inventory loans, $17 million in commercial loans, $11 million in construction loans and $7 million in insured single family, partially offset by a decrease of $17 million in uninsured single family. This activity includes a reclassification of $27 million of completed construction projects from the construction portfolio to the completed inventory portfolio during Q2 2017.
- For 2017 year to date, corporate assets have increased by $12 million (1.0%), which included increases of $8 million in corporate mortgages and $3 million in our equity investment in MCAP.

Credit Quality

- Impaired mortgages improved to $4.4 million from $6.0 million during Q2 2017.
- The impaired total mortgage ratio improved to 0.12% from 0.19% during Q2 2017.
- The impaired corporate mortgage ratio improved to 0.27% from 0.44% during Q2 2017.
- Total mortgage arrears improved to $22 million from $48 million during Q2 2017. The June 30, 2017 balance consists entirely of single family mortgages, $7.5 million of which were uninsured. The decrease from March 31st was primarily due to two Saskatchewan-based loans from the same borrowing group totalling $19 million, which were in arrears at March 31st, being paid current during the quarter. As at June 30, 2017, these borrowers were still in default, however our interest in the loans was paid current by a subordinated lender in the loans during the quarter, and therefore the loans were not in arrears as at June 30, 2017. We expect the loans to pay out in full in the third quarter of 2017 with no loss of principal or interest.
- Net write-offs were 4.7 basis points of the average corporate portfolio in Q2 2017 compared to 4.5 basis points in Q2 2016.
- The average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 53.7% at June 30, 2017 compared to 56.5% at March 31, 2017.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios were 21.69% on the transitional basis and 21.47% on the "all-in" basis at June 30, 2017 compared to 22.43% and 22.23%, respectively, at March 31, 2017.
- Our leverage ratio was 10.82% as at June 30, 2017 compared to 10.87% at March 31, 2017.
- Income tax asset capacity was $243 million at June 30, 2017 compared to $278 million at March 31, 2017. This balance represents the additional amount of corporate assets in which we could invest within the rules of the *Income Tax Act (Canada)* (the "Tax Act").

Outlook

Market conditions

We expect housing markets to continue to benefit from historically low interest rates, but also expect a slowdown in housing sales as a result of the impact of regulatory changes and new taxes recently announced in Ontario and announced last year in British Columbia.

Canadian residential real estate markets continue to have mixed performances as regional markets adjust with local economic conditions. The Prairie Provinces continue to demonstrate weakness as oil prices remain in the $50 range, which is negatively impacting employment. Other regional economies previously benefited from the lower Canadian dollar, which helped to strengthen employment in the manufacturing sector. These regional economies now face a strengthening Canadian dollar while a strong Canadian GDP supports higher interest rates.

Ontario and British Columbia have continued to exhibit strong fundamentals, with GDP growth driven by exports and immigration. We continue to focus our origination in Ontario and British Columbia and selectively lend in Alberta.

Real estate conditions

Canadian housing market conditions are expected to be volatile through the remainder of the year. Markets are adjusting to an unprecedented level of regulatory and policy changes affecting mortgage insurance rules, foreign buyer taxes, underwriting requirements for regulated lenders and rising interest rates. It will take 6 to 12 months to see the full impact of these changes on housing sale volumes and prices. We expect home sales levels to slow as buyers react to the uncertainty caused by the multiple rule changes and evidence of increases in listings and decreases in sales. We expect to see some level of weakness in the resale markets as markets adjust to fewer buyers and more available listings.

The Greater Toronto Area (GTA) saw existing home sales decrease by 15.1% in June. The GTA is expected to go through a six-month stall in demand, similar to Vancouver, as markets react to the Government of Ontario's announced reforms to rental and housing markets (see below). That said, the GTA still has near record lows in available new home lots and the lowest levels of available new homes in over 15 years.

Vancouver has recovered to more normal levels of home sales and is experiencing price deflation following changes in mortgage underwriting rules and the 15% tax on non-resident real estate purchases enacted in mid-2016. While June sales decreased by 11.5% from the prior year, they are relatively healthy against the 10-year average for the month of June. The greatest impact of the foreign buyer tax has been on homes selling above $5 million.

While we expect to see lower levels of resale homes for the remainder of the year in both Toronto and Vancouver, we expect the impact to new home sales to be minimal due to lot supply shortages and relatively low mortgage rates.

We believe that there is an increased risk of a price correction in residential housing through the remainder of the year as prices adjust from historical highs in many geographic markets. We will continue to operate with more conservative underwriting and credit policies for uninsured mortgages through this market transition.

Regulatory Changes

In July 2017, the Office of the Superintendent of Financial Institutions Canada ("OSFI") issued an announcement regarding its expectations for residential mortgage underwriting for federally regulated financial institutions and advised that it would be increasing its supervisory intensity and enhancing its B-20 Guideline, *Residential Mortgage Underwriting Practices and Procedures*. The advisory specifically referenced its intention to clarify and strengthen areas including:

- Requiring a qualifying stress test for all uninsured mortgages;
- Requiring that Loan-to-Value (LTV) measurements remain dynamic and adjust for local market conditions where they are used as a risk control, such as for qualifying borrowers;
- Expressly prohibiting co-lending arrangements that are designed, or appear to be designed to circumvent regulatory requirements.

On April 20, 2017 the Ontario government announced reforms to Ontario's rental and housing market with the intent of slowing the rapid price increases in the Toronto real estate market and providing affordable rental options for residents. The Ontario government has put together a 16-point plan to address high home price inflation. Given the recency of the announcement, we are currently not able to determine the magnitude of the impact on MCAN. We will monitor housing and mortgage markets to quantify this impact.

Effective January 1, 2017, the Office of the Superintendent of Financial Institutions Canada ("OSFI") introduced new minimum capital adequacy requirements for mortgage insurers. These changes have increased premiums on mortgage portfolio insurance paid by lenders which may impact rates charged to borrowers.

In late 2016, the Department of Finance announced new mortgage regulations. The impact of these new regulations to date are as follows:

- Lower origination volumes of prime insured mortgages.
- Lower National Housing Act ("NHA") MBS issuance volumes, which has tightened NHA MBS spreads.
- No change to overall market CMB issuance levels.
- Mortgage funding costs through the NHA MBS program are now similar to the CMB program. Historically, mortgage funding costs through the CMB program have been lower than NHA MBS.
- Renewed interest in residential mortgage-backed securities ("RMBS") funding. Canadian banks have been exploring possible investor interest in RMBS. The collateral pool behind the securities would range from prime uninsured mortgages to near prime uninsured mortgages.
- Stable to modest decline for insured mortgage rates due to increased competition amongst lenders.

Impact on MCAN

We will continue to monitor housing markets and market developments as they evolve, and will continue to ensure that our mortgage portfolio remains well positioned. Our corporate assets have increased by 1.0% for the year to date compared to our stated annual growth target of 10%. Given the noted discussion above relating to the markets, we believe that there is higher uncertainty that this target will be attained in 2017. We expect to continue to make adjustments to the composition of our balance sheet as we evaluate the risks and rewards of each of our product lines in the geographic markets we lend to.

KingSett's announcement during Q2 regarding its agreement to acquire $1.2 billion in commercial mortgages from Home Capital may have a positive impact on future income from our investment in the KingSett High Yield Fund.

We continue to evaluate the impact of regulatory changes to the market and MCAN. We believe that it will require 6-12 months to see the impact of these changes on construction, home sales, and mortgage volumes. MCAN has made significant changes to its underwriting procedures over the past 18 months and we believe that we are well positioned against the regulatory changes outlined above, and do not expect a material impact to our financial results. We believe that MCAN is well positioned to adapt to changes in mortgage and housing markets.

The Bank of Canada increased the overnight rate subsequent to quarter end, which led to an increase in the prime rate. We expect this rate increase to increase revenues from the floating-rate component of our corporate mortgage portfolio, while associated increases in funding costs generally lag since the deposit portfolio is fixed-rate. Uninsured single family market rates are still very uncertain given the volatility that we experienced in the spring, however we have observed increases in rates in this market segment. Securitization spreads have tightened recently and we expect them to remain compressed given reduced supply in the insured single family securitization market.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan ("DRIP") is a program that provides MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%. For further information on how to enrol in the DRIP, please refer to the Management Information Circular dated March 10, 2017 or visit our website at www.mcanmortgage.com/investor-relations/investor-materials.

Non-IFRS Measures

The following metrics are considered to be Non-IFRS measures and are defined in the "Non-IFRS Measures" section of the MD&A: Return on Average Shareholders' Equity, Taxable Income, Taxable Income Per Share, Average Interest Rate, Net Interest Income, Impaired Mortgage Ratios, Mortgage Arrears, Common Equity Tier 1, Tier 1 and Total Capital Ratios, Total Exposures, Regulatory Assets, Leverage Ratio, Assets to Capital Multiple; Risk Weighted Assets Ratios, Tier 1, Tier 2, Tier 3 and Total Liquid Assets and Liquidity Ratios, Income Tax Assets, Income Tax Liabilities, Income Tax Capital, Income Tax Assets to Capital Ratio, Income Tax Asset Capacity, Market Capitalization, Book Value per Common Share and Limited Partner's At-Risk Amount.

Further Information

Complete copies of the Company's 2017 Second Quarter Report will be filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and on the Company's website at www.mcanmortgage.com.

MCAN is a public company listed on the Toronto Stock Exchange ("TSX") under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN also qualifies as a mortgage investment corporation ("MIC") under the Income Tax Act (Canada) (the "Tax Act").

The Company's primary objective is to generate a reliable stream of income by investing its corporate funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments. MCAN employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance up to a maximum of five times capital (on a non-consolidated tax basis in the MIC entity) as permitted by the Tax Act. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 100% of dividends, except for capital gains dividends, which are deducted at 50%. Such dividends are received by the shareholders as interest income and capital gains dividends, respectively.

MCAN's wholly-owned subsidiary, Xceed, is an originator of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers.

MCAN is also an NHA MBS issuer.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This press release contains "forward-looking statements" within the meaning of applicable Canadian securities laws. The words "may," "believe," "will," "anticipate," "expect," "planned," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in this press release include, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- ability to create shareholder value;
- business goals and strategy;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- the price of oil and its impact on housing markets in Western Canada;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows.

The material factors or assumptions that were identified and applied by us in drawing conclusions or making forecasts or projections set out in the forward-looking statements include, but are not limited to:

- the Company's ability to successfully implement and realize on its business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of the Company's business;
- computer failure or security breaches;
- future capital and funding requirements;
- the value of mortgage originations;
- the expected margin between interest earned on mortgage portfolios and interest paid on deposits;
- the relative continued health of real estate markets;
- acceptance of the Company's products in the marketplace;
- availability of key personnel;
- the Company's operating cost structure; and
- the current tax regime.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results to differ materially from the anticipated future results expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- global market activity;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- changes in CMB and MBS spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital and term deposits on favourable terms;

- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- ability to retain our executive officers and other employees;
- litigation risk;
- relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this press release and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports should be consulted.