FIRST QUARTER REPORT 2016
MCAN MORTGAGE CORPORATION

DESCRIPTION OF BUSINESS

MCAN Mortgage Corporation ("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 is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and also qualifies as a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act").

Our objective is to generate a reliable stream of income by investing our funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of loans and investments, real estate and securitization investments. We employ 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 basis in the MIC entity) as limited by the provisions of the Tax Act applicable to a MIC.

Our term deposits are sourced through a network of independent financial agents. As a MIC, we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of non-capital gains dividends that we pay to shareholders. Such dividends are received by our shareholders as capital gains dividends and interest income, respectively.

MCAN's wholly-owned subsidiary, Xceed Mortgage Corporation ("Xceed"), focuses on the origination and sale to MCAN and third party mortgage aggregators of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers.

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported net income of $7.8 million for the first quarter ended March 31, 2016, up 81% from $4.3 million in Q1 2015. Earnings per share increased 62% to $0.34 in Q1 2016 from $0.21 in Q1 2015, while return on average shareholders' equity increased to 11.80% from 7.49%.

The increase in net income was a result of a $0.6 million increase in securitization income from significant growth in our market mortgage-backed securities ("MBS") program mortgage portfolio and a $1.4 million increase in income from our equity investment in MCAP Commercial LP ("MCAP"). Additionally, in Q1 2015 we had a $1.5 million hedge loss which contributed to the increase.

Consistent with Q4 2015, the Board of Directors declared a first quarter regular dividend of $0.29 per share to be paid June 30, 2016 to shareholders of record as of June 15, 2016.

Corporate Assets

Corporate assets totalled $1.23 billion at March 31, 2016, up $76 million from December 31, 2015. The corporate mortgage portfolio increased to $998 million at March 31, 2016, an increase of $54 million during the quarter, which included increases of $59 million in construction, $23 million in insured single family and $6 million in commercial, offset by decreases of $16 million in uninsured single family and $18 million in completed inventory loans.

In the fourth quarter of 2015 we commenced a program to upgrade the underwriting processes in our single family mortgage operations which also included the implementation of a new mortgage underwriting system. We believe that these enhancements will facilitate growth in our internal Xceed origination platform.

In the first quarter of 2016 we originated $31 million of single family mortgages through our Xceed mortgage origination platform, consisting of $24 million of insured single family and $7 million of uninsured single family. The reduction in the uninsured single family portfolio in the first quarter resulted from reduced mortgage origination production.

In order to minimize the impact of reduced single family origination, we carried a higher level of corporate assets in the quarter including construction and commercial loans. The impact of the higher balance outstanding was increased corporate net investment income. We expect increased corporate asset levels to positively impact earnings through the second quarter as we have maintained a balanced portfolio of mortgage products. The impact of reduced single family originations on income has been offset by higher income from other product lines such as construction and commercial.

We continue to closely monitor the performance of residential markets in Alberta. Although the outstanding Alberta mortgage balance grew from December 31st, it relates to the seasonal increase in land servicing activity and has decreased by 8% since March 31, 2015. Our new loan originations from Alberta have slowed as a result of a weakening economy caused by the impacts of a weak oil sector. The increase in our construction portfolio in the quarter resulted from greater emphasis on the Ontario corporate portfolio, which increased by 10%, and British Columbia, which increased by 26%.

The impaired total mortgage ratio increased to 0.20% at March 31, 2016, up from 0.11% at December 31, 2015. The impaired corporate mortgage ratio increased to 0.41% at March 31, 2016 from 0.23% at December 31, 2015. Total mortgage arrears were $43 million at March 31, 2016, up $8.5 million from $34 million at December 31, 2015. Our arrears levels still remain low by historical standards. The economic volatility and continued weakness in oil prices continue to impact housing markets in Western Canada where job losses are expected to impact mortgage arrears. We continue to remain vigilant and use conservative underwriting standards and default management practices which we believe are appropriate in the context of the current market.

Equity income from our investment in MCAP was $2.5 million in the first quarter of 2016, up $1.4 million from Q1 2015. MCAP's income increased due to higher loan commitment and whole loan sales in the quarter, and lower hedge losses in Q1 2016 compared to Q1 2015. The Bank of Canada announced a surprise interest rate decrease in Q1 2015, causing MCAP to incur hedge losses on mortgage commitments in that quarter. A significant portion of these hedge losses were recouped after the mortgages funded. MCAP securitized comparable volumes in Q1 2016 and Q1 2015. Historically, MCAP's annual earnings have been increasing with the growth of its mortgage originations and assets under administration. MCAP's origination volumes were $2.3 billion in the first quarter of 2016. MCAP had $53.6 billion of assets under administration as at February 29, 2016.

Securitization Assets

During the first quarter of 2016, we did not sell any new MBS to third parties through the MBS program. We did retain $20 million of MCAN issued MBS for our corporate balance sheet. The reduction in securitization activities in the first quarter resulted from reduced single family mortgage production.

Business Activities

Residential housing markets in Canada continues to be a story of strong markets and weak markets. Ontario and British Columbia are exhibiting solid fundamentals and growth, while Alberta housing markets have been impacted by the weakness in oil prices and weakening employment. Considerable efforts went into the repositioning of our origination pipeline last year to moderate our exposure to Alberta and to build origination in Ontario and British Columbia. This strategy has resulted in continued mortgage growth such that we expect to meet our target corporate asset growth objective of 10% by year end.

Our focus will be on managing the growth of corporate assets through divergent economic conditions, focusing our activity where housing markets continue to show good fundamentals through economic expansion and job growth. We will continue to be vigilant in markets such as Alberta where housing markets continue to weaken. Although we expect to see some impact of market conditions on arrears, we believe that our balance sheet is well positioned with relatively low impaired mortgage ratios and arrears. We will continue to focus on asset quality. We will continue to build our origination capabilities through Xceed, and we expect that the enhancements to our underwriting processes and systems will facilitate growth in our internal Xceed origination platform.

We continue to see good opportunities for growth in many Canadian residential markets. We believe that our portfolio of assets provides a solid risk adjusted return to our shareholders.

William Jandrisits
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2016 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2015. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including 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 2015 remain substantially unchanged. Information has been presented as at May 10, 2016.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A 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 MD&A 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 MBS spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- availability of 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;
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A 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.

ACRONYMS

ALCO	*Asset and Liability Committee*	***HELOC***	*Home Equity Line of Credit*	***MD&A***	*Management's Discussion & Analysis*
BCBS	*Basel Committee on Banking Supervision*	***IAS***	*International Accounting Standard*	***MIC***	*Mortgage Investment Corporation*
CAR	*Capital Adequacy Requirements*	***IASB***	*International Accounting Standards Board*	***NHA***	*National Housing Act*
CDIC	*Canada Deposit Insurance Corporation*	***IFRIC***	*IFRS Interpretations Committee*	***NSFR***	*Net Stable Funding Ratio*
CET 1	*Common Equity Tier 1*	***IFRS***	*International Financial Reporting Standards*	***OSFI***	*Office of the Superintendent of Financial Institutions*
CHT	*Canada Housing Trust*	***LAR***	*Liquidity Adequacy Requirements*	***RCB***	*Risk Committee of the Board*
CMB	*Canada Mortgage Bonds*	***LCR***	*Liquidity Coverage Ratio*	***RAF***	*Risk Appetite Framework*
CMHC	*Canada Mortgage and Housing Corporation*	***LP ARA***	*Limited Partner's At-Risk Amount*	***SEDAR***	*System for Electronic Document Analysis and Retrieval*
DRIP	*Dividend Reinvestment Plan*	***LTV***	*Loan to Value (ratio)*	***TSX***	*Toronto Stock Exchange*
EIM	*Effective Interest Rate Method*	***MBS***	*Mortgage Backed Securities*		

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)			Change from 2015	
For the Quarters Ended March 31	**2016**	**2015**	**($)**	**(%)**
Income Statement Highlights				
Net investment income - corporate assets	$ 10,625	$ 7,398	$ 3,227	43.6%
Net investment income - securitization assets	1,244	694	550	79.3%
	11,869	8,092	3,777	46.7%
Operating expenses	4,519	3,571	948	26.5%
Net income before income taxes	7,350	4,521	2,829	62.6%
Provision for (recovery of) income taxes	(421)	225	(646)	(287.1%)
Net income	$ 7,771	$ 4,296	$ 3,475	80.9%
Basic and diluted earnings per share	$ 0.34	$ 0.21	$ 0.13	61.9%
Dividends per share	$ 0.29	$ 0.28	$ 0.01	3.6%
Taxable income per share [1]	$ 0.41	$ 0.04	$ 0.37	925.0%
Return on average shareholders' equity [1]	11.80%	7.49%		4.31%
Yields				
Average mortgage portfolio yield - corporate [2]	5.27%	5.48%		(0.21%)
Term deposit average interest rate [2]	2.25%	2.40%		(0.15%)
Spread of mortgages over term deposits	3.02%	3.08%		(0.06%)
Average mortgage portfolio yield - securitized [2]	2.69%	2.85%		(0.16%)
Financial liabilities from securitization - average interest rate [2]	2.01%	2.25%		(0.24%)
Spread of mortgages over liabilities	0.68%	0.60%		0.08%

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*
[2] *Refer to "Average Interest Rate" in the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	March 31 2016	December 31 2015	Change from Prior Quarter ($)	Change from Prior Quarter (%)
Balance Sheet Highlights				
Assets				
Corporate	$ 1,230,832	$ 1,155,046	$ 75,786	6.6%
Securitization	1,063,747	1,091,912	(28,165)	(2.6%)
Total assets	$ 2,294,579	$ 2,246,958	$ 47,621	2.1%
Mortgages - corporate	$ 998,357	$ 944,109	$ 54,248	5.7%
Mortgages - securitized	$ 1,050,929	$ 1,075,947	$ (25,018)	(2.3%)
Liabilities				
Corporate	$ 985,956	$ 917,852	$ 68,104	7.4%
Securitization	1,042,996	1,070,304	(27,308)	(2.6%)
Total liabilities	$ 2,028,952	$ 1,988,156	$ 40,796	2.1%
Shareholders' equity	$ 265,627	$ 258,802	$ 6,825	2.6%
Capital Ratios [1]				
Income Tax Assets to Capital Ratio	5.17	5.11		1.2%
Common Equity Tier 1 Capital Ratio (transitional)	22.42%	23.64%		(1.22%)
Common Equity Tier 1 Capital Ratio (all-in)	22.07%	23.08%		(1.01%)
Tier 1 Capital Ratio (transitional)	22.42%	23.64%		(1.22%)
Tier 1 Capital Ratio (all-in)	22.07%	23.08%		(1.01%)
Total Capital Ratio (transitional)	22.42%	23.64%		(1.22%)
Total Capital Ratio (all-in)	22.07%	23.08%		(1.01%)
Leverage ratio	10.00%	9.96%		0.04%
Credit Quality				
Impaired mortgage ratio (total) [1]	0.20%	0.11%		0.09%
Impaired mortgage ratio (corporate) [1]	0.41%	0.23%		0.18%
Mortgage Arrears				
Corporate	$ 23,648	$ 19,889	$ 3,759	18.9%
Securitized	19,058	14,361	4,697	32.7%
Total	$ 42,706	$ 34,250	$ 8,456	24.7%
Common Share Information (end of period)				
Number of common shares outstanding	22,933	22,782		0.7%
Book value per common share [1]	$ 11.58	$ 11.36	$ 0.22	1.9%
Common share price - close	$ 13.00	$ 12.14	$ 0.86	7.1%
Market capitalization [1]	$ 298,129	$ 276,573	$ 21,556	7.8%

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*

HIGHLIGHTS

Income Statement

- We earned net income of $7.8 million in Q1 2016, an increase of $3.5 million (81%) from $4.3 million in Q1 2015.
- Earnings per share increased by $0.13 (62%) to $0.34 in Q1 2016 from $0.21 in Q1 2015.
- Increase of 58% in return on average shareholders' equity[1] to 11.80% in Q1 2016 from 7.49% in Q1 2015.
- Increase of 79% in securitization income ($0.6 million) due to 48% growth in our market mortgage-backed securities ("MBS") program mortgage average portfolio balance.
- Increase of $1.4 million in income from our equity investment in MCAP Commercial LP ("MCAP") to $2.5 million in Q1 2016 from $1.1 million in Q1 2015.

Corporate Activity

- Corporate assets totalled $1.23 billion at March 31, 2016, up $76 million from December 31, 2015.
- The corporate mortgage portfolio increased by $54 million during Q1 2016 to $998 million from $944 million, which included increases of $59 million in construction, $23 million in insured single family and $6 million in commercial, offset by decreases of $16 million in uninsured single family and $18 million in completed inventory.
- Subsequent to quarter end, we completed the implementation of a new mortgage underwriting system and the upgrade of single family underwriting processes which we expect will facilitate growth in our internal Xceed origination platform.
- During Q1 2016, we originated $31 million of single family mortgages through our Xceed origination platform, consisting of $24 million of insured single family and $7 million of uninsured single family.
- Consistent with the prior quarter, the Board of Directors (the "Board") declared a 2016 second quarter dividend of $0.29 per share to be paid on June 30, 2016 to shareholders of record as of June 15, 2016.

Securitization Activity

- During Q1 2016, we did not issue and sell any new MBS to third parties through the market MBS program but retained $20 million of MCAN-issued MBS on our corporate balance sheet.

Credit Quality

- The impaired total mortgage ratio[1] increased to 0.20% at March 31, 2016 from 0.11% at December 31, 2015.
- The impaired corporate mortgage ratio[1] increased to 0.41% at March 31, 2016 from 0.23% at December 31, 2015.
- Total mortgage arrears[1] were $43 million at March 31, 2016, up $8.5 million (25%) from $34 million at December 31, 2015.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 22.42% at March 31, 2016 on the transitional basis and 22.07% on the "all-in" basis compared to 23.64% and 23.08%, respectively, at December 31, 2015.
- Our leverage ratio[1] was 10.00% at March 31, 2016 compared to 9.96% at December 31, 2015.
- Income tax asset capacity[1] was $135 million at March 31, 2016 compared to $141 million at December 31, 2015.

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

OUTLOOK

Canadian real estate markets continue to experience mixed conditions, as some regional economies adjust to the negative impact of weak oil prices on employment while other regional economies benefit from the lower Canadian dollar and employment strength in the manufacturing sector. Housing markets in the Prairie Provinces continue to experience declines in home sale volumes and weak prices as markets adjust to reduced demand caused by weak oil prices, slow to negative economic growth and increasing unemployment. Meanwhile, home sales remain strong in Toronto and Vancouver, where home sales volumes continue to grow, prices are increasing and housing inventory levels remain at low levels. The rest of the country continues to see stable housing markets as a result of historically low mortgage rates.

We expect financial markets to remain volatile for the first half of 2016 with fluctuations in stock markets as slowing global growth and volatility in international currencies impact corporate earnings and valuations. In Canada the impact of a weak oil sector and soft commodity prices continues to impact a significant portion of the market. Concerns over low or negative economic growth and increases in unemployment rates are expected to have a spillover effect on consumer confidence and spending in 2016.

Forecasted GDP growth rates for Canada have been reduced to 1.7% for 2016 with expected moderation in the second half of the year. With relatively low levels of economic growth, the risk of increased interest and mortgage rates is seen as low. We expect housing markets to continue to benefit from low mortgage rates and relatively stable employment in most of the country, with the exception of the Prairie Provinces. We expect housing sales, both new and resale, to decline moderately in the Prairie Provinces for 2016 due to weakness in demand.

We expect construction activity to moderate nationally, although British Columbia and Ontario are expected to benefit from strong net job growth caused by a weaker Canadian dollar and increased exports. Provinces with high concentrations in commodity producing industries such as mining, oil and gas are expected to experience relatively weak employment and declining construction levels. Given economic uncertainty and growth projections for a slower second half of the year in the Canadian economy, we are closely monitoring our construction portfolio. Our portfolio remains well diversified with projects supported by presales in balanced markets and experienced developers.

The key risks to the housing market are the prospects for slow, and possibly negative, economic growth and increases in regional unemployment rates. These factors could have a direct impact on the stability of the regional housing markets, particularly in Alberta and Saskatchewan. The impact of oversupply in local housing markets could lead to significant price volatility. We will continue to be diligent in monitoring the local housing markets in which we lend and will closely monitor our mortgage portfolio for early indicators of potential performance concerns.

Based on a strong level of activity in the first quarter and a good pipeline of deals in construction and commercial, we believe that 2016 originations and portfolio growth will allow us to achieve our annual corporate asset growth target of 10%. We will continue to diversify and re-balance our portfolio to optimize return and lower our risk profile.

We expect the moderation in our single family origination volumes to continue into the second quarter of 2016, as we reduced volumes in the first quarter to allow for an underwriting system upgrade that includes new underwriting software. We believe that these enhancements will facilitate growth in our internal Xceed origination platform. To minimize the impact of reduced single family origination, we increased construction and commercial loan balances to provide a positive offset to income.

RESULTS OF OPERATIONS

Table 3: Net Income - For the Quarters Ended March 31

(in thousands)	2016	2015	Change from 2015 ($)	Change from 2015 (%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 12,588	$ 12,541	$ 47	0%
Equity income from MCAP Commercial LP	2,515	1,096	1,419	129%
Fees	553	530	23	4%
Marketable securities	709	387	322	83%
Whole loan gain on sale income	323	205	118	58%
Realized and unrealized gain (loss) on financial instruments	-	(1,481)	1,481	(100%)
Interest on financial investments and other loans	484	144	340	236%
Interest on cash and cash equivalents	125	128	(3)	(2%)
	17,297	**13,550**	**3,747**	**28%**
Term deposit interest and expenses	5,323	5,141	182	4%
Mortgage expenses	953	894	59	7%
Interest on loans payable	71	180	(109)	(61%)
Provision for (recovery of) credit losses	325	(63)	388	(616%)
	6,672	**6,152**	**520**	**8%**
	10,625	**7,398**	**3,227**	**44%**
Net Investment Income - Securitization Assets				
Mortgage interest	7,005	4,951	2,054	41%
Interest on short-term investments	7	25	(18)	(72%)
Other securitization income	-	34	(34)	(100%)
	7,012	5,010	2,002	40%
Interest on financial liabilities from securitization	5,323	4,022	1,301	32%
Mortgage expenses	445	270	175	65%
	5,768	4,292	1,476	34%
Net investment income before fair value adjustment	1,244	718	526	73%
Fair value adjustment - derivative financial instruments	-	(24)	24	(100%)
	1,244	**694**	**550**	**79%**
Operating Expenses				
Salaries and benefits	2,518	2,060	458	22%
General and administrative	2,001	1,511	490	32%
	4,519	3,571	948	27%
Net Income Before Income Taxes	7,350	4,521	2,829	63%
Provision for (recovery of) income taxes	(421)	225	(646)	(287%)
Net Income	**$ 7,771**	**$ 4,296**	**$ 3,475**	**81%**
Basic and diluted earnings per share	$ 0.34	$ 0.21	$ 0.13	62%
Dividends per share	$ 0.29	$ 0.28	$ 0.01	4%

Net Income

The $3.5 million increase in net income from Q1 2015 was primarily due to an increase in equity income from our investment in MCAP, higher securitization income from a larger market MBS program mortgage portfolio and a realized and unrealized loss on financial instruments incurred in Q1 2015, offset by higher operating expenses incurred in Q1 2016.

Net Investment Income - Corporate Assets

Mortgage interest income

Table 4: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended March 31	2016			2015		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 356,830	$ 3,906	4.44%	$ 301,780	$ 3,654	4.87%
- Insured	83,962	769	3.72%	154,953	1,483	3.85%
- Uninsured - completed inventory	22,058	246	4.52%	19,239	280	5.86%
Construction loans						
- Residential	391,260	5,452	5.65%	366,901	5,030	5.51%
- Non residential	5,746	82	5.81%	-	-	-
Commercial loans						
- Uninsured	108,854	2,133	7.95%	77,656	2,094	10.85%
Mortgages - corporate portfolio	$ 968,710	$ 12,588	5.27%	$ 920,529	$ 12,541	5.48%
Term deposits	906,678	5,323	2.25%	842,469	5,141	2.40%
Spread of mortgages over term deposits			3.02%			3.08%
Mortgages - securitized portfolio	$ 1,049,221	$ 7,005	2.69%	$ 756,568	$ 4,951	2.85%
Financial liabilities from securitization	1,056,734	5,323	2.01%	763,089	4,022	2.25%
Spread of mortgages over liabilities			0.68%			0.60%

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income on impaired loans, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended March 31, 2016 and March 31, 2015. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

In Q1 2016, we focused our efforts on growing the residential construction portfolio to offset low single family originations. We were able to fund newly originated construction loans at attractive yields while also making additional advances on previously funded loans. Our single family production decreased in Q1 2016 as we focused on updating our internal underwriting processes while implementing a new mortgage underwriting system. We undertook this process to facilitate growth in our internal Xceed origination platform. The increase in construction income in Q1 2016 has provided a balance against the lower single family income for the quarter. The implementation of the new underwriting system did not have a material impact on net income.

The increase in the uninsured single family mortgage portfolio compared to Q1 2015 is a result of steady growth in the second half of 2015, as we had a significant volume of new originations from our internal Xceed origination platform during that time. Although our Q1 2016 origination volumes were lower than recent quarters, the high 2015 production levels still led to an increase in the average balance from Q1 2015. Market rates for the funding of new single family mortgages decreased throughout 2015 which led to the decrease in the average yield for both the uninsured and insured single family mortgage portfolios.

In general, the majority of our insured single family originations from the Xceed platform are destined for securitization through the market MBS program such that the majority of the portfolio is held on a short-term basis. Given that we did not sell any MBS to the market in Q1 2016 compared to $146 million of sales in Q1 2015, the average insured single family portfolio balance was significantly lower in Q1 2016.

The growth in the construction loan portfolio in Q1 2016 led to the increase in the average balance over Q1 2015. Although the prime rate decreased by 0.30% during 2015, our construction average mortgage portfolio yield increased by 0.14% from Q1 2015 as the majority of loans in the portfolio contain an interest rate floor and therefore were not fully impacted by the decrease in the prime rate.

The increase in the commercial portfolio average balance from Q1 2015 has been primarily in commercial term mortgages. In addition to residential construction, we have also targeted growth in our higher-yielding commercial portfolio.

Average mortgage portfolio yield is considered to be a non-IFRS measure. For a definition of this measure, refer to the "Non-IFRS Measures" section of this MD&A.

Equity income from MCAP

Equity income from our investment in MCAP increased from Q1 2015. MCAP's income increased due to higher loan commitment and whole loan sales in the quarter, and lower hedge losses in Q1 2016 compared to Q1 2015. The Bank of Canada announced a surprise interest rate decrease in Q1 2015, causing MCAP to incur hedge losses on mortgage commitments in that quarter. A significant portion of these hedge losses were recouped after the mortgages funded. MCAP securitized comparable volumes in Q1 2016 and Q1 2015.

Other net investment income

The realized and unrealized loss on financial instruments incurred in Q1 2015 related to the hedging of mortgage funding commitments. The loss was caused by a 0.55% decrease in 5-year Government of Canada bond rates during Q1 2015; however the loss is offset by the economic benefit realized through higher spread income from the securitized mortgages over their duration. In late 2015, we closed out these hedges and adjusted the structure of our term deposits to provide more natural hedging such that we did not have gains or losses from financial instruments in Q1 2016.

The change in the average term deposit balance is generally similar to that of the average corporate mortgage portfolio in that we use term deposits to fund our corporate assets. Similar to single family mortgages, market rates for new term deposits, all of which are fixed-rate, have decreased since Q1 2015.

Mortgage expenses, consisting primarily of mortgage servicing fees, increased from Q1 2015 in line with the higher average mortgage portfolio.

Details of the provision for (recovery of) credit losses are discussed in the "Credit Quality" sub-section below.

For further information on corporate and securitization net investment income, refer to the "Net Interest Income" sub-section below.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates primarily to the market MBS program, in which we securitize insured single family mortgages through CMHC's NHA MBS program. Income from the market MBS program income has increased steadily over the past few years as we have securitized $1.3 billion of mortgages since its commencement in late 2013. For further details on this program, refer to the "Securitization Programs" section of this MD&A.

Market MBS Program

The 71% increase in income from the market MBS program was a result of a 48% increase in the average outstanding mortgage portfolio balance. Additionally, the Q1 2016 average portfolio balance contains a higher proportion of mortgages originated through our internal Xceed platform than Q1 2015. Our internally originated mortgages are significantly more profitable than externally purchased mortgages for market MBS program purposes, which contributed to the 0.08% increase in the spread of the average mortgage interest rate over the average liability interest rate.

In Q1 2016, we did not sell any MBS to third parties (Q1 2015 - $146 million). Our single family origination volumes were lower than usual due to the implementation of our new mortgage underwriting system, and we chose to not sell MBS to the market given the lower economics associated with smaller MBS issuances. Instead, we retained these mortgages on our corporate balance sheet in the form of MCAN-issued MBS which provides us with future yield income.

CMB Program

In Q1 2015, we incurred a $33,000 loss from the CMB program. Our participation in the CMB program ceased in mid-2015 with the maturity of the final CMB bond issuance. For further information, refer to the "CMB Program" sub-section of the "Securitization Programs" section of this MD&A.

Net Interest Income

Presented in the following tables is an analysis of average rates and net interest income. Net interest income is the difference between interest earned on certain assets and the interest paid on liabilities to fund those assets. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 5: Net Interest Income

For the Quarters Ended March 31	2016			2015		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate[3]	Average Balance [1]	Income / Expense	Average Rate[3]
Assets						
Cash and cash equivalents	$ 70,348	$ 125	0.71%	$ 61,042	$ 128	0.85%
Marketable securities	42,356	709	6.73%	26,246	387	5.98%
Mortgages - corporate	968,710	12,588	5.27%	920,529	12,541	5.48%
Financial investments	14,737	432	11.79%	13,985	126	3.65%
Other loans	4,064	52	5.15%	1,670	18	4.37%
Corporate interest earning assets	1,100,215	13,906	5.08%	1,023,472	13,200	5.17%
Short term investments	10,525	7	0.27%	18,988	25	1.07%
Mortgages - securitized	1,049,221	7,005	2.69%	756,568	4,951	2.85%
Financial investments	-	-	-	350	1	1.32%
Securitization interest earning assets	1,059,746	7,012	2.66%	775,906	4,977	2.84%
Total interest earning assets	2,159,961	20,918	3.89%	1,799,378	18,177	4.17%
Non interest earning assets	81,590	-	-	57,060	-	-
Total assets	$ 2,241,551	$ 20,918	3.75%	$ 1,856,438	$ 18,177	4.04%
Liabilities and shareholders' equity						
Term deposits	$ 906,678	$ 5,323	2.25%	$ 842,469	$ 5,141	2.40%
Loans payable	6,765	71	3.04%	15,057	180	3.35%
Corporate liabilities	913,443	5,394	2.26%	857,526	5,321	2.43%
Securitization liabilities	1,056,734	5,323	2.01%	763,089	4,022	2.25%
Total interest bearing liabilities	1,970,177	10,717	2.13%	1,620,615	9,343	2.35%
Non interest bearing liabilities	8,011	-	-	6,398	-	-
Shareholders' equity	263,363	-	-	229,425	-	-
Total liabilities and shareholders' equity	$ 2,241,551	$ 10,717	1.87%	$ 1,856,438	$ 9,343	2.05%
Net Interest Income [2]		$ 10,201			$ 8,834	

[1] The average balances (excluding cash and cash equivalents, mortgages and term deposits) are calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. The average cash and cash equivalents, mortgage and term deposit balances are calculated using daily balances.

[2] Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, other securitization income, mortgage expenses, provision for credit losses and fair value adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

[3] Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items are immaterial for the quarters ended March 31, 2016 and March 31, 2015. Average rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

Credit Quality

Table 6: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Quarters Ended March 31	2016	2015	Change from 2015 ($)	Change from 2015 (%)
Individual provision (recovery)				
Single family uninsured	$ 62	$ 87	$ (25)	(29%)
Collective provision (recovery)				
Single family uninsured	(55)	50	(105)	(210%)
Single family uninsured - completed inventory	(79)	(14)	(65)	464%
Construction	385	(166)	551	(332%)
Commercial	36	82	(46)	(56%)
Corporate mortgages - total	287	(48)	335	(698%)
Other provisions (recoveries)	(24)	(102)	78	(76%)
	$ 263	$ (150)	$ 413	(275%)
Total provision for (recovery of) credit losses	$ 325	$ (63)	$ 388	(616%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 349	$ 39	$ 310	795%
Net write offs	$ 84	$ 223	$ (139)	(62%)
Net write offs (basis points)	3.5	9.7	(6.2)	(64%)

Individual mortgage allowances are recorded to reduce a mortgage to its estimated realizable value. Collective mortgage allowances represent losses that we believe have been incurred in the mortgage portfolio but have not yet been specifically identified. The collective provisions (recoveries) recorded during both periods are consistent with the growth (reduction) in the size of the respective mortgage portfolios.

Other provisions (recoveries) in both years consist primarily of a reduction in the liability associated with the Xceed off-balance sheet securitization portfolio. For further details, refer to the “Liabilities and Shareholders’ Equity” sub-section of the “Financial Position” section of the 2015 Annual MD&A.

Write-offs in both Q1 2016 and Q1 2015 consisted of uninsured single family mortgages for which individual allowances had previously been recorded.

Operating Expenses

Table 7: Operating Expenses

(in thousands) For the Quarters Ended March 31	2016	2015	Change from 2015 ($)	Change from 2015 (%)
Salaries and benefits	$ 2,518	$ 2,060	$ 458	22%
General and administrative	2,001	1,511	490	32%
	$ 4,519	**$ 3,571**	**$ 948**	**27%**

The increase in operating expenses from Q1 2015 is a result of an increase in the number of employees and the growth of our internal origination platform through Xceed. We have continued to grow the size of our staff in operations, risk management and credit to maintain sound corporate governance.

Provision for Income Taxes

Table 8: Income Taxes

(in thousands) For the Quarters Ended March 31	2016	2015	Change from 2015 ($)	Change from 2015 (%)
Current tax provision	$ (100)	$ -	$ (100)	-
Deferred tax provision (recovery)	(321)	225	(546)	(243%)
	$ (421)	**$ 225**	**$ (646)**	**(287%)**

The deferred tax recovery in Q1 2016 was due to tax losses recognized at the subsidiary level, while in Q1 2015 we had a deferred tax provision due to the partial application of loss carry forwards as a result of taxable income earned at the subsidiary level.

As at March 31, 2016, we had $12 million of losses available for carry-forward in the MCAN mortgage investment corporation ("MIC") parent company on a non-consolidated basis, the benefit of which is not reflected in deferred taxes. For further information, refer to Note 4 to the consolidated financial statements.

Taxable Income

The table below provides a reconciliation between net income for accounting purposes and taxable income. The adjustments below represent the difference between the individual components of net income for accounting and tax purposes. Taxable income is presented on a non-consolidated basis and does not incorporate taxable income from Xceed and other subsidiaries as it does not directly impact MCAN's non-consolidated taxable income.

The key differences between taxable income and pre-tax net income for accounting purposes include differences between equity income from MCAP and Xceed for accounting and tax purposes and the treatment of market MBS program origination costs, capital gains income, collective provisions for credit losses and the amortization of upfront securitization program costs for tax purposes. As a MIC, we typically pay out all of our taxable income to shareholders through dividends. In addition, our MIC status allows us to deduct dividends paid within 90 days of year end from taxable income. Dividends that are deducted in the calculation of taxable income are not included in the table below.

We originate and purchase insured mortgages that are securitized through the market MBS program and sold to third parties or retained on our balance sheet (for further details on the market MBS program, refer to the "Securitization Programs" section of this MD&A). The purchase of mortgages involves the payment of an up-front origination fee that is deductible for income tax purposes in the period that the mortgages are securitized, while for accounting purposes this fee is capitalized and amortized over the term of the associated mortgages. In Q1 2016, we incurred $0.6 million of origination costs on market MBS mortgages (Q1 2015 - $5.8 million), including market MBS held by MCAN. As at March 31, 2016, the unamortized origination fee balance was $16.5 million, which represents costs that are still to be expensed for non-consolidated accounting purposes but will be added back in the calculation of taxable income.

Taxable income is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 9: Taxable Income Reconciliation [1]

(in thousands) For the Quarters Ended March 31	2016	2015
Net income for accounting purposes	$ 7,771	$ 4,296
Adjustments:		
Equity income from MCAP	(95)	886
Equity income from subsidiaries [2]	883	898
Provision for (recovery of) credit losses [2]	284	(81)
Fair market value adjustment - derivative financial instruments [2]	-	24
Amortization of upfront securitization program costs [2]	1,551	1,137
Market MBS program mortgage origination costs [3]	(640)	(5,825)
Other securitization program cash outflows	-	(364)
Other items	(311)	(194)
Taxable Income	**$ 9,443**	**$ 777**

[1] Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.
[2] Not deductible/recognizable in the calculation of taxable income.
[3] Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes.

Table 10: Quarterly Net Income

(in thousands except per share amounts) For the Quarters Ended	March 31 2016	December 31 2015	Change from Prior Quarter ($)	 (%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 12,588	$ 12,610	$ (22)	(0%)
Equity income from MCAP Commercial LP	2,515	2,070	445	21%
Fees	553	937	(384)	(41%)
Marketable securities	709	802	(93)	(12%)
Whole loan gain on sale income	323	113	210	186%
Realized and unrealized gain on financial instruments	-	2	(2)	(100%)
Interest on financial investments and other loans	484	2,920	(2,436)	(83%)
Interest on cash and cash equivalents	125	149	(24)	(16%)
	17,297	**19,603**	**(2,306)**	**(12%)**
Term deposit interest and expenses	5,323	5,189	134	3%
Mortgage expenses	953	1,124	(171)	(15%)
Interest on loans payable	71	163	(92)	(56%)
Provision for (recovery of) credit losses	325	525	(200)	(38%)
	6,672	**7,001**	**(329)**	**(5%)**
	10,625	**12,602**	**(1,977)**	**(16%)**
Net Investment Income - Securitization Assets				
Mortgage interest	7,005	7,556	(551)	(7%)
Interest on short-term investments	7	8	(1)	(13%)
Other securitization income	-	42	(42)	(100%)
	7,012	7,606	(594)	(8%)
Interest on financial liabilities from securitization	5,323	5,684	(361)	(6%)
Mortgage expenses	445	453	(8)	(2%)
	5,768	6,137	(369)	(6%)
	1,244	**1,469**	**(225)**	**(15%)**
Operating Expenses				
Salaries and benefits	2,518	2,586	(68)	(3%)
General and administrative	2,001	1,638	363	22%
	4,519	4,224	295	7%
Net Income Before Income Taxes	7,350	9,847	(2,497)	(25%)
Provision for (recovery of) income taxes	(421)	397	(818)	(206%)
Net Income	**$ 7,771**	**$ 9,450**	**$ (1,679)**	**(18%)**
Basic and diluted earnings per share	$ 0.34	$ 0.42	$ (0.08)	(19%)
Dividends per share	$ 0.29	$ 0.29	$ -	-

Q1 2016 vs. Q4 2015

Net Income

Q1 2016 net income decreased by $1.7 million from Q4 2015, primarily due to a $2.5 million distribution received from a commercial real estate investment in Q4 2015, offset by a recovery of income taxes in Q1 2016.

Net Investment Income - Corporate Assets

Mortgage interest income was comparable to Q4 2015. The average corporate mortgage portfolio balance increased to $969 million in Q1 2016 from $932 million in Q4 2015, while the average mortgage yield decreased to 5.27% in Q1 2016 from 5.31% in Q4 2015. The growth in the average portfolio balance related primarily to construction as we maintained a higher balance given

low single family originations. Additionally, we earned $370,000 of non-recurring discount income and deferred interest earned in Q4 2015.

The decrease in interest on financial investments and other loans relates primarily to the above-noted distribution received on a commercial real estate investment in Q4 2015.

Term deposit interest and expenses were comparable to Q4 2015. The average outstanding balance increased to $907 million in Q1 2016 from $865 million in Q4 2015, while the average interest rate decreased to 2.25% in Q1 2016 from 2.27% in Q4 2015.

Net Investment Income - Securitization Assets

The decrease in net investment income from securitization assets is a result of a decrease in the average market MBS mortgage balance as a result of the sale of interest-only strips late in Q4 2015 (and associated derecognition of mortgages from our balance sheet) and the fact that we did not issue any new MBS to the market in Q1 2016. The spread of mortgage interest over liability interest increased slightly to 0.68% in Q1 2016 from 0.65% in Q4 2015.

Operating Expenses and Income Taxes

The increase in operating expenses is discussed in the "Operating Expenses" sub-section of the "Results of Operations" section of this MD&A. The variance in the provision for (recovery of) income taxes relates to losses incurred at the subsidiary level in Q1 2016 compared to taxable income earned in subsidiaries in Q4 2015.

Cash Flows

Operating activities provided cash flows of $8 million in Q1 2016 and provided $35 million in Q1 2015. Q1 2016 had a significant net corporate mortgage outflow whereas Q1 2015 had a small net inflow. This was offset by higher net term deposit inflows in Q1 2016.

Investing activities provided cash flows of $2 million in Q1 2016 and provided minimal outflows in Q1 2015. Q1 2016 included a distribution from the MCAP investment.

Financing activities used cash flows of $7 million in Q1 2016 and used $8 million in Q1 2015. Q1 2016 had a higher inflow from loans payable, whereas Q1 2015 had a higher inflow from the issuance of common shares.

FINANCIAL POSITION

Table 11: Assets

(in thousands)			Change from Prior Quarter	
As at	**March 31 2016**	**December 31 2015**	**($)**	**(%)**
Corporate Assets				
Cash and cash equivalents	$ 78,386	$ 75,762	$ 2,624	3%
Marketable securities	49,207	40,735	8,472	21%
Mortgages	998,357	944,109	54,248	6%
Financial investments	51,318	41,793	9,525	23%
Other loans	3,980	4,176	(196)	(5%)
Equity investment in MCAP Commercial LP	44,287	44,191	96	0%
Foreclosed real estate	529	529	-	-
Deferred tax asset	1,237	1,125	112	10%
Other assets	3,531	2,626	905	34%
	1,230,832	**1,155,046**	**75,786**	**7%**
Securitization Assets				
Short-term investments	10,123	13,112	(2,989)	(23%)
Mortgages	1,050,929	1,075,947	(25,018)	(2%)
Other assets	2,695	2,853	(158)	(6%)
	1,063,747	**1,091,912**	**(28,165)**	**(3%)**
	$ 2,294,579	**$ 2,246,958**	**$ 47,621**	**2%**

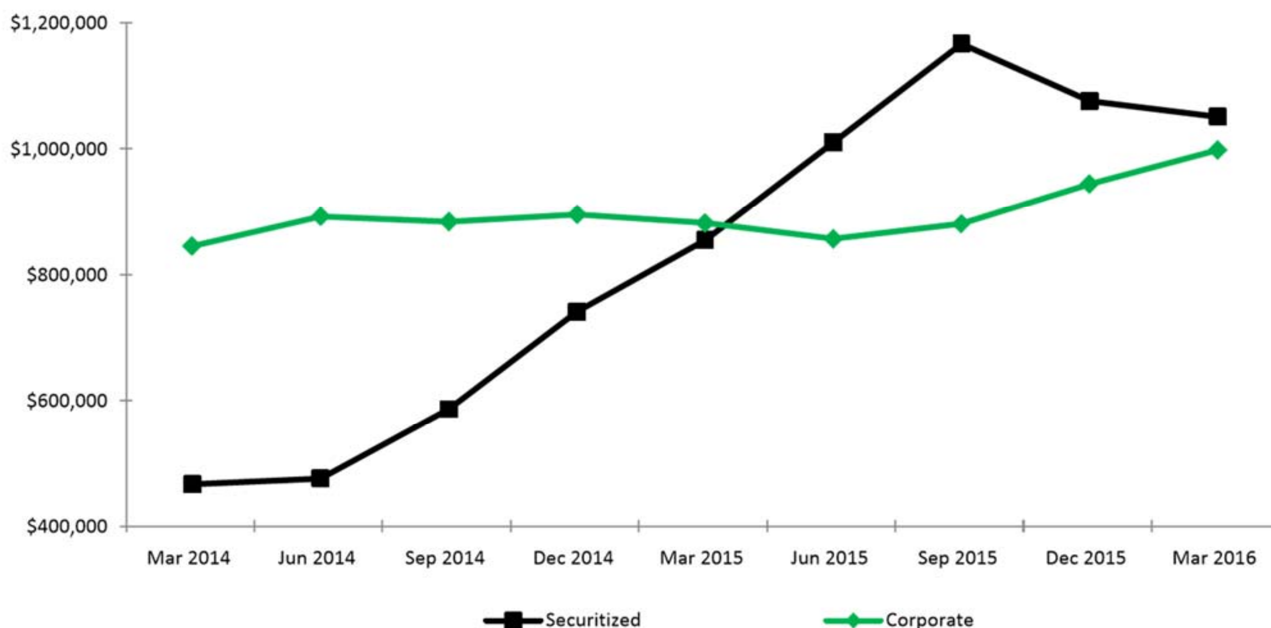
Mortgages - Corporate & Securitized

Table 12: Mortgage Summary

(in thousands) As at	March 31 2016	December 31 2015	Change from Prior Quarter ($)	 (%)
Corporate portfolio:				
Single family mortgages				
- Uninsured	$ 343,544	$ 359,465	$ (15,921)	(4%)
- Insured	106,997	83,619	23,378	28%
- Uninsured - completed inventory	12,834	31,280	(18,446)	(59%)
Construction loans				
- Residential	409,024	349,808	59,216	17%
- Non-residential	5,766	5,595	171	3%
Commercial loans				
- Uninsured	120,192	114,342	5,850	5%
	998,357	**944,109**	**54,248**	**6%**
Securitized portfolio:				
Single family insured - Market MBS program	1,050,929	1,075,947	(25,018)	(2%)
	$ 2,049,286	**$ 2,020,056**	**$ 29,230**	**1%**

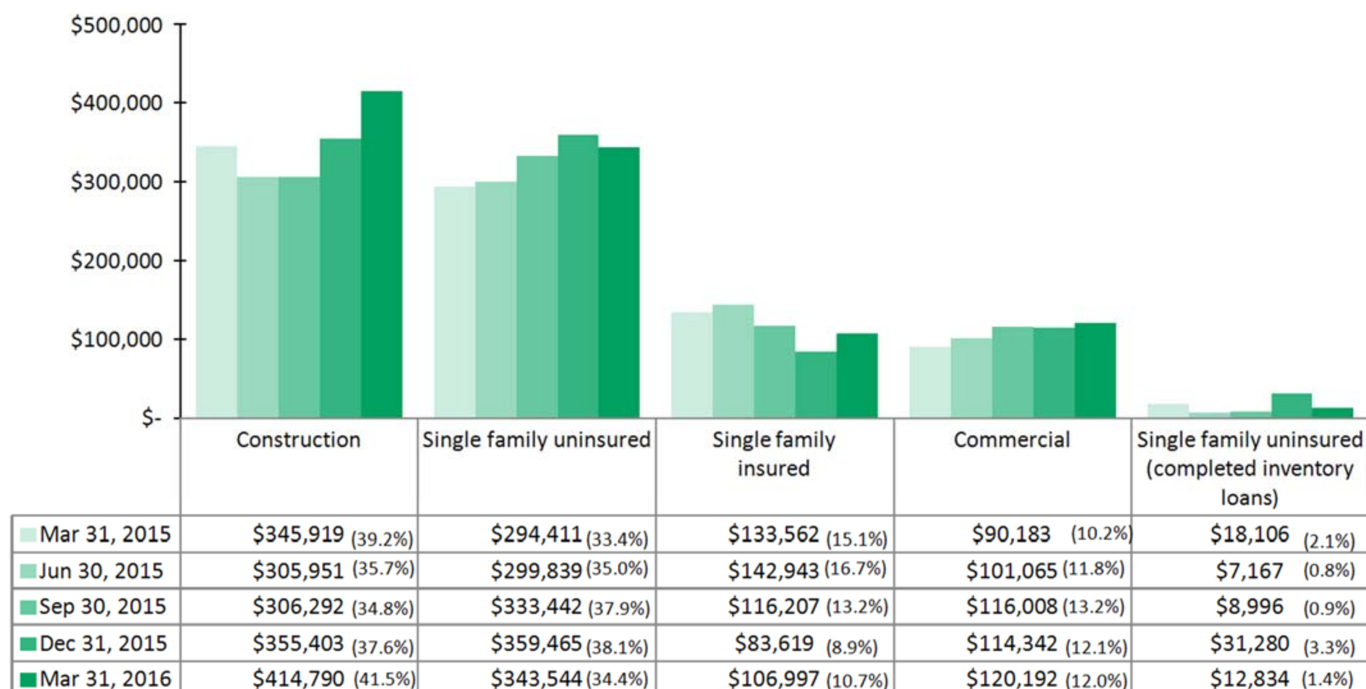
Corporate and Securitized Mortgage Portfolio Analysis

Figure 1: Total Corporate and Securitized Mortgage Portfolio (in thousands)



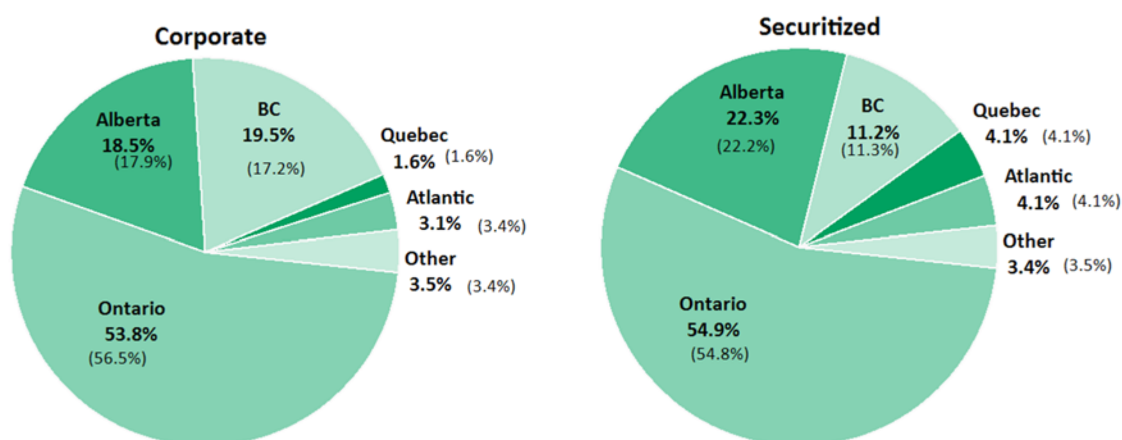
The decrease in securitized mortgages in Q4 2015 was a result of the sale of interest-only strips and the derecognition of the associated mortgages from the balance sheet. In Q1 2016, we did not issue any new MBS to the market and therefore had a small decrease from the repayment of existing securitized mortgages.

Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction	Single family uninsured	Single family insured	Commercial	Single family uninsured (completed inventory loans)
Mar 31, 2015	$345,919 (39.2%)	$294,411 (33.4%)	$133,562 (15.1%)	$90,183 (10.2%)	$18,106 (2.1%)
Jun 30, 2015	$305,951 (35.7%)	$299,839 (35.0%)	$142,943 (16.7%)	$101,065 (11.8%)	$7,167 (0.8%)
Sep 30, 2015	$306,292 (34.8%)	$333,442 (37.9%)	$116,207 (13.2%)	$116,008 (13.2%)	$8,996 (0.9%)
Dec 31, 2015	$355,403 (37.6%)	$359,465 (38.1%)	$83,619 (8.9%)	$114,342 (12.1%)	$31,280 (3.3%)
Mar 31, 2016	$414,790 (41.5%)	$343,544 (34.4%)	$106,997 (10.7%)	$120,192 (12.0%)	$12,834 (1.4%)

Figure 3: Mortgage Portfolio Geographic Distribution as at March 31, 2016 (December 31, 2015)



Corporate Mortgages

The Q1 2016 growth in our corporate mortgage portfolio was primarily in residential construction loans in British Columbia, Alberta and Ontario. Given the economic environment in the quarter, we focused our growth on lending to experienced borrowers in stable markets which can absorb new housing inventory. The seasonal nature of construction land development loans typically leads to significant borrower draws in Q1 with repayments following in Q2 as individual lot sales close. While we have been cautious about our construction loan exposure to Alberta since 2014, we are comfortable with our core borrower base and its proven repayment history.

In Q1 2016, our focus for the single family mortgage portfolio was on the update of our internal underwriting processes and systems. Our origination volumes were significantly lower than usual in Q1 2016 as a result of this undertaking and accordingly we experienced a net decrease in the uninsured single family portfolio. The insured single family portfolio increased in Q1 2016, largely due to the retention of mortgages that renewed during the quarter on our corporate balance sheet.

While MCAN has exposure to real estate in the Fort McMurray area, we have no existing commercial lending or construction projects in the region. In regards to our single family mortgage exposure, we had $1.1 million and $9.1 million of outstanding

corporate and securitized single family mortgages, respectively, and $12.9 million of off-balance sheet mortgages as at May 5, 2016. All of the aforementioned mortgages have mortgage insurance except for $119,000 of the corporate portfolio. We are currently working with our borrowers and business partners to determine the extent of damage to collateral for our mortgages, and at this time we expect an increase in arrears from the affected areas over the coming months. The fire in the Fort McMurray region is not expected to have a material impact on net income.

Single family mortgages

We invest in insured and uninsured single family mortgages in Canada, primarily originated through Xceed for our own corporate portfolio and for securitization activities. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Single family mortgage originations moderated in Q1 2016. This line of business has become more competitive in recent quarters. We continue to monitor our portfolio for early delinquencies and adjust our target markets to ensure that they are reflective of changing risks.

As we securitize mortgages into the market MBS program, assets are effectively transferred from corporate mortgages to securitized mortgages on the balance sheet. The change contributes to changes in asset levels when corporate mortgages are securitized in the following quarter.

For further information on MCAN-issued market MBS retained for liquidity purposes and included in corporate insured single family mortgages, refer to the “Securitization Programs” section of this MD&A.

Completed inventory loans

Completed inventory loans are credit facilities extended to developers to provide interim mortgage financing on residential units (condominium or freehold), where all construction has been completed and therefore no further construction risk exists. Satisfactory confirmation that all units are substantially complete is required prior to funding all inventory loans. Final occupancy permits, condominium corporation registration and/or written confirmation by the cost consultant as to the completion of the units are examples of verification measures.

Completed inventory loans remained low as new housing markets in Canada currently have a very tight supply of completed inventory. As such, these loans are difficult to originate, as existing inventory has been quickly sold by builders in recent quarters. We are currently closely monitoring inventory levels in some of our core markets to ensure we react to changes in the overall housing markets.

Construction loans

Residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating interest rate and terms of one to two years. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

A significant portion of the construction portfolio growth in Q1 2016 related to additional advances on previously funded loans. We remain selective for new loan originations given existing risks in the market. Our portfolio concentrations in Western Canada continue to be monitored closely.

Commercial loans

Commercial loans include commercial term mortgages and high ratio mortgage loans.

Commercial lending remains highly competitive, with an excess amount of capital in the market that has led to yield compression. Despite these limitations, we have continued to observe good opportunities for future loan commitments.

Mortgage renewal rights

Through Xceed, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At renewal, we may be able to renew these mortgages by offering clients attractive renewal options, thereby contributing to future revenues.

As at March 31, 2016, we had the renewal rights to $1.1 billion of single family mortgages (December 31, 2015 - $1.1 billion). The March 31, 2016 amount includes $209 million of mortgages originated by Xceed and sold to a third party which went into receivership during Q1 2016. It is currently uncertain as to how these renewal rights will continue through the liquidation process and if there is any impairment to their current or future value.

Table 13: Arrears and Impaired Mortgages

(in thousands except %) As at	March 31 2016	December 31 2015	Change from Prior Quarter ($)	(%)
Impaired mortgages				
Single family - uninsured	$ 4,136	$ 2,196	$ 1,940	88%
Single family - insured	797	531	266	50%
	$ 4,933	$ 2,727	$ 2,206	81%
Impaired mortgage ratio (total) [1]	0.20%	0.11%		0.09%
Impaired mortgage ratio (corporate) [1]	0.41%	0.23%		0.18%
Total corporate mortgage arrears [1]				
Single family - uninsured	$ 16,331	$ 14,826	$ 1,505	10%
Single family - insured	7,317	5,063	2,254	45%
	23,648	19,889	3,759	19%
Total securitized mortgage arrears [1]	19,058	14,361	4,697	33%
Total mortgage arrears [1]	$ 42,706	$ 34,250	$ 8,456	25%
Collective allowance	$ 5,207	$ 4,920	$ 287	6%
Individual allowance	317	339	(22)	(6%)
Total allowance	$ 5,524	$ 5,259	$ 265	5%

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

Economic volatility and continued weakness in oil prices continue to affect housing markets in oil-impacted provinces where job losses have impacted industry mortgage arrears. Accordingly, we use conservative underwriting standards and continue to monitor early delinquencies in the portfolio and proactively manage arrears and impaired mortgages to minimize losses. Subsequent to quarter end, impaired mortgages totalling $1.3 million paid out or returned to non-arrears status. Impaired mortgages at March 31, 2016 remained near historical lows.

Figure 4: Impaired Corporate Mortgage Ratio

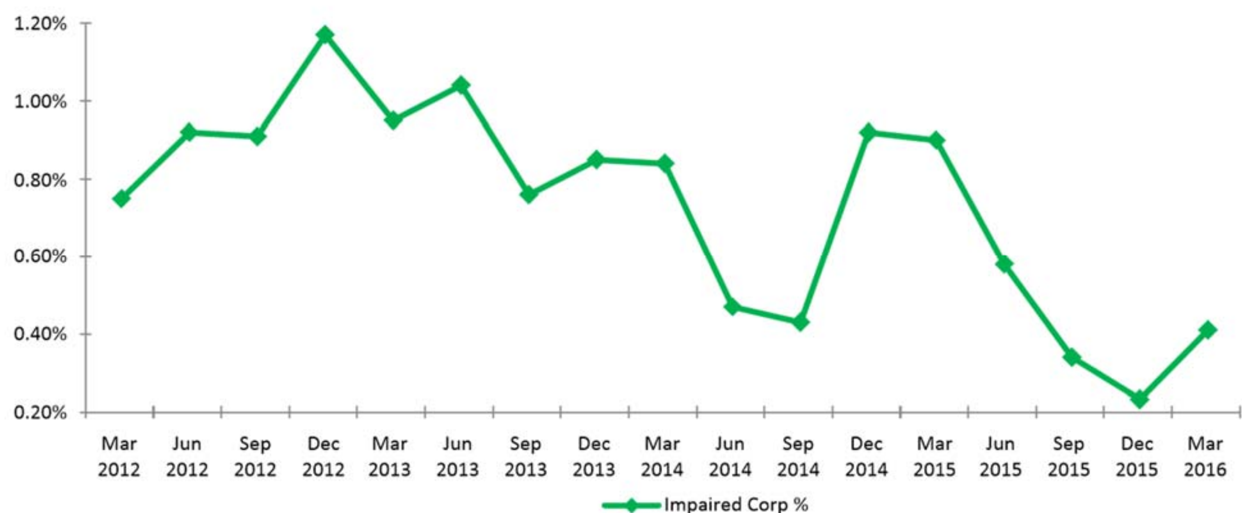


Table 14: Mortgage Originations

(in thousands) For the Quarters Ended March 31	2016	2015
Single family - insured	$ 23,862	$ 48,727
Single family - uninsured	6,571	25,158
Single family - uninsured completed inventory	3,040	-
Residential construction (new loan fundings)	31,514	24,301
Commercial	13,549	12,470
	$ 78,536	**$ 110,656**

Residential construction new loan fundings represent first advances on newly originated loans, i.e. they exclude additional fundings on existing loans in the portfolio. Q1 2016 originations increased from Q1 2015 as we targeted this asset class for growth in the quarter given the low single family origination volumes.

Prior to Q1 2016, one of the buyers of our Xceed-originated insured single family mortgages was a Schedule III Canadian bank to who we sold the mortgages on a whole loan basis. During Q1 2016, the bank ceased its operations and was placed under supervisory administration such that this buyer is no longer available. We had previously been provided a credit warehouse facility by the bank, which is discussed in Note 22 to the consolidated financial statements. The termination of the credit warehouse facility did not have a material impact on our operations or liquidity given our other available sources of funding.

Table 15: Average Mortgage Loan to Value (LTV) Ratios

As at	March 31 2016	December 31 2015
Corporate portfolio:		
Single family mortgages		
- Uninsured	74.3%	74.3%
- Uninsured completed inventory	67.3%	63.3%
- Insured	85.6%	85.9%
Construction loans		
- Residential	65.9%	66.1%
- Non-residential	59.1%	59.4%
Commercial loans		
- Uninsured	69.8%	68.7%
	71.3%	71.1%
Securitized portfolio:		
Single family insured - Market MBS Program	87.0%	87.0%
	79.3%	79.5%

Additional Information on Residential Mortgages and Home Equity Lines of Credit ("HELOCs")

In accordance with OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, additional information is provided on the composition of MCAN's single family mortgage portfolio by insurance status and province, as well as amortization periods and Loan to Value ratio ("LTV") by province. LTV is calculated as the ratio of the outstanding loan balance on an amortized cost basis to the value of the underlying collateral at the time of origination.

Insured mortgages include mortgages insured by CMHC or other approved insurers at origination and mortgages that are portfolio insured after origination.

The HELOC balances displayed below relate to insured single family mortgages that have been acquired by MCAN. We do not originate HELOCs.

Table 16: Single Family Mortgages by Province as at March 31, 2016

(in thousands except %)

	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 61,594	57.7%	$ 236,761	66.4%	$ 174	61.5%	$ 577,124	54.9%	$ 875,653	57.8%
Alberta	20,981	19.7%	54,569	15.3%	53	18.7%	234,830	22.3%	310,433	20.5%
British Columbia	4,898	4.6%	36,979	10.4%	56	19.8%	117,201	11.2%	159,134	10.5%
Quebec	7,570	7.1%	8,331	2.3%	-	-	42,912	4.1%	58,813	3.9%
Atlantic Provinces	9,295	8.7%	10,261	2.9%	-	-	42,711	4.1%	62,267	4.1%
Other	2,376	2.2%	9,477	2.7%	-	-	36,151	3.4%	48,004	3.2%
Total	**$ 106,714**	**100.0%**	**$ 356,378**	**100.0%**	**$ 283**	**100.0%**	**$ 1,050,929**	**100.0%**	**$ 1,514,304**	**100.0%**

Table 17: Single Family Mortgages by Province as at December 31, 2015

(in thousands except %)

	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 42,449	50.9%	$ 264,490	67.7%	$ 122	52.2%	$ 589,912	54.8%	$ 896,973	57.9%
Alberta	19,433	23.3%	54,815	14.0%	53	22.6%	239,192	22.2%	313,493	20.2%
British Columbia	3,646	4.4%	41,809	10.7%	59	25.2%	121,811	11.3%	167,325	10.8%
Quebec	6,887	8.3%	8,688	2.2%	-	-	43,960	4.1%	59,535	3.8%
Atlantic Provinces	8,848	10.6%	11,303	2.9%	-	-	43,712	4.1%	63,863	4.1%
Other	2,122	2.5%	9,640	2.5%	-	-	37,360	3.5%	49,122	3.2%
Total	**$ 83,385**	**100.0%**	**$ 390,745**	**100.0%**	**$ 234**	**100.0%**	**$ 1,075,947**	**100.0%**	**$ 1,550,311**	**100.0%**

Table 18: Single Family Mortgages by Amortization Period as at March 31, 2016

(in thousands except %)

As at March 31, 2016	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 63,273	$ 85,716	$ 299,342	$ 14,660	$ 384	$ 463,375
	13.7%	18.5%	64.6%	3.2%	0.0%	100.0%
Securitized	$ 124,438	$ 561,194	$ 265,820	$ 98,737	$ 740	$ 1,050,929
	11.8%	53.4%	25.3%	9.4%	0.1%	100.0%
Total	**$ 187,711**	**$ 646,910**	**$ 565,162**	**$ 113,397**	**$ 1,124**	**$ 1,514,304**
	12.4%	**42.7%**	**37.3%**	**7.5%**	**0.1%**	**100.0%**

Table 19: Single Family Mortgages by Amortization Period as at December 31, 2015

(in thousands except %) As at December 31, 2015	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 76,636	$ 79,032	$ 301,874	$ 16,434	$ 388	$ 474,364
	16.2%	16.7%	63.6%	3.5%	0.0%	100.0%
Securitized	$ 119,194	$ 575,192	$ 277,016	$ 103,802	$ 743	$ 1,075,947
	11.1%	53.5%	25.7%	9.6%	0.1%	100.0%
Total	**$ 195,830**	**$ 654,224**	**$ 578,890**	**$ 120,236**	**$ 1,131**	**$ 1,550,311**
	12.6%	**42.2%**	**37.3%**	**7.8%**	**0.1%**	**100.0%**

Table 20: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except for %) For the Quarters Ended March 31	2016	Average LTV	2015	Average LTV
Ontario	$ 8,047	71.9%	$ 16,946	72.6%
Alberta	908	76.5%	4,596	72.7%
British Columbia	502	80.0%	1,802	71.4%
Atlantic Provinces	-	-	1,336	62.7%
Other	154	57.7%	478	69.7%
	$ 9,611	**72.5%**	**$ 25,158**	**72.0%**

Based on past experience and relative to the specifics of the then prevailing economic conditions, we would expect to observe an increase in overall mortgage default and arrears rates in the event of an economic downturn as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This would also result in a corresponding increase in our allowance for credit losses. An economic downturn, for example, could include changes to employment and unemployment rates, income levels and consumer spending which would have the above noted impact on our single family mortgage portfolio. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages. In addition, MCAN's corporate uninsured single family mortgage portfolio is also secured with an average LTV at origination of 74.0% as at March 31, 2016 (December 31, 2015 - 73.4%). Based on an industry index that incorporates current real estate values, the ratios would be 63.0% and 63.4%, respectively.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, increased by $3 million in Q1 2016. These investments provide liquidity to meet maturing term deposit and new mortgage funding commitments and are considered to be Tier 1 liquid assets. For further information, refer to the "Liquidity Management" section of this MD&A.

Marketable securities

Marketable securities, consisting of corporate bonds and real estate investment trusts ("REIT"), increased by $8 million in Q1 2016 as volatility in REIT prices provided us with an attractive purchasing opportunity. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents and are considered to be Tier 2 liquid assets. For further details, refer to the "Liquidity Management" section of this MD&A.

Financial investments

Corporate financial investments include a $32 million equity investment in a commercial real estate investment fund in which we have a 14.1% equity interest. The fund invests primarily in commercial office buildings and its fair value is based on independent appraisals of the buildings. As property acquisitions are made by the fund, we advance our proportionate share to finance the acquisitions.

We have funded a $19 million investment in the KingSett High Yield Fund, in which we have a 9% equity interest. The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages and is carried at fair value. As mortgage advances are made by the fund, we advance our proportionate share. The fund pays a base monthly preferred distribution of 9%, and distributes any additional income earned on a quarterly basis. Our Q1 2016 return was 13.1%. Our total funding commitment is $36 million, which consists of $24 million of capital advances for the fund and $12 million that supports credit facilities.

Equity investment in MCAP

We hold a 14.74% equity interest in MCAP, which represents 4.3 million units held by MCAN from 29.2 million total outstanding MCAP partnership units. The investment had a net book value of $44 million as at March 31, 2016. The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was $42 million as at March 31, 2016. For further information on the LP ARA, refer to the "Non-IFRS Measures" section of this MD&A.

Our investment in MCAP creates a deduction from Total Capital under Basel III (refer to the "Capital Management" section of this MD&A), which is measured on an accounting basis and is phased in by 20% on an annual basis to 2018 such that the deduction is 60% in 2016. We have managed our investment in MCAP in line with our Risk Appetite Framework ("RAF") and regulatory requirements in order to minimize this deduction from Total Capital under Basel III while optimizing the economic benefits of the investment.

MCAP is an originator and servicer of mortgages for third party investors in Canada and securitizes mortgages on its own behalf. MCAP's origination volumes were $2.3 billion in Q1 2016. MCAP had $53.6 billion of assets under administration as at February 29, 2016.

We currently use the equity basis of accounting for our investment in MCAP as per International Accounting Standard ("IAS") 28, *Investments in Associates and Joint Ventures*, as we have significant influence in MCAP through our entitlement to a position on MCAP's Board of Directors. If we experience further dilution we may no longer qualify for the equity basis of accounting. In that case, we would not recognize our pro-rata share of MCAP's net income as equity income, but would instead recognize distributions received from MCAP as income and would carry the investment as available for sale with changes in fair value recognized through accumulated other comprehensive income.

Foreclosed real estate

Foreclosed real estate consists of a real estate investment which was previously an impaired construction loan. This investment is carried at the lower of the carrying amount and fair value less estimated costs to sell.

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program. Securitization asset activity for Q1 2016 consisted primarily of the repayment of the existing mortgage portfolio. We did not issue any new MBS to the market in the quarter and therefore did not recognize any new securitized mortgages on our balance sheet.

For further information, refer to the "Securitization Programs" section of this MD&A.

Table 21: Liabilities and Shareholders' Equity

(in thousands) As at	March 31 2016	December 31 2015	Change from ($)	Prior Qtr (%)
Corporate Liabilities				
Term deposits	$ 975,663	$ 903,041	$ 72,622	8%
Loans payable	4,085	-	4,085	-
Current tax liabilities	-	100	(100)	(100%)
Deferred tax liabilities	2,203	2,299	(96)	(4%)
Other liabilities	4,005	12,412	(8,407)	(68%)
	985,956	**917,852**	**68,104**	**7%**
Securitization Liabilities				
Financial liabilities from securitization	1,042,996	1,070,304	(27,308)	(3%)
	2,028,952	**1,988,156**	**40,796**	**2%**
Shareholders' Equity				
Share capital	208,198	206,382	1,816	1%
Contributed surplus	510	510	-	-
Retained earnings	43,758	42,617	1,141	3%
Accumulated other comprehensive income	13,161	9,293	3,868	42%
	265,627	**258,802**	**6,825**	**3%**
	$ 2,294,579	**$ 2,246,958**	**$ 47,621**	**2%**

We issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance to fund our corporate operations. The Q1 2016 increase in the term deposit portfolio was consistent with our growth in corporate assets. The role of term deposits in managing liquidity risk is discussed in the "Liquidity Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Financial liabilities from securitization relate to our participation in the market MBS program, representing MBS that we have sold to third parties but have not been derecognized from our balance sheet. Q1 2016 activity consists of the repayment of existing liabilities as we did not issue any MBS to the market in the quarter and therefore did not recognize any new liabilities. For further information on the market MBS program, refer to the "Securitization Programs" section of this MD&A.

Share capital activity for Q1 2016 reflects new common shares issued through the Dividend Reinvestment Plan ("DRIP") as part of the January 4th and March 31st dividends. For further information, refer to Note 15 to the consolidated financial statements.

Retained earnings activity for Q1 2016 consists of net income of $7.8 million less dividends of $6.6 million.

Accumulated other comprehensive income represents unrealized gains or losses on available for sale marketable securities and financial investments. The majority of the increase ($3.3 million) related to our marketable securities portfolio while the balance related to financial investments.

SELECTED QUARTERLY FINANCIAL DATA

Table 22: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14
Net investment income - corporate assets	$ 10,625	$ 12,602	$ 8,996	$ 13,745	$ 7,398	$ 10,262	$ 8,707	$ 9,888
Other income - corporate assets	-	-	-	68	-	71	-	-
Gross investment income - securitization assets	1,244	1,469	1,246	1,105	718	603	319	175
Fair value adjustment	-	-	-	(47)	(24)	(133)	(414)	(365)
Net investment income - securitization assets	1,244	1,469	1,246	1,058	694	470	(95)	(190)
Operating expenses	4,519	4,224	3,577	3,136	3,571	3,201	3,596	3,221
Net income before income taxes	7,350	9,847	6,665	11,735	4,521	7,602	5,016	6,477
Provision for (recovery of) income taxes	(421)	397	(528)	(183)	225	473	165	385
Net income	$ 7,771	$ 9,450	$ 7,193	$ 11,918	$ 4,296	$ 7,129	$ 4,851	$ 6,092
Average mortgage portfolio yield - corporate [1]	5.27%	5.31%	5.25%	5.34%	5.48%	5.43%	5.52%	5.55%
Average term deposit interest rate [1]	2.25%	2.27%	2.32%	2.38%	2.40%	2.43%	2.45%	2.46%
Basic and diluted earnings per share	$ 0.34	$ 0.42	$ 0.32	$ 0.56	$ 0.21	$ 0.34	$ 0.23	$ 0.30
Return on average shareholders' equity [1]	11.80%	14.66%	11.36%	20.16%	7.49%	12.76%	8.74%	11.01%
Dividends per share								
Regular	$ 0.29	$ 0.29	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Total	$ 0.29	$ 0.29	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28

[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

Net investment income from corporate assets has been consistent since Q2 2014 with the exception of significant increases in Q2 2015 and Q4 2015 primarily due to higher equity income from MCAP and an income distribution from a commercial real estate investment, respectively. Additionally, Q1 2015 was negatively impacted by significant realized and unrealized losses on financial instruments. We have experienced a steady decrease in our corporate mortgage portfolio and term deposit yields due to decreases in market rates for new fundings. Realized and unrealized hedge losses were volatile throughout 2014 and 2015.

Net investment income from securitization assets has increased steadily from growth in the market MBS program, however it was negative in Q2 2014 and Q3 2014 as a result of the negative fair value adjustments relating to the CMB program which ended in Q2 2015.

SECURITIZATION PROGRAMS

We are an issuer of National Housing Act ("NHA") MBS, which involves the securitization of insured mortgages to create MBS. We issue MBS through the market MBS program, which is an internal program where we leverage our regulatory asset capacity by originating or purchasing insured single family mortgages for securitization and sale to third parties, thus providing us with a reliable source of incremental income.

Pursuant to the MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. CMHC makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the Timely Payment obligation to investors. In instances where we have sold MBS, where applicable, these sales are executed for the purposes of transferring various economic exposures that result in accounting outcomes noted for each program below. Each of the MBS programs noted below provide for many responsibilities that are linked to the issuer of these MBS instruments. We do not transfer program oversight or these specific responsibilities when selling MBS to other parties.

Market MBS Program

As part of the market MBS program, we may sell MBS to third parties and may also sell the interest-only strips to third parties. The MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing. As part of this program, we originate and purchase insured single family mortgages to sell as MBS.

During Q1 2016, we did not sell any MBS to third parties (Q1 2015 - $146 million). The majority of our previous mortgage sales have not achieved derecognition as we retained significant continuing involvement with the assets such that the associated mortgages remained on the balance sheet while a corresponding liability was incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages is recognized on an accrual basis over the term of the mortgages.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security instead of selling it to a third party. In Q1 2016, we issued and retained $20 million of market MBS (Q1 2015 - $nil). As at March 31, 2016, we held $41 million of retained MBS on our balance sheet (December 31, 2015 - $21 million), which is included in the insured single family classification within corporate mortgages.

The primary risks associated with the market MBS program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment (discussed below in the "Timely Payment" sub-section) as part of the market MBS program. Prepayment risk includes the acceleration of the amortization of mortgage premiums as a result of early payouts.

In the case of mortgage defaults, we are required to make scheduled principal and interest payments to investors as part of the Timely Payment (discussed below in the "Timely Payment" sub-section) and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

Any mortgages securitized through the market MBS program for which derecognition is not achieved remain on the balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio. A corresponding liability is also recognized on the balance sheet for mortgage securitizations that fail derecognition. However, for income tax purposes, all mortgages securitized by MCAN through the NHA MBS program achieve derecognition and are not included in income tax assets. For further details on total exposures, regulatory capital and income tax assets and capital, refer to the "Capital Management" and "Non-IFRS Measures" sections of this MD&A.

MCAN has capitalized certain mortgage acquisition costs. These costs are amortized using the effective interest rate method ("EIM"), which incorporates mortgage prepayment assumptions.

CMB Program

We previously participated in the CMB program, which involves the sale of MBS to the Canada Housing Trust ("CHT"). Our participation in the CMB program ceased in mid-2015 with the maturity of the last remaining CMB bond issuance. We continue to re-evaluate the economics of future CMB participation.

Timely Payment

Consistent with all issuers of MBS, we are required to remit scheduled mortgage principal and interest payments to CMHC, even if these mortgage payments have not been collected from mortgagors, to ensure that the Timely Payment of principal and interest to MBS investors is effected. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to CMHC. We maintain the Timely Payment obligation in our role as MBS issuer until the maturity of the security. If we fail to make a scheduled principal and interest payment to CMHC, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued.

If mortgage payments have not been collected from mortgagors or mortgagors are unable to renew their mortgages at their scheduled maturities, we will be required to use our own financial resources to fund our pro-rata share of these obligations until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties.

As part of the market MBS program, we are required to fund 100% of any cash shortfall unless we have sold the interest-only strip, in which case the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall. If the interest-only strip purchaser is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund our 100% share of this obligation until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties.

CAPITAL MANAGEMENT

Our primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk-weighted returns for our shareholders. Through our risk management and corporate governance framework, we assess current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. We typically pay out all taxable income by way of dividends. Capital growth is achieved through retained earnings, public share offerings, rights offerings and the DRIP. Our capital management is driven by the guidelines set out by the *Income Tax Act (Canada)* (the "Tax Act") and OSFI.

Income Tax Capital

As a MIC under the Tax Act, we are limited to an income tax liabilities to capital ratio of 5:1 (or an income tax assets to capital ratio of 6:1), based on our non-consolidated balance sheet in the MIC entity measured at its tax value. Securitization assets and liabilities (less accrued interest) are both excluded from the calculation of the income tax assets to capital ratio.

We manage our income tax assets to a level of 5.75 times income tax capital on a non-consolidated tax basis to provide a prudent cushion between the maximum permitted assets and total actual assets. Income tax asset capacity represents additional asset growth available to yield a 5.75 income tax assets to income tax capital ratio.

Table 23: Income Tax Capital [1]

(in thousands except ratios) **As at**	**March 31 2016**	**December 31 2015**
Income tax assets [1]		
Consolidated assets	$ 2,294,579	$ 2,246,958
Adjust for assets in subsidiaries	4,212	5,535
Non-consolidated assets in MIC entity	2,298,791	2,252,493
Add: mortgage allowances	5,238	4,953
Less: securitization assets [2]	(1,063,069)	(1,091,099)
Less: equity investments in subsidiaries [3]	(22,887)	(31,088)
Other adjustments	(4,146)	122
	$ 1,213,927	$ 1,135,381
Income tax liabilities [1]		
Consolidated liabilities	$ 2,028,952	$ 1,988,156
Adjust for liabilities in subsidiaries	(8,333)	(6,213)
Non-consolidated liabilities in MIC entity	2,020,619	1,981,943
Less: securitization liabilities [2]	(1,041,323)	(1,068,541)
	$ 979,296	$ 913,402
Income tax capital [1]	$ 234,631	$ 221,979
Income tax asset capacity [1]	$ 135,201	$ 140,998
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.17	5.11
Income tax liabilities to capital ratio	4.17	4.11

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*

[2] *Securitization assets and liabilities per balance sheet (less accrued interest) are excluded from income tax assets, liabilities and capital to the extent that they are held in the MIC entity.*

[3] *In Q1 2016, we reorganized the holding structure of our subsidiary investment in Xceed. This transaction increased income tax capital by $9.2 million and increased income tax asset capacity by $44 million. This reorganization had no impact on the consolidated financial statements.*

Regulatory Capital

As a Loan Company under the *Trust and Loan Companies Act* (the "Trust Act"), OSFI oversees the adequacy of our capital. For this purpose, OSFI has imposed minimum capital-to-regulatory (or risk-weighted) assets ratios and a minimum leverage ratio which is calculated on a different basis from the income tax assets to capital ratio discussed in the "Income Tax Capital" sub-section.

Since the financial crisis, OSFI and the BCBS have taken measures to promote a more resilient banking sector and strengthen global capital standards. Changes from Basel III that impacts MCAN through the CAR Guideline, Leverage Ratio and other items are listed below. We expect to be able to meet OSFI's requirements and expectations without materially adversely affecting the Company's business plan.

- OSFI requires all federally regulated financial institutions to meet the minimum Common Equity Tier 1 ("CET 1"), Total Tier 1 and Total Capital requirements set out therein. The minimum capital ratios are 4.5% for CET 1, 6% for Total Tier 1 and 8% for Total Capital (with the phase-in of certain regulatory adjustments and phase-out of non-qualifying capital instruments by 2022).

- The regulatory adjustments to be phased into the calculation of the capital ratios of a federally regulated financial institution include the deduction of certain significant investments in the capital of banking, financial and insurance entities above 10% of the institution's CET 1 Capital (after certain prescribed regulatory adjustments), which incorporates an adjustment for the equity investment in MCAP into CET 1 capital. For 2016, the "transitional" basis phases the adjustment in by a factor of 60%, while the "all-in" basis incorporates the entire adjustment. The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.

- Commencing in 2016, OSFI will also require all federally regulated financial institutions to maintain a capital conservation buffer. The buffer will be phased in over time and will reach its final level of 2.5% in 2019.

- In addition to the minimum capital requirements and capital conservation buffer to be maintained by all federally regulated institutions, OSFI expects all such institutions to attain target capital ratios equal to or greater than the 2019 minimum capital ratios and the 2019 capital conservation buffer well in advance of the phase-in period. Accordingly, OSFI expects all federally regulated institutions to have a CET 1 ratio of 7% and a Total Tier 1 ratio of 8.5% and a Total Capital ratio of 10.5% (in each case, calculated on an "all in" basis giving effect to all regulatory adjustments that will be required by 2019 and including the 2019 capital conservation buffer). Failure to achieve such targets will serve as triggers for supervisory intervention.

OSFI began the phase-in of the Credit Valuation Adjustment ("CVA") risk capital charge in 2014. The CVA risk capital charge applicable to CET 1 Capital is 64% in 2016. This will increase annually until it reaches 100% by 2019. The implementation of the CVA risk capital charge has had an insignificant impact on MCAN.

Our internal target minimum CET 1, Tier 1 and Total Capital ratios are 20%. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

OSFI and the BCBS are finalizing consultations for an update to the regulatory capital framework for loans secured by residential real estate properties. The potential impact to MCAN will largely be in changes to the risk weighting of mortgages as calculated in the standardized approach and a new capital charge for insured mortgages.

Table 24: Regulatory Capital

(in thousands except %) **As at**	**March 31 2016**	**December 31 2015**
Regulatory Ratios (OSFI)		
Share capital	$ 208,198	$ 206,382
Contributed surplus	510	510
Retained earnings	43,758	42,617
Accumulated other comprehensive income	13,161	9,293
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(10,635)	(7,324)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2]	$ 254,992	$ 251,478
Deduction for equity investment in MCAP (All-in adjustment) [1]	(7,090)	(10,986)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2]	$ 247,902	$ 240,492
Total Exposures/Regulatory Assets [2]		
Consolidated assets	$ 2,294,579	$ 2,246,958
Less: deductions from all-in Tier 1 Capital [1,2]	(17,725)	(18,310)
Other adjustments [3]	1,414	2,229
Total On-Balance Sheet Exposures	2,278,268	2,230,877
Mortgage and investment funding commitments	364,055	333,667
Less: conversion to credit equivalent amount (50%)	(182,028)	(166,834)
Letters of credit	35,884	35,863
Less: conversion to credit equivalent amount (50%)	(17,942)	(17,932)
Total Off-Balance Sheet Items	199,969	184,764
Total Exposures/Regulatory Assets	$ 2,478,237	$ 2,415,641
Leverage ratio [2]	10.00%	9.96%
Risk weighted assets (transitional) [2]	$ 1,137,504	$ 1,063,936
Risk weighted assets (all-in) [2]	$ 1,123,324	$ 1,041,964
Regulatory Capital Ratios [2]		
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	22.42%	23.64%
Tier 1 capital to risk-weighted assets ratio (transitional)	22.42%	23.64%
Total capital to risk-weighted assets ratio (transitional)	22.42%	23.64%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	22.07%	23.08%
Tier 1 capital to risk-weighted assets ratio (all-in)	22.07%	23.08%
Total capital to risk-weighted assets ratio (all-in)	22.07%	23.08%

[1] The deduction for the equity investment in MCAP on an all-in basis is equal to the equity investment balance less 10% of the Company's shareholders' equity. In 2016, the deduction on the transitional basis is equal to 60% of the all-in adjustment (2015 - 40%). The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.
[2] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[3] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

Table 25: Regulatory Risk-Weighted Assets

(in thousands except %)	March 31, 2016			December 31, 2015		
As at	**Per Balance Sheet**	**Average Rate**	**Risk Weighted Assets**	**Per Balance Sheet**	**Average Rate**	**Risk Weighted Assets**
On-Balance Sheet Assets						
Cash and cash equivalents	$ 78,386	20%	$ 15,960	$ 75,762	21%	$ 15,598
Marketable securities	49,207	100%	49,207	40,735	100%	40,735
Mortgages - corporate	998,357	67%	669,831	944,109	67%	629,171
Mortgages - securitized	1,050,929	3%	26,652	1,075,947	3%	27,288
Financial investments	51,318	100%	51,318	41,793	100%	41,793
Other loans	3,980	100%	3,980	4,176	100%	4,176
Equity investment in MCAP (all-in) [1]	44,287	60%	26,562	44,191	59%	25,879
Foreclosed real estate	529	100%	529	529	100%	529
Deferred tax asset	1,237	100%	1,237	1,125	100%	1,125
Other assets	6,226	100%	6,226	5,479	100%	5,479
			851,502			791,773
Off-Balance Sheet Items						
Letters of credit	35,884	50%	17,942	35,863	50%	17,932
Commitments	364,055	45%	164,767	333,667	44%	148,109
			182,709			166,041
Charge for operational risk			89,113			84,150
Risk-Weighted Assets (all-in)			1,123,324			1,041,964
Equity investment in MCAP (transitional adjustment) [1]			14,180			21,972
Risk-Weighted Assets (transitional)			**$ 1,137,504**			**$ 1,063,936**

[1] In calculating risk-weighted assets on the "all-in" basis, the capital deduction related to the investment in MCAP is risk weighted at 0%, while the component not deducted from capital is risk weighted at 100%. In calculating risk-weighted assets on the transitional basis, the difference between the all-in deduction and the transitional deduction is risk weighted at 200%.

LIQUIDITY MANAGEMENT

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the Risk Committee of the Board (“RCB”) on a quarterly basis. For further information on how we manage liquidity risk, refer to the “Liquidity Risk” sub-section of the “Risk Governance & Management” section of this MD&A. For information on our credit facilities refer to Note 22 to the consolidated financial statements.

OSFI’s Liquidity Adequacy Requirements (“LAR”) guideline establishes three minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio (“LCR”) and Net Cumulative Cash Flow (“NCCF”) metric, which both became effective January 1, 2015, and the Net Stable Funding Ratio (“NSFR”), which is effective January 1, 2018.

As at March 31, 2016, we were in compliance with the LCR and NCCF and we believe that we will be able to comply with the NSFR requirements once enacted.

These requirements are supplemented by additional supervisory monitoring metrics including the liquidity monitoring tools and the intraday liquidity monitoring tools as considered in the Basel III framework.

The following table shows the composition of our internal liquidity ratios. These internal ratios include assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. We manage our liquid assets based on term deposit liabilities maturing within 100 days. As at March 31, 2016, we were in compliance with our internal liquidity ratios.

Table 26: Liquidity Ratios

(in thousands except %) As at	March 31 2016	December 31 2015
Tier 1 liquid assets [1]		
Cash and cash equivalents	$ 78,386	$ 75,762
Tier 2 liquid assets [1]		
Marketable securities	49,207	40,735
Less: marketable securities adjustment [2]	(11,983)	(10,104)
Market MBS retained by MCAN [3]	40,792	21,250
	78,016	51,881
Tier 3 liquid assets [1]		
Single family insured mortgages [4]	64,281	60,399
Less: single family insured mortgages adjustment [4]	(23,163)	(18,503)
	41,118	41,896
Total liquid assets [1]	$ 197,520	$ 169,539
100 day term deposit maturities	$ 202,880	$ 92,622
Liquidity ratios [1]		
Tier 1 & 2 liquid assets to 100 day term deposit maturities	77%	138%
Total liquid assets to 100 day term deposit maturities	97%	183%

[1]*Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*

[2]*Adjusted to reflect estimated impact to fair value in a stressed scenario. Corporate bonds are reduced as follows: BBB- or higher (30%); below BBB- (45%). REITs are reduced as follows: constituent in TSX/S&P Composite Index (20%); not a constituent in TSX/S&P Composite Index (40%).*

[3]*Included in corporate mortgages - insured single family. For further information, refer to the "Securitization Programs" section of this MD&A.*

[4]*Single family insured mortgages exclude mortgages pledged as collateral and second mortgages not insured by CMHC. The adjustment reflects lower liquidity than Tier 1 and Tier 2 liquidity, as follows: CMHC insured (25%), CMHC insured second mortgages (50%), privately insured (50%).*

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above.

Table 27: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	March 31 2016	December 31 2015
Sources of liquidity							
Cash and cash equivalents	$ 78,386	$ -	$ -	$ -	$ -	$ 78,386	$ 75,762
Marketable securities	-	2,053	666	-	46,488	49,207	40,735
Mortgages - corporate	138,832	429,996	372,822	47,335	9,372	998,357	944,109
Financial investments	-	-	-	-	51,318	51,318	41,793
Other loans	1,529	-	-	2,451	-	3,980	4,176
	218,747	432,049	373,488	49,786	107,178	1,181,248	1,106,575
Uses of liquidity							
Term deposits	194,725	415,698	311,748	53,492	-	975,663	903,041
Loans payable	4,085	-	-	-	-	4,085	-
Other liabilities	4,005	-	-	-	-	4,005	12,412
	202,815	415,698	311,748	53,492	-	983,753	915,453
Net liquidity surplus (deficit)	**$ 15,932**	**$ 16,351**	**$ 61,740**	**$ (3,706)**	**$ 107,178**	**$ 197,495**	**$ 191,122**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 191,046	$ 95,132	$ 61,182	$ -	$ -	$ 347,360	$ 308,242
Commitment - KingSett High Yield Fund	-	-	-	-	16,695	16,695	25,425
	$ 191,046	$ 95,132	$ 61,182	$ -	$ 16,695	$ 364,055	$ 333,667

Note: The above table excludes securitized assets and liabilities and pledged assets as their use is restricted to securitization program operations.

RISK GOVERNANCE AND MANAGEMENT

We are exposed to a number of risks, including credit risk, liquidity and funding risk, market risk and interest rate risk, that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital and/or damage to our reputation. We mitigate these risks through prudent credit limits, established lending policies and procedures, effective monitoring and reporting, investment diversification and by the diligent management of assets and liabilities.

We operate in changing regulatory and economic environments. As a result, we believe that our management team and the Board are particularly diligent in their consideration of all identified and emerging risks. Our goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our assessment and management of risk, as a means to gain a strategic advantage and ultimately enhance shareholder value.

The risks that have been identified may not be the only risks that we face. Other risks of which we are not aware of or which we currently deem to be immaterial may surface and have a material adverse impact on our business, results from operations and financial condition.

The shaded areas of this MD&A represent a discussion of risk factors and risk management policies and procedures relating to credit, liquidity, interest rate and market risks as required under IFRS 7, *Financial Instruments: Disclosures*. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of the consolidated financial statements.

For a detailed discussion of risks that the Company is exposed to, refer to the “Risk Governance and Management” section of the 2015 Annual MD&A.

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 we may eventually collect the amounts outstanding, which may result in a loss of earnings or capital, or have an otherwise adverse effect on our financial condition and results of operations.

Reputational Risk

Reputational risk is the negative consequence of the occurrence of other risks and can occur from an activity undertaken by the Company, its affiliated companies, or its representatives. The loss of reputation can greatly affect shareholder value through reduced public confidence, a loss of business, legal action, or increased regulatory oversight. Reputation refers to the perception of the enterprise by various stakeholders. Typically key stakeholder groups include investors, customers, employees, suppliers and regulators. Perceptions may be impacted by various events including financial performance, specific adverse occurrences from events such as cyber security issues, unfavourable media coverage, and changes or actions of the corporation's leadership. Failure to effectively manage reputation risk can result in reduced market capitalization, loss of client loyalty, and the inability to achieve our strategic objectives.

Strategic and Business Risk

Strategic and business risk is the risk of loss due to fluctuations in the external business environment, the failure of management to adjust its strategies and business activities for external events or business results, or the inability of the business to change its cost levels in response to those changes.

Operational Risk

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, systems, or from external events. The risk of loss from people includes internal or external fraud, non-adherence to internal procedures/values/objectives or unethical behaviour. The largest components of this risk for MCAN have been separately identified as outsourcing risk and cyber risk. The remaining risks arise from the small size and entrepreneurial nature of MCAN, and the legacy systems used within it. The exposure to financial misreporting, inaccurate financial models, fraud, breaches in privacy, information security, attraction and retention of employees, and business continuity and recovery are included within operational risk.

Cyber Risk

We collect and store confidential and personal information to the extent needed for operational purposes. Unauthorized access to the Company's computer systems could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in the Company's operations. In addition, despite the Company's implementation of security measures, its systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any such system failure, accident or security breach could disrupt the Company's delivery of services and make the Company's applications unavailable or cause similar disruptions to the Company's operations. If a person penetrates the Company's network security or otherwise misappropriates sensitive data, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on the Company's business, results of operations and financial condition.

Outsourcing Risk

Outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource the majority of our mortgage and loan origination, servicing and collections to MCAP and other third parties.

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 our 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. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counter party fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

Our exposure to interest rate risk is discussed further in Note 23 to the consolidated financial statements.

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Our market risk factors include price risk on marketable securities, interest rates, real estate values, commodity prices and foreign exchange rates, among others. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

Risk Management

For a detailed discussion of how we manage the risks noted above, refer to the "Risk Governance and Management" section of the 2015 Annual MD&A.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At March 31, 2016, there were 22,932,812 common shares outstanding. As at May 10, 2016, there were 22,932,812 common shares outstanding.

During Q1 2016, we issued 150,379 new common shares under the DRIP, which 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 additional information related to share capital, refer to Note 15 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to an operating lease, in addition to outstanding commitments for future fundings of corporate mortgages and our investment in the KingSett High Yield Fund.

We outsource the majority of our mortgage servicing and continue to pay servicing expenses as long as the mortgages remain on our balance sheet.

Table 28: Contractual Obligations

(in thousands)

As at March 31, 2016	Less than one year	One to three years	Three to five years	Over five years	Total
Mortgage funding commitments	$ 286,178	$ 61,182	$ -	$ -	$ 347,360
Commitment - KingSett High Yield Fund	-	-	-	16,695	16,695
Operating lease	432	1,151	1,180	2,239	5,002
	$ 286,610	**$ 62,333**	**$ 1,180**	**$ 18,934**	**$ 369,057**

We retain mortgage servicing obligations relating to mortgages securitized through the market MBS program where balance sheet derecognition has been achieved. For further information, refer to Note 6 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. For further information, refer to Note 22 to the consolidated financial statements.

As at March 31, 2016, of our total single family mortgage renewal rights of $1.1 billion (December 31, 2015 - $1.1 billion), $210 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (December 31, 2015 - $219 million).

DIVIDENDS

Consistent with the prior quarter, the Board declared a second quarter dividend of $0.29 per share to be paid June 30, 2016 to shareholders of record as of June 15, 2016.

TRANSACTIONS WITH RELATED PARTIES

In Q1 2016, we purchased certain corporate services from MCAP in the amount of $55,000 (2015 - $58,000) and purchased certain mortgage origination and administration services from MCAP in the amount of $970,000 (2015 - $495,000). Also, we received $1.0 million (2015 - $636,000) of mortgage fees from MCAP.

In Q1 2015, we paid $3.8 million in mortgage premiums to MCAP as part of the acquisition of mortgages securitized through the market MBS program.

All transactions noted above were in the normal course of business.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our 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, short-term investments, marketable securities, mortgages, financial investments, other loans, derivative financial instruments, financial liabilities from securitization, term deposits and loans payable, which are discussed throughout this MD&A.

The use of financial instruments exposes us to interest rate, credit, liquidity and market risk. A discussion of these risks and how these risks are managed is found in the "Risk Governance and Management" section of this MD&A.

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with the instruments are located in the "Results from Operations" and "Financial Position" sections of this MD&A. Information on the determination of the fair value of financial instruments is located in the "Critical Accounting Estimates and Judgments" section of this MD&A.

PEOPLE

As at March 31, 2016, we had 68 employees.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's financial statements requires management to make judgments and estimations and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates are considered carefully and reviewed at an appropriate level within MCAN. We believe that our estimates of the value of our assets and liabilities are appropriate. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future period.

Critical Accounting Estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The collective allowance represents losses that we believe have been incurred but not yet specifically identified. The collective allowance is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. Allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current year, and there could be a need to increase or decrease the allowance for credit losses.

We review our individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices and the performance of different individual groups). There have been no recent changes to the methodology, nor are any expected in the foreseeable future. No trends, events or uncertainties exist that may affect the methodology and assumptions used.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

In addition to considering current economic conditions, we assessed the probability of default, expected loss as a result of default and the mortgage exposure at the time of default when establishing our collective allowance. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums using the EIM.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income in the subsidiaries of the Company. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded in the subsidiaries of the Company.

The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by relevant tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the responsible tax authority. As the Company assesses the probability of litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used in the subsidiaries of the Company. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the subsidiaries of the Company, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Impairment of financial assets

As applicable, the Company reviews financial assets at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the fair value of the asset.

Critical Accounting Judgments

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Significant influence

In determining whether it has significant influence over an entity, the Company makes certain judgments based on the applicable accounting standards. These judgments form the basis for the Company's policies in accounting for its equity investments.

Taxes

As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends in current and future years to ensure that it is not subject to income taxes in the MIC entity on a non-consolidated basis. Accordingly, the Company does not record a provision for current and deferred taxes within the MIC entity; however provisions are recorded as applicable in all subsidiaries of MCAN.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. This listing is of standards and interpretations issued, which we reasonably expect to be applicable at a future date. We intend to adopt those standards when they become effective.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued a final revised IFRS 9 standard. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also includes an expected credit loss model to replace the current incurred loss model. Additionally, IFRS 9 has new hedge accounting principles that are aimed to align hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

IFRS 16, *Leases*

IFRS 16, *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from January 1, 2019. All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. The Company has not yet determined the impact of IFRS 16 on its consolidated financial statements.

IAS 7, *Statement of Cash Flows*

The Company will be required to adopt amendments to IAS 7, *Statement of Cash Flows*, requiring increased disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for annual periods beginning on or after January 1, 2017. The Company has not yet determined the impact of this amendment on its consolidated financial statements.

IAS 12, *Income Taxes*

The Company will be required to adopt amendments to IAS 12*, Income Taxes* for the recognition of deferred tax assets for unrealised losses, for annual periods beginning on or after January 1, 2017. The Company has not yet determined the impact of this amendment on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2016, the CEO and CFO of MCAN, along with the assistance of the Company's disclosure committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

NON IFRS MEASURES

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). We use a number of financial measures to assess our performance. Some of these measures are not calculated in accordance with IFRS, are not defined by IFRS, and do not have standardized meanings that would ensure consistency and comparability between companies using these measures. The non-IFRS measures used in this MD&A are defined as follows:

Return on Average Shareholders' Equity
Return on average shareholders' equity is a profitability measure that presents the annualized net income available to shareholders' equity as a percentage of the capital deployed to earn the income. We calculate return on average shareholders' equity as a monthly average using all components of shareholders' equity.

Taxable Income Measures
Taxable Income Measures include taxable income and taxable income per share. Taxable income represents MCAN's net income on a non-consolidated basis calculated under the provisions of the Tax Act applicable to a MIC. Taxable income is calculated as an estimate until we complete our annual tax returns subsequent to year end, at which point it is finalized.

Average Interest Rate
The average interest rate is a profitability measure that presents the average annualized yield of an asset or liability. Average mortgage portfolio yield (corporate or securitized), term deposit average interest rate, financial liabilities from securitization average interest rate, spread of mortgages over term deposits and spread of securitized assets over liabilities are examples of average interest rates. The average asset/liability balance that is incorporated into the average interest rate calculation is calculated on either a daily or monthly basis depending on the nature of the asset/liability. Please refer to the applicable tables containing average balances for further details.

Net Interest Income
Net interest income is a profitability measure that reflects net income earned only from interest-bearing assets and liabilities.

Impaired Mortgage Ratios
The impaired mortgage ratios represent the ratio of impaired uninsured mortgages to both corporate and total (corporate and securitized) mortgage principal.

Mortgage Arrears
Mortgage arrears measures include total corporate mortgage arrears, total securitized mortgage arrears and total mortgage arrears. These measures represent the amount of mortgages from the corporate portfolio, securitized portfolio and the sum of the two, respectively, that are at least one day past due.

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio, Assets to Capital Multiple and Risk Weighted Assets
These measures provided in this MD&A are in accordance with guidelines issued by OSFI and are located on Table 24 of this MD&A and Note 24 to the consolidated financial statements.

Tier 1, Tier 2, Tier 3 and Total Liquid Assets and Liquidity Ratios
Tier 1, Tier 2, Tier 3 and Total Liquid Assets are internal metrics that quantify the balance sheet assets (or components of assets) that comprise various liquidity levels. Liquidity ratios represent the ratio of select tiers of liquid assets to term deposits maturing within 100 days.

Income Tax Capital Measures
Income tax assets, income tax liabilities and income tax capital represent assets, liabilities and capital as calculated on a non-consolidated basis using the provisions of the Tax Act applicable to a MIC. The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts. Income tax asset capacity represents additional income tax asset growth available to yield a 5.75 income tax assets to capital ratio, which is our target ratio.

Market Capitalization
Market capitalization is calculated as the number of common shares outstanding multiplied by the closing common share price as of that date.

Book Value per Common Share
Book value per common share is calculated as total shareholders' equity divided by the number of common shares outstanding.

Limited Partner's At-Risk Amount
The value of our equity investment in MCAP for income tax purposes is referred to as the Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the limited partner's investment in the partnership. The LP ARA is increased (decreased) by the partner's share of partnership income (loss) on a tax basis, increased by the amount of capital contributions into the partnership and reduced by distributions received from the partnership.

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at	Note	March 31 2016	December 31 2015
Assets			
Corporate Assets			
Cash and cash equivalents		$ 78,386	$ 75,762
Marketable securities	7	49,207	40,735
Mortgages	8	998,357	944,109
Financial investments	9	51,318	41,793
Other loans		3,980	4,176
Equity investment in MCAP Commercial LP	10	44,287	44,191
Foreclosed real estate		529	529
Deferred tax asset	13	1,237	1,125
Other assets		3,531	2,626
		1,230,832	**1,155,046**
Securitization Assets			
Short-term investments		10,123	13,112
Mortgages	11	1,050,929	1,075,947
Other assets		2,695	2,853
		1,063,747	**1,091,912**
		$ 2,294,579	**$ 2,246,958**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	12	$ 975,663	$ 903,041
Loans payable	22	4,085	-
Current taxes payable	13	-	100
Deferred tax liabilities	13	2,203	2,299
Other liabilities		4,005	12,412
		985,956	**917,852**
Securitization Liabilities			
Financial liabilities from securitization	14	1,042,996	1,070,304
		1,042,996	**1,070,304**
		2,028,952	**1,988,156**
Shareholders' Equity			
Share capital	15	208,198	206,382
Contributed surplus	15	510	510
Retained earnings		43,758	42,617
Accumulated other comprehensive income	17	13,161	9,293
		265,627	**258,802**
		$ 2,294,579	**$ 2,246,958**

The accompanying notes and shaded areas of the "Risk Governance and Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

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

For the Quarters Ended March 31	Note	2016	2015
Net Investment Income - Corporate Assets			
Mortgage interest		$ 12,588	$ 12,541
Equity income from MCAP Commercial LP	10	2,515	1,096
Fees		553	530
Marketable securities		709	387
Whole loan gain on sale income		323	205
Realized and unrealized loss on financial instruments		-	(1,481)
Interest on financial investments and other loans		484	144
Interest on cash and cash equivalents		125	128
		17,297	**13,550**
Term deposit interest and expenses		5,323	5,141
Mortgage expenses	18	953	894
Interest on loans payable		71	180
Provision for (recovery of) credit losses	19	325	(63)
		6,672	**6,152**
		10,625	**7,398**
Net Investment Income - Securitization Assets			
Mortgage interest		7,005	4,951
Interest on short-term investments		7	25
Other securitization income		-	34
		7,012	5,010
Interest on financial liabilities from securitization		5,323	4,022
Mortgage expenses	18	445	270
		5,768	4,292
Net investment income before fair value adjustment		1,244	718
Fair value adjustment - derivative financial instruments		-	(24)
		1,244	**694**
Operating Expenses			
Salaries and benefits		2,518	2,060
General and administrative		2,001	1,511
		4,519	**3,571**
Net Income Before Income Taxes		**7,350**	**4,521**
Provision for (recovery of) income taxes			
Current	13	(100)	-
Deferred	13	(321)	225
		(421)	225
Net Income		**$ 7,771**	**$ 4,296**
Basic and diluted earnings per share		$ 0.34	$ 0.21
Dividends per share		$ 0.29	$ 0.28
Weighted average number of basic and diluted shares (000's)		22,861	20,941

The accompanying notes and shaded areas of the "Risk Governance and Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of Canadian dollars)

For the Quarters Ended March 31	2016	2015
Net income	$ 7,771	$ 4,296
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	3,321	1,424
Change in unrealized gain on available for sale financial investments	660	2,678
Less: deferred taxes	(113)	(355)
	3,868	3,747
Comprehensive income	**$ 11,639**	**$ 8,043**

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

For the Quarters Ended March 31	Note	2016	2015
Share capital			
Balance, beginning of period		$ 206,382	$ 183,939
Common shares issued	15	1,816	3,860
Balance, end of period		**208,198**	**187,799**
Contributed surplus			
Balance, beginning of period		510	510
Changes to contributed surplus		-	-
Balance, end of period		**510**	**510**
Retained earnings			
Balance, beginning of period		42,617	34,481
Net income		7,771	4,296
Dividends declared		(6,630)	(5,864)
Balance, end of period		**43,758**	**32,913**
Accumulated other comprehensive income			
Balance, beginning of period		9,293	6,373
Other comprehensive income		3,868	3,747
Balance, end of period		**13,161**	**10,120**
Total shareholders' equity		**$ 265,627**	**$ 231,342**

The accompanying notes and shaded areas of the "Risk Governance and Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

For the Quarters Ended March 31	2016	2015
Cash provided by (used for):		
Operating Activities		
Net income	$ 7,771	$ 4,296
Adjustments to determine cash flows relating to operating activities:		
Current taxes	(100)	-
Deferred taxes	(321)	225
Equity income from MCAP Commercial LP	(2,515)	(1,096)
Provision for (recovery of) credit losses	325	(63)
Fair value adjustment - derivative financial instruments	-	24
Amortization of securitized mortgage and liability transaction costs	1,384	644
Amortization of other assets	82	98
Amortization of mortgage discounts	(22)	11
Amortization of premium on marketable securities	(6)	(11)
Changes in operating assets and liabilities:		
Mortgages	(30,607)	(120,078)
Term deposits	72,622	25,692
Financial liabilities from securitization	(27,558)	134,511
Marketable securities	(5,144)	(111)
Short-term investments	2,989	(8,177)
Financial investments	(8,865)	(914)
Other loans	196	593
Other assets	(744)	726
Other liabilities	(1,860)	(1,176)
Cash flows from operating activities	**7,627**	**35,194**
Investing Activities		
Distributions from MCAP Commercial LP	2,419	-
Acquisition of capital and intangible assets	(86)	(16)
Cash flows from investing activities	**2,333**	**(16)**
Financing Activities		
Issue of common shares	1,816	3,860
Increase in loans payable	4,085	-
Dividends paid	(13,237)	(11,690)
Cash flows for financing activities	**(7,336)**	**(7,830)**
Increase in cash and cash equivalents	2,624	27,348
Cash and cash equivalents, beginning of period	75,762	51,090
Cash and cash equivalents, end of period	**$ 78,386**	**$ 78,438**

Supplementary Information

	2016	2015
Interest received	$ 20,016	$ 18,805
Interest paid	7,383	7,254
Distributions received from investments	1,389	-

The accompanying notes and shaded areas of the "Risk Governance and Management" section of Management's Discussion and Analysis of Operations are an integral part of these consolidated financial statements.

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1. Corporate Information

MCAN Mortgage Corporation (the "Company" or "MCAN") is a Loan Company under the *Trust and Loan Companies Act* (*Canada*) (the "Trust Act") and a Mortgage Investment Corporation ("MIC") under the *Income Tax Act* (*Canada*) (the "Tax Act").

As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by the Office of the Superintendent of Financial Institutions Canada ("OSFI").

MCAN'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 income tax basis in the MIC entity) as limited by the provisions of the Tax Act applicable to a MIC. 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 50% of capital gains dividends and 100% of other dividends paid. Such dividends are received by shareholders as capital gains dividends and interest income, respectively.

MCAN's primary wholly owned subsidiary, Xceed Mortgage Corporation ("Xceed"), focuses on the origination and sale to MCAN and third party mortgage aggregators of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers. Xceed is incorporated in the province of Ontario.

MCAN also participates in the National Housing Act ("NHA") mortgage-backed securities ("MBS") program. For further details, refer to Note 6.

MCAN is incorporated in Canada. MCAN and Xceed's head office is located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is listed on the Toronto Stock Exchange under the symbol MKP.

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors on May 11, 2016.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on a historical cost basis, except for marketable securities, foreclosed real estate and certain financial investments designated as available for sale, which have been measured at fair value. The consolidated financial statements are presented in Canadian dollars.

The disclosures that accompany the consolidated financial statements include the significant accounting policies applied (Note 4) and the significant judgments (Note 5(a)) and estimates (Note 5(b)) applicable to the preparation of the consolidated financial statements.

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets represent the Company's core strategic investments, and are funded by term deposits and share capital. Securitization assets consist primarily of mortgages that have been securitized through the NHA MBS program and subsequently sold to third parties. These assets are funded by the cash received from the sale of the associated securities, which is then classified as a financial liability from securitization.

3. Basis of Consolidation

The consolidated financial statements include the balances of MCAN and its subsidiaries as at March 31, 2016.

Subsidiaries are fully consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Per IFRS 10, *Consolidated Financial Statements*, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intercompany balances due to/from subsidiaries, income and expenses and unrealized gains and losses resulting from intercompany transactions and dividends are eliminated in full.

4. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its consolidated financial statements are disclosed in Note 4 to the Company's year-end consolidated financial statements as at and for the year ended December 31, 2015. Certain policies adopted to March 31, 2016 are discussed below.

IAS 1, *Presentation of Financial Statements*

The Company adopted amendments to IAS 1, *Presentation of Financial Statements*, which includes amendments to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements, as of January 1, 2016. The amendments to IAS 1 have had no impact on the Company's interim consolidated financial statements.

IFRS 7, *Financial Instruments: Disclosures*

The Company adopted amendments to IFRS 7, *Financial Instruments: Disclosures*, requiring increased disclosure regarding derecognition of financial assets and continuing involvement accounting, as of January 1, 2016. The amendments to IFRS 7 have had no impact on the Company's consolidated interim financial statements.

Standards issued but not effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 9, *Financial Instruments*

In July 2014, the IASB issued a final revised IFRS 9 standard. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also includes an expected credit loss model to replace the current incurred loss model. Additionally, IFRS 9 has new hedge accounting principles that are aimed to align hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

4. Summary of Significant Accounting Policies (continued)

IFRS 16, *Leases*

IFRS 16, *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from January 1, 2019. All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. The Company has not yet determined the impact of IFRS 16 on its consolidated financial statements.

IAS 7, *Statement of Cash Flows*

The Company will be required to adopt amendments to IAS 7, *Statement of Cash Flows*, requiring increased disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for annual periods beginning on or after January 1, 2017. The Company has not yet determined the impact of this amendment on its consolidated financial statements.

IAS 12, *Income Taxes*

The Company will be required to adopt amendments to IAS 12*, Income Taxes* for the recognition of deferred tax assets for unrealised losses, for annual periods beginning on or after January 1, 2017. The Company has not yet determined the impact of this amendment on its consolidated financial statements.

5. Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Significant Accounting Judgments

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Significant influence

In determining whether it has significant influence over an entity, the Company makes certain judgments based on the applicable accounting standards. These judgments form the basis for the Company's policies in accounting for its equity investments.

Taxes

As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends in current and future years to ensure that it is not subject to income taxes in the MIC entity on a non-consolidated basis. Accordingly, the Company does not record a provision for current and deferred taxes within the MIC entity, however provisions are recorded as applicable in all subsidiaries of MCAN.

5. Significant Accounting Judgments and Estimates (continued)

(b) Significant Accounting Estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Impairment losses on mortgages

The Company reviews its individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance.

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices and the performance of different individual groups).

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums using the EIM.

Taxes

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used in the subsidiaries of the Company. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the subsidiaries of the Company, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Further details on taxes are disclosed in Note 13.

Impairment of financial assets

As applicable, the Company reviews financial assets at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the fair value of the asset.

6. Securitization Activities

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. The Company issues MBS through the market MBS program, which is an internal program where it originates or purchases insured single family mortgages for securitization.

Pursuant to the NHA MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. Canada Mortgage and Housing Corporation ("CMHC") makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, the Company has sold MBS as part of the market MBS program and the CMB program, which are discussed below.

6. Securitization Activities (continued)

Market MBS Program

MCAN originates and purchases insured single family mortgages to sell as MBS as part of the market MBS program. The Company may sell MBS to third parties and may also sell the net economics and cash flows from the underlying mortgages ("interest-only strips") to third parties. The MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing.

During Q1 2016, MCAN did not sell any new MBS to third parties (Q1 2015 - $146,060). When the MBS is sold to third parties and the interest-only strip is retained by MCAN, the securitized mortgages remain on MCAN's consolidated balance sheet while a corresponding financial liability from securitization is incurred (Notes 11 and 14), due to the fact that MCAN retains significant continuing involvement with the assets.

The Company may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes instead of selling it to a third party. In Q1 2016, the Company issued and retained $19,969 of market MBS (Q1 2015 - $nil).

The primary risks associated with the market MBS program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment (discussed below) as part of the market MBS program.

Any mortgages securitized through the market MBS program for which derecognition is not achieved remain on MCAN's consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio (Note 24). For income tax purposes, mortgage securitizations by MCAN through the NHA MBS program are considered to be true mortgage sales and therefore are not included in income tax assets (Note 24).

MCAN has capitalized certain mortgage acquisition costs. These costs are amortized using the effective interest rate method ("EIM"), which incorporates mortgage prepayment assumptions.

In the case of mortgage defaults, MCAN is required to make scheduled principal and interest payments to investors as part of the Timely Payment Guarantee (discussed below) and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

CMB Program

MCAN previously participated in the CMB program, which involves the sale of MBS to the Canada Housing Trust ("CHT"). MCAN's participation in the CMB program ceased during 2015 with the maturity of the last remaining CMB bond issuance.

Timely Payment

Consistent with all issuers of MBS, the Company is required to remit scheduled mortgage principal and interest payments to CMHC, even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to CMHC. If the Company fails to make a scheduled principal and interest payment to CMHC, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued.

As part of the market MBS program, the Company is required to fund 100% of any cash shortfall unless it has sold the interest-only strip, in which case the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall.

Transferred financial assets that are not derecognized in their entirety

Since MCAN neither transferred nor retained risks and rewards of ownership on sale and retained significant continuing involvement through the provision of the timely payment guarantee, the majority of the market MBS program sale transactions resulted in MCAN continuing to recognize the securitized mortgages and financial liabilities from securitization on its consolidated balance sheet. The securitized mortgage balance as at March 31, 2016 was $1,050,929 (December 31, 2015 - $1,075,947) (Note 11). The financial liabilities from securitization balance as at March 31, 2016 was $1,042,996 (December 31, 2015 - $1,070,304) (Note 14).

6. Securitization Activities (Continued)

Transferred financial assets that are derecognized in their entirety but where the Company has a continuing involvement

MCAN sells MBS and the associated interest only strips to third parties and derecognizes the assets from its consolidated balance sheet as a result of the transfer of substantially all risks and rewards on sale. The Company's continuing involvement is the ongoing obligation in its role as MBS issuer to service the mortgages and MBS until maturity.

The total outstanding derecognized MBS balance related to the market MBS program at March 31, 2016 was not reflected as an asset or liability on MCAN's consolidated balance sheet. The MBS mature as follows:

As at	2016	2017	2020	Total
March 31, 2016	$ 26,932	$ 149,674	$ 144,755	$ 321,361
December 31, 2015	$ 29,272	$ 157,741	$ 147,219	$ 334,232

7. Marketable Securities

As at	March 31 2016	December 31 2015
Real estate investment trusts	$ 46,454	$ 37,958
Corporate bonds	2,753	2,777
	$ 49,207	**$ 40,735**

Marketable securities are designated as available for sale. Corporate bonds mature between 2016 and 2022 while real estate investment trusts have no specific maturity date. Fair values are based on bid prices quoted in active markets (real estate investment trusts) and observable inputs other than quoted prices (corporate bonds), and changes in fair value are recognized in the consolidated statements of comprehensive income.

8. Mortgages - Corporate

(a) Summary

As at March 31, 2016	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 345,109	$ 1,468	$ 97	$ 1,565	$ 343,544
- Insured	106,997	-	-	-	106,997
- Uninsured - completed inventory	12,889	55	-	55	12,834
Construction loans					
- Residential	411,915	2,671	220	2,891	409,024
- Non-residential	5,804	38	-	38	5,766
Commercial loans					
- Uninsured	121,167	975	-	975	120,192
	$ 1,003,881	**$ 5,207**	**$ 317**	**$ 5,524**	**$ 998,357**

8. Mortgages - Corporate (continued)

As at December 31, 2015	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 361,107	$ 1,523	$ 119	$ 1,642	$ 359,465
- Insured	83,619	-	-	-	83,619
- Uninsured - completed inventory	31,415	135	-	135	31,280
Construction loans					
- Residential	352,314	2,286	220	2,506	349,808
- Non-residential	5,632	37	-	37	5,595
Commercial loans					
- Uninsured	115,281	939	-	939	114,342
	$ 949,368	**$ 4,920**	**$ 339**	**$ 5,259**	**$ 944,109**

Gross principal as presented in the tables above includes unamortized capitalized transaction costs and accrued interest.

MCAN's corporate mortgage portfolio includes insured and uninsured single family mortgages. The Company does not invest in the United States mortgage market. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to developers to provide interim mortgage financing on residential units (condominium or freehold), where all construction has been completed and therefore no further construction risk exists.

Residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating interest rate and terms of one to two years.

Commercial loans include commercial term mortgages and high ratio mortgage loans.

The weighted average yield of the Company's corporate mortgage portfolio is as follows:

As at	March 31 2016	December 31 2015
Single family - uninsured	4.46%	4.42%
Single family - uninsured completed inventory	4.59%	5.10%
Single family - insured	3.78%	3.80%
Construction	5.63%	5.53%
Commercial	7.24%	7.22%
Total	**5.21%**	**5.15%**

Outstanding commitments for future fundings of mortgages intended for the Company's corporate portfolio are as follows:

As at	March 31 2016	December 31 2015
Single family - uninsured	$ 8,013	$ 10,396
Single family - uninsured completed inventory	1,026	789
Single family - insured	29,312	30,691
Construction - residential	304,479	259,684
Construction - non residential	1,431	1,593
Commercial	3,099	5,089
Total	**$ 347,360**	**$ 308,242**

The fair value of the corporate mortgage portfolio as at March 31, 2016 was $1,013,713 (December 31, 2015 - $958,772). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages. For information regarding the maturity dates of the Company's mortgages, refer to Note 23.

8. Mortgages - Corporate (continued)

As at March 31, 2016, single family insured mortgages included $40,792 of mortgages that had been securitized through the market MBS program, however the underlying MBS security has been retained by the Company for liquidity purposes (December 31, 2015 - $21,250).

(b) Geographic Analysis

As at March 31, 2016	Single Family	Construction	Commercial	Total	
Ontario	$ 298,529	$ 169,470	$ 69,554	$ 537,553	53.8%
Alberta	75,603	90,905	18,484	184,992	18.5%
British Columbia	41,933	132,526	20,617	195,076	19.5%
Quebec	15,901	-	-	15,901	1.6%
Atlantic Provinces	19,556	-	11,397	30,953	3.1%
Other	11,853	21,889	140	33,882	3.5%
	$ 463,375	**$ 414,790**	**$ 120,192**	**$ 998,357**	**100.0%**

As at December 31, 2015	Single Family	Construction	Commercial	Total	
Ontario	$ 307,061	$ 154,006	$ 72,275	$ 533,342	56.5%
Alberta	74,301	76,743	17,991	169,035	17.9%
British Columbia	45,514	104,855	12,430	162,799	17.2%
Quebec	15,575	-	-	15,575	1.6%
Atlantic Provinces	20,151	-	11,500	31,651	3.4%
Other	11,762	19,799	146	31,707	3.4%
	$ 474,364	**$ 355,403**	**$ 114,342**	**$ 944,109**	**100.0%**

(c) Mortgage Allowances

Details of the collective and individual allowances for mortgage credit losses for the current and prior quarters are as follows:

	Collective	Individual	2016 Total	Collective	Individual	2015 Total
Balance, beginning of quarter	$ 4,920	$ 339	$ 5,259	$ 4,332	$ 642	$ 4,974
Provisions	287	71	358	(48)	119	71
Reversals of provisions	-	(9)	(9)	-	(32)	(32)
Write-offs, net	-	(84)	(84)	(21)	(202)	(223)
Balance, end of quarter	**$ 5,207**	**$ 317**	**$ 5,524**	**$ 4,263**	**$ 527**	**$ 4,790**

(d) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at March 31, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 6,915	$ 3,865	$ 1,414	$ -	$ 12,194
Single family - insured	2,999	525	342	2,655	6,521
	$ 9,914	**$ 4,390**	**$ 1,756**	**$ 2,655**	**$ 18,715**

8. Mortgages - Corporate (continued)

As at December 31, 2015	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 8,132	$ 3,374	$ 1,124	$ -	$ 12,630
Single family - insured	2,269	273	-	1,990	4,532
	$ 10,401	**$ 3,647**	**$ 1,124**	**$ 1,990**	**$ 17,162**

Impaired mortgages (net of individual allowances) are as follows:

As at March 31, 2016	SF Insured	SF Uninsured	Residential Construction	Total
Ontario	$ 98	$ 1,591	$ -	$ 1,689
Alberta	-	726	-	726
British Columbia	412	601	-	1,013
Quebec	287	561	-	848
Atlantic Provinces	-	412	-	412
Other	-	245	-	245
	$ 797	**$ 4,136**	**$ -**	**$ 4,933**

As at December 31, 2015	SF Insured	SF Uninsured	Residential Construction	Total
Ontario	$ 98	$ 873	$ -	$ 971
Alberta	-	322	-	322
Quebec	364	614	-	978
Atlantic Provinces	69	143	-	212
Other	-	244	-	244
	$ 531	**$ 2,196**	**$ -**	**$ 2,727**

9. Financial Investments

As at	March 31 2016	December 31 2015
Corporate assets:		
Investment - commercial real estate	$ 31,955	$ 31,102
Investment - KingSett High Yield Fund	19,363	10,691
	$ 51,318	**$ 41,793**

The Company holds an equity investment in a commercial real estate investment fund in which it has a 14.1% equity interest. The fund invests primarily in commercial office buildings and its fair value is based on independent appraisals of the buildings. As property acquisitions are made by the fund, the Company advances its proportionate share to finance the acquisitions. During Q1 2016, the Company recorded a $853 gross increase in the fair value of the investment (Q1 2015 - $2,678), which is recognized in the consolidated statements of comprehensive income net of deferred taxes.

The Company has funded an investment in the KingSett High Yield Fund in which it has a 9% equity interest. The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the fund, the Company advances its proportionate share. The fund pays a base monthly distribution of 9%, and distributes any additional income earned on a quarterly basis. The Company's total funding commitment is $36,000, which consists of $24,000 of capital advances for the fund and $12,000 that supports credit facilities. As at March 31, 2016, the Company's unfunded commitment was $16,695 (December 31, 2015 - $25,425).

Both investments noted above are designated as available for sale, with changes in fair value recognized in the consolidated statements of comprehensive income.

10. Equity Investment in MCAP Commercial LP

As at March 31, 2016, the Company held a 14.74% equity interest in MCAP (December 31, 2015 - 14.70%), consisting of 15.0% of voting class A units (December 31, 2015 - 15.0%), 0% of non-voting class B units (December 31, 2015 - 0%) and 17.0% of non-voting class C units (December 31, 2015 - 17.0%). The equity interest represents 4.3 million units held by MCAN from 29.2 million total outstanding MCAP partnership units. MCAN holds a 15.0% voting interest in MCAP through its class A units (December 31, 2015 - 15.0%).

Since MCAP's fiscal year end is November 30th, MCAN records equity income from MCAP on a one-month lag. To the extent that MCAP has a material transaction during the one-month lag, MCAN is required to reflect the transaction in the month in which it occurred instead of the subsequent month.

MCAP's head office is located at 200 King Street West, Suite 400, Toronto, Ontario, Canada. Although MCAN's voting interest in MCAP was less than 20% as at March 31, 2016, MCAN uses the equity basis of accounting for the investment as it has significant influence in MCAP per IAS 28, *Investments in Associates and Joint Ventures*, as a result of its entitlement to a position on MCAP's Board of Directors.

For the Quarters Ended March 31	**2016**	**2015**
Balance, beginning of period	$ 44,191	$ 38,792
Equity income	2,515	1,096
Distributions received	(2,419)	-
Balance, end of period	**$ 44,287**	**$ 39,888**

Selected MCAP financial information is as follows:

As at	**February 29 2016**	**November 30 2015**
MCAP's balance sheet:		
Assets	$ 22,010,341	$ 21,081,191
Liabilities	21,688,741	20,748,503
Equity	321,600	332,688

For the Quarters Ended	**February 29 2016**	**February 28 2015**
MCAP revenue and net income:		
Revenue	$ 82,323	$ 81,258
Net income	$ 16,723	$ 7,416

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the market MBS program. These mortgages are held as collateral against the related securitization liabilities (Notes 6 and 14).

Certain capitalized transaction costs are included in mortgages and are amortized using the EIM. As at March 31, 2016, the unamortized capitalized cost balance was $12,442 (December 31, 2015 - $13,563). The amortization of these transaction costs incorporates a 12% annual mortgage prepayment rate.

All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance for credit losses. The fair value of the securitized mortgage portfolio as at March 31, 2016 was $1,091,673 (December 31, 2015 - $1,107,168).

The weighted average yield of the Company's securitized mortgage portfolio was 2.51% (December 31, 2015 - 2.48%).

11. Mortgages - Securitized

(b) Geographic Analysis

As at	March 31, 2016		December 31, 2015	
Ontario	$ 577,124	54.9%	$ 589,912	54.8%
Alberta	234,830	22.3%	239,192	22.2%
British Columbia	117,201	11.2%	121,811	11.3%
Quebec	42,912	4.1%	43,960	4.1%
Atlantic Provinces	42,711	4.1%	43,712	4.1%
Other	36,151	3.4%	37,360	3.5%
	$ 1,050,929	**100.0%**	**$ 1,075,947**	**100.0%**

Mortgages past due but not impaired from the market MBS program are as follows:

As at	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
March 31, 2016	$ 13,325	$ 3,447	$ 619	$ 1,667	$ 19,058
December 31, 2015	$ 10,651	$ 1,849	$ 1,356	$ 505	$ 14,361

There were no impaired securitized mortgages as at March 31, 2016 or December 31, 2015.

12. Term Deposits

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years. The weighted average term deposit interest rate as at March 31, 2016 was 2.24% (December 31, 2015 - 2.26%). The Company's term deposits are eligible for CDIC deposit insurance.

Term deposits mature as follows:

As at	Less than One year	One to three years	Three to five years	Total
March 31, 2016	$ 610,422	$ 311,749	$ 53,492	$ 975,663
December 31, 2015	$ 575,914	$ 289,178	$ 37,949	$ 903,041

Term deposits are classified as other financial liabilities and are recorded at amortized cost. The estimated fair value of term deposits as at March 31, 2016 was $977,340 (December 31, 2015 - $905,167), and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

13. Income Taxes

The composition of the provision for (recovery) of income taxes is as follows:

For the Quarters Ended March 31	2016	2015
Income before income taxes	$ 7,350	$ 4,521
Statutory rate of tax	0%	0%
Tax provision (recovery) before the following:	-	-
Income subject to tax in subsidiaries	(421)	225
	$ (421)	**$ 225**

For the Quarters Ended March 31	2016	2015
Current tax		
Current tax provision	$ (100)	$ -
Deferred tax provision (recovery)		
Financial investment	(209)	-
Relating to loss carry forward benefit	(68)	225
Other	(44)	-
	$ (421)	**$ 225**

The composition of the deferred tax asset and liability is as follows:

As at	March 31 2016	December 31 2015
Deferred tax asset		
Loss carry forward benefit	$ 978	$ 910
Other	259	215
	$ 1,237	**$ 1,125**
Deferred tax liability		
Financial investments	$ 2,203	$ 2,299
	$ 2,203	**$ 2,299**

The Company has loss carry forward amounts in the non-consolidated MIC entity of $11,710 (December 31, 2015 - $11,710), the benefit of which has not been recorded to deferred taxes. Tax loss carry forwards expire after 20 years, as follows:

2032	$ 210
2033	5,965
2034	5,535
	$ 11,710

14. Financial Liabilities from Securitization

Financial liabilities from securitization relate to the Company's participation in the market MBS program. The weighted average interest rate of the liabilities was 1.87% as at March 31, 2016 (December 31, 2015 - 1.87%).

Financial liabilities from securitization as at March 31, 2016 mature as follows:

As at	2018	2019	2020	Total
March 31, 2016	$ 133,191	$ 489,495	$ 420,310	$ 1,042,996
December 31, 2015	$ 137,731	$ 504,041	$ 428,532	$ 1,070,304

15. Share Capital and Contributed Surplus

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

	Number of Shares		2016	Number of Shares		2015
Balance, January 1	22,782,433	$	206,382	20,807,761	$	183,939
Issued						
Dividend reinvestment plan	150,379		1,816	283,513		3,860
Balance, March 31	**22,932,812**	**$**	**208,198**	**21,091,274**	**$**	**187,799**

Common shares are issued under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%. The DRIP participation rate for the March 31, 2016 dividend was 13% (March 31, 2015 - 33%).

The Company had no potentially dilutive instruments as at March 31, 2016 or December 31, 2015.

Contributed surplus of $510 represents the discount on the repurchase of warrants in 2004.

16. Dividends

Subsequent to the end of the quarter and before the date that these consolidated financial statements were authorized for issuance, the Board declared a quarterly dividend of $0.29 per share payable on June 30, 2016 to shareholders of record as of June 15, 2016.

17. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains and losses on available for sale marketable securities and financial investments.

As at		March 31 2016		December 31 2015
To be reclassified to the income statement in subsequent periods:				
Unrealized gain (loss) on available for sale marketable securities	$	750	$	(2,571)
Unrealized gain on available for sale financial investments		14,335		13,675
Less: deferred taxes		(1,924)		(1,811)
		12,411		11,864
	$	**13,161**	**$**	**9,293**

18. Mortgage Expenses

Corporate Assets

For the Quarters Ended March 31		2016		2015
Mortgage servicing expense	$	768	$	709
Letter of credit expense		154		158
Other mortgage expenses		31		27
	$	**953**	**$**	**894**

Letter of credit expense relates to outstanding letters of credit in one of the Company's credit facilities, discussed in note 22.

18. Mortgage Expenses (continued)

Securitization Assets

Mortgage expenses associated with securitization assets consist primarily of mortgage servicing expenses.

19. Provision for Credit Losses

For the Quarters Ended March 31	Note	2016	2015
Mortgages - collective provisions	8	$ 287	$ (48)
Mortgages - individual provisions (reversals), net	8	62	87
Other provisions (recoveries), net		(24)	(102)
		$ 325	**$ (63)**

20. Related Party Disclosures

The consolidated financial statements include the financial statements of the Company, its equity-accounted associate, MCAP. The Company holds a 14.74% equity interest in MCAP (December 31, 2015 - 14.70%), a non-public entity. MCAP's principal activities include the origination and servicing of mortgages. The Company holds one of five seats on MCAP's Board of Directors.

Transactions between the Company and its subsidiaries meet the definition of related party transactions. If these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

In Q1 2016, the Company purchased certain corporate services from MCAP in the amount of $55 (Q1 2015 - $58) and purchased certain mortgage origination and administration services from MCAP in the amount of $970 (Q1 2015 - $495). The Company received $1,031 of mortgage fees from MCAP in Q1 2016 (Q1 2015 - $636).

In Q1 2015, the Company paid $3,770 in mortgage premiums to MCAP as part of the acquisition of mortgages securitized through the market MBS program.

The Company holds construction loans totalling $3,798 as at March 31, 2016 for which the borrower is a close family member of a member of the Board (December 31, 2015 - $3,971). The loans were contracted at market terms.

All related party transactions noted above were in the normal course of business.

21. Commitments and Contingencies

The Company's mortgage funding commitments relate primarily to its corporate residential construction loan portfolio. The commitment as noted below represents the undrawn portion of the authorized loan facility for construction and commercial loans. For single family mortgages, the commitment represents irrevocable offers to clients that the Company is contractually obligated to fund.

For further details on the commitment associated with the KingSett High Yield Fund investment, refer to Note 9.

The Company also has contractual obligations associated with its premises lease.

As at March 31, 2016	Less than one year	One to three years	Three to five years	Over five years	Total
Mortgage funding commitments	$ 286,178	$ 61,182	$ -	$ -	$ 347,360
Commitment - KingSett High Yield Fund	-	-	-	16,695	16,695
Operating lease	432	1,151	1,180	2,239	5,002
	$ 286,610	**$ 62,333**	**$ 1,180**	**$ 18,934**	**$ 369,057**

The Company incurred $143 of operating lease expenses during Q1 2016 (Q1 2015 - $107), included in general and administrative expenses.

21. Commitments and Contingencies (continued)

The Company outsources the majority of its mortgage servicing and continues to pay servicing expenses as long as the mortgages remain on its consolidated balance sheet.

In the ordinary course of business, MCAN and its service providers (including MCAP), their subsidiaries and related parties may from time to time be party to legal proceedings which may result in unplanned payments to third parties.

To the best of its knowledge, the Company's management does not expect the outcome of any existing proceedings to have a material effect on the consolidated financial position or results of operations of the Company.

22. Credit Facilities

The Company has a line of credit from a Canadian chartered bank that is a $75,000 facility bearing interest at prime plus 0.75% (3.45%) at March 31, 2016 (December 31, 2015 - prime plus 0.75% (3.45%)). The facility has a sub limit of $50,000 for issued letters of credit and $50,000 for overdrafts, and is due and payable upon demand. As at March 31, 2016, the outstanding overdraft balance was $nil (December 31, 2015 - $nil). The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. As at March 31, 2016, there were letters of credit in the amount of $35,884 issued (December 31, 2015 - $35,863) and additional letters of credit in the amount of $20,682 committed but not issued (December 31, 2015 - $22,936).

The Company maintained a credit warehouse facility with a Schedule III Canadian bank which bore interest at the prime rate (2.70%) and carried a standby charge on the unused portion of the facility equal to 0.25% of amounts up to $35,000 and 0.50% of amounts over $35,000. The facility provided for up to $50,000 of borrowings. As at December 31, 2015, the Company had borrowed $nil from this facility. During Q1 2016, the Schedule III Canadian bank ceased its operations and was placed under supervisory administration, at which point the credit warehouse facility was terminated. At this time, the Company had an outstanding facility balance of $4,085 at March 31, 2016 which was repaid subsequent to quarter end. The termination of the credit warehouse facility did not have a material impact on the Company's operations or liquidity given other sources of funding available to the Company.

23. Interest Rate Sensitivity

Interest rate risk, or sensitivity, is the potential impact of changes in interest rates on financial assets and liabilities. Interest rate risk arises when principal and interest cash flows have mismatched repricing and maturity dates.

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice/mature within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing/maturing. The former provides a positive earnings impact in the event of an increase in interest rates during the time period. Conversely, negative gaps are positively positioned for decreases in interest rates during that particular time period. The determination of the interest rate sensitivity or gap position is based upon the earlier of the repricing or maturity date of each asset and liability, and includes numerous assumptions.

The interest rate sensitivity analysis is based on the Company's consolidated balance sheets as at March 31, 2016 and December 31, 2015 and does not incorporate mortgage and loan prepayments. The Company currently cannot reasonably estimate the impact of prepayments on its interest rate sensitivity analysis. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The Company manages interest rate risk by matching the terms of corporate assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced. The Asset and Liability Management Committee ("ALCO") reviews the Company's interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Risk Committee of the Board each quarter.

The following table presents the assets and liabilities of the Company by interest rate sensitivity. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

23. Interest Rate Sensitivity (continued)

As at March 31, 2016	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 years	Over 5 years	Non Interest Sensitive	Total
Assets								
Corporate	$ 384,085	$ 100,334	$ 310,751	$ 230,288	$ 48,895	$ 28,486	$ 127,993	$ 1,230,832
Securitization	-	10,123	-	211,071	839,856	-	2,695	1,063,745
	384,085	110,457	310,751	441,359	888,751	28,486	130,688	2,294,577
Liabilities								
Corporate	4,085	194,725	415,698	311,748	53,492	-	6,208	985,956
Securitization	-	-	-	171,754	871,242	-	-	1,042,996
	4,085	194,725	415,698	483,502	924,734	-	6,208	2,028,952
Shareholders' Equity	-	-	-	-	-	-	265,627	265,627
GAP	**$ 380,000**	**$ (84,268)**	**$ (104,947)**	**$ (42,143)**	**$ (35,983)**	**$ 28,486**	**$ (141,147)**	-2
YIELD SPREAD	**1.45%**	**2.71%**	**3.02%**	**1.80%**	**1.44%**	**7.05%**		

As at December 31, 2015	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$ 341,705	$ 66,107	$ 325,826	$ 252,821	$ 32,992	$ 18,063	$ 117,532	$ 1,155,046
Securitization	-	13,112	-	179,577	896,370	-	2,853	1,091,912
	341,705	79,219	325,826	432,398	929,362	18,063	120,385	2,246,958
Liabilities								
Corporate	-	86,895	489,020	289,175	37,951	-	14,811	917,852
Securitization	-	-	-	137,731	932,573	-	-	1,070,304
	-	86,895	489,020	426,906	970,524	-	14,811	1,988,156
Shareholders' Equity	-	-	-	-	-	-	258,802	258,802
GAP	**$ 341,705**	**$ (7,676)**	**$ (163,194)**	**$ 5,492**	**$ (41,162)**	**$ 18,063**	**$ (153,228)**	**-**
YIELD SPREAD	**4.08%**	**2.42%**	**2.98%**	**1.95%**	**1.02%**	**6.47%**		

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 3.75% and 16%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate as at March 31, 2016, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $53,126 (December 31, 2015 - $33,005), 3 months to 1 year - $70,456 (December 31, 2015 - $75,877) and 1 to 5 years - $79,999 (December 31, 2015 - $85,065).

An immediate and sustained 1% increase to market interest rates as at March 31, 2016 would have an estimated positive effect of $1,139 (December 31, 2015 - $1,508) to net income over the following twelve month period. An immediate and sustained 1% decrease to market interest rates as at March 31, 2016 would have an estimated adverse effect of $997 (December 31, 2015 - $720) to net income over the following twelve month period. An immediate and sustained 1% increase (decrease) to market interest rates as at March 31, 2016 would have an estimated adverse (positive) effect of $45 (December 31, 2015 - $27) on accumulated other comprehensive income.

When calculating the effect of an immediate and sustained 1% change in market interest rates on net investment income, the Company determines which assets and liabilities reprice over the following twelve months and applies a 1% change to their respective yields at the time of repricing to determine the change in net investment income for the duration of the twelve month period.

24. 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. Through its risk management and corporate governance framework, the Company assesses current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. The Company typically pays out all of its taxable income by way of dividends. Capital growth is achieved through retained earnings, public share offerings, rights offerings and the DRIP. The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI.

Regulatory Capital

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company’s capital. For this purpose, OSFI has imposed minimum capital to risk-weighted asset ratios and a minimum leverage ratio which is calculated on a different basis from the aforementioned MIC leverage ratio.

In order to promote a more resilient banking sector and strengthen global capital standards, the Basel Committee on Banking Supervision (“BCBS”) has issued a revised capital framework, referred to as Basel III. Further details on Basel III are available in the Capital Management section of the Management’s Discussion and Analysis (“MD&A”) or on the Company’s website at www.mcanmortgage.com.

As at	March 31 2016	December 31 2015
Regulatory Ratios (OSFI)		
Share capital	$ 208,198	$ 206,382
Contributed surplus	510	510
Retained earnings	43,758	42,617
Accumulated other comprehensive income	13,161	9,293
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(10,635)	(7,324)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional)	254,992	251,478
Deduction for equity investment in MCAP (All-in adjustment) [1]	(7,090)	(10,986)
Common Equity Tier 1, Tier 1 and Total Capital (All-in)	$ 247,902	$ 240,492
Total Exposures/Regulatory Assets [2]		
Consolidated assets	$ 2,294,579	$ 2,246,958
Less: deductions from all-in Tier 1 Capital [1,2]	(17,725)	(18,310)
Other adjustments [3]	1,414	2,229
Total On-Balance Sheet Exposures	2,278,268	2,230,877
Mortgage and investment funding commitments	364,055	333,667
Less: conversion to credit equivalent amount (50%)	(182,028)	(166,834)
Letters of credit	35,884	35,863
Less: conversion to credit equivalent amount (50%)	(17,942)	(17,932)
Off-Balance Sheet Items	199,969	184,764
Total Exposures/Regulatory Assets [2]	$ 2,478,237	$ 2,415,641
Leverage ratio [2]	10.00%	9.96%

[1] The deduction for the equity investment in MCAP on an all-in basis is equal to the equity investment balance less 10% of the Company’s shareholders’ equity. In 2016, the deduction on the transitional basis is equal to 60% of the all-in adjustment (2015 - 40%). The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.
[2] Refer to the “Non-IFRS Measures” section of this MD&A for a definition of these measures.
[3] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

As at March 31, 2016 and December 31, 2015, the Company was in compliance with the capital guidelines issued by OSFI under Basel III.

24. Capital Management (continued)

Income Tax Capital

As a MIC under the Tax Act, the Company is limited to an income tax liabilities to capital ratio of 5:1 (or an income tax assets to capital ratio of 6:1), based on the non-consolidated balance sheet in the MIC entity measured at its tax value. For further information on the Company's income tax capital management, refer to the "Income Tax Capital" sub-section of the Capital Management section of the MD&A.

25. 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, short-term investments, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits, loans payable and derivative financial instruments.

All financial instruments that are carried on the consolidated balance sheets at fair value (marketable securities, certain financial investments and derivative financial instruments) or for which fair value is disclosed 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 following table summarizes financial assets reported at fair value and financial assets and liabilities for which fair values are disclosed. Financial assets and liabilities are classified into three levels, as follows: quoted prices in an active market (Level 1), fair value based on observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

As at March 31, 2016	Level 1	Level 2	Level 3	Total	Carrying value
Assets measured at fair value					
Cash and cash equivalents	$ 78,386	$ -	$ -	$ 78,386	$ 78,386
Marketable securities	46,454	2,753	-	49,207	49,207
Financial investments - commercial real estate [1]	-	-	31,955	31,955	31,955
Financial investments - KingSett High Yield Fund [2]	-	-	19,363	19,363	19,363
Securitization program cash held in trust	10,123	-	-	10,123	10,123
	$ 134,963	$ 2,753	$ 51,318	$ 189,034	$ 189,034
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 1,013,713	$ 1,013,713	$ 998,357
Other loans [4]	-	-	3,980	3,980	3,980
Mortgages - securitized [3]	-	-	1,091,673	1,091,673	1,050,929
	$ -	$ -	$ 2,109,366	$ 2,109,366	$ 2,053,266
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 4,005	$ 4,005	$ 4,005
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 977,340	$ 977,340	$ 975,663
Loans payable	-	-	4,085	4,085	4,085
Financial liabilities from securitization [7]	-	-	1,073,884	1,073,884	1,042,996
	$ -	$ -	$ 2,055,309	$ 2,055,309	$ 2,022,744

[1] Fair value of investment is based on the underlying real estate properties determined by the discount cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.
[2] Fair value is based on returns earned by the fund in excess of its base rate.
[3] Corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For variable rate mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.
[4] Fair value is assumed to be the carrying value as underlying mortgages and loans are variable rate.
[5] The carrying value of the asset/liability approximates fair value.

25. Financial Instruments (continued)

[6] As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.
[7] Fair value of financial liabilities from securitization is determined using current market rates for MBS.

As at December 31, 2015	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Cash and cash equivalents	$ 75,762	$ -	$ -	$ 75,762	$ 75,762
Marketable securities	37,958	2,777	-	40,735	40,735
Financial investments - commercial real estate [1]	-	-	31,102	31,102	31,102
Financial investments - KingSett High Yield Fund [2]	-	-	10,691	10,691	10,691
Securitization program cash held in trust	13,112	-	-	13,112	13,112
	$ 126,832	$ 2,777	$ 41,793	$ 171,402	$ 171,402
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 958,772	$ 958,772	$ 944,109
Other loans [4]	-	-	4,176	4,176	4,176
Mortgages - securitized [3]	-	-	1,107,168	1,107,168	1,075,947
	$ -	$ -	$ 2,070,116	$ 2,070,116	$ 2,024,232
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 12,412	$ 12,412	$ 12,412
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 905,167	$ 905,167	$ 903,041
Financial liabilities from securitization [7]	-	-	1,103,339	1,103,339	1,070,304
	$ -	$ -	$ 2,008,506	$ 2,008,506	$ 1,973,345

[1] Fair value of investment is based on the underlying real estate properties determined by the discount cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.
[2] Fair value is based on returns earned by the fund in excess of its base rate.
[3] Corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For variable rate mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.
[4] Fair value is assumed to be the carrying value as underlying mortgages and loans are variable rate.
[5] The carrying value of the asset/liability approximates fair value.
[6] As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.
[7] Fair value of financial liabilities from securitization is determined using current market rates for MBS.

The following table shows the continuity of Level 3 financial assets recorded at fair value:

Balance, December 31, 2015	$ 41,793
Advances	8,865
Changes in fair value, recognized in other comprehensive income	660
Balance, March 31, 2016	**$ 51,318**

An increase of 0.25% to capitalization rates as at March 31, 2016 would result in a decrease to the fair value of Level 3 financial investments - commercial real estate by $361 (December 31, 2015 - $361). A decrease of 0.25% to capitalization rates as at March 31, 2016 would result in an increase to the fair value of Level 3 financial investments - commercial real estate by $376 (December 31, 2015 - $376).

There were no transfers between levels during the quarters ended March 31, 2016 or March 31, 2015.

25. Financial Instruments (continued)

Risk Management

The types of risks to which the Company is exposed include but are not limited to interest rate, credit, liquidity and market risk. The Company's enterprise risk management framework includes policies, guidelines and procedures, with oversight by senior management and the Board of Directors. These policies are developed and implemented by management and reviewed and approved annually by the Board of Directors.

The nature of these risks and how they are managed is provided in the Risk Governance and Management section of the MD&A. Certain disclosures required under IFRS 7, *Financial Instruments: Disclosures*, related to the management of credit, interest rate, liquidity and market risks inherent with financial instruments are included in the MD&A. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of these consolidated financial statements.

26. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

DIRECTORS

Scott Coates
Managing Director, Mortgage Investments, KingSett Capital
Member of Audit Committee
Member of Risk Committee
Director since May 2014

Brydon Cruise
President and Managing Partner, Brookfield Financial
Chair of Risk Committee
Director since May 2010

Verna Cuthbert
Counsel, Fasken Martineau DuMoulin LLP
Member of Conduct Review, Corporate Governance and Human Resources Committee Member of Risk Committee
Director since September 2013

Susan Doré
Corporate Director
Member of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2010

William Jandrisits
President and Chief Executive Officer, MCAN Mortgage Corporation
Member of Enterprise Risk Management Ad Hoc Committee
Director since August 2010

Brian A. Johnson
Partner, Crown Capital Partners and Crown Realty Partners
Member of Risk Committee
Member of Enterprise Risk Management Ad Hoc Committee
Chair of Conduct Review, Corporate Governance and Human Resources Committee
Director since January 2001

Ian Sutherland
Chair, MCAN Mortgage Corporation
Member of Enterprise Risk Management Ad Hoc Committee
Director since January 1991

Karen Weaver
Executive Vice President and Chief Financial Officer, DH Corporation
Chair of Audit Committee
Director since November 2011

W. Terrence Wright
Counsel, Pitblado LLP
Member of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Chair of Enterprise Risk Management Ad Hoc Committee
Director since September 2013

EXECUTIVE OFFICERS

William Jandrisits
President and Chief Executive Officer

Jeffrey Bouganim
Senior Vice President and Chief Financial Officer

Michael Misener
Vice President and Chief Investment Officer

Derek Sutherland
Vice President and Chief Risk Officer

Carl Brown
Vice President, Operations
Business Continuity/Disaster Recovery Coordinator

Jeff Lum
Vice President, Treasury and Securitization

Robert Horton
Vice President, Special Projects

Sylvia Pinto
Corporate Secretary
Chief Compliance Officer

Dipti Patel
Chief Audit Officer

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First Canadian Place
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www.xceedmortgage.com

Dividend Reinvestment Plan (DRIP)
For further information regarding MCAN's Dividend Reinvestment Plan, please visit: www.mcanmortgage.com/investor-relations/investor-materials.

An Enrolment Form may be obtained at any time upon written request addressed to the Plan Agent, Computershare. Registered Participants may also obtain Enrolment Forms online at www-us.computershare.com/investor/.

Shareholders
For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar, Computershare (see left for contact).

Report Copies
This MCAN Mortgage Corporation 2016 First Quarter Report is available for viewing/printing on our website at www.mcanmortgage.com, and also on SEDAR at www.sedar.com.

To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, or e-mail spinto@mcanmortgage.com.

General Information
For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary (head office details at left) or e-mail mcanexecutive@mcanmortgage.com