A Strategic Investor in Canadian Mortgages

Second Quarter Report

2016

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 $13.6 million for the second quarter ended June 30, 2016, up 14% from $11.9 million in Q2 2015. Earnings per share increased 5% to $0.59 in Q2 2016 from $0.56 in Q2 2015, while return on average shareholders' equity was 20.10% compared to 20.16% in Q2 2015.

The increase in net income was a result of the recognition of $3.8 million of income upon the receipt of a distribution from our investment in Crown Realty II Limited Partnership and an increase in securitization income of 34% as a result of a higher average market mortgage-backed securities ("MBS") mortgage portfolio over the prior year. Income from our equity investment in MCAP Commercial LP ("MCAP LP") remained strong at $4.5 million.

Consistent with the prior quarter, the Board of Directors declared a third quarter regular dividend of $0.29 per share to be paid on September 30, 2016 to shareholders of record as of September 15, 2016.

Corporate Assets

Corporate assets totalled $1.26 billion at June 30, 2016, up $27 million from March 31, 2016. The corporate mortgage portfolio increased to $1.02 billion at June 30, 2016, an increase of $21 million during the quarter, which included increases of $21 million in commercial, $14 million in construction, $4 million in completed inventory loans and $3 million in insured single family mortgages, offset by a decrease of $21 million in uninsured single family.

During the quarter, the Toronto and Vancouver markets experienced significant price inflation which was well in excess of supporting employment and income growth. While some of the inflation can be attributed to a shortage of inventory, we believe that inflation at the current high levels increases the risk of a price correction. As a result of this, during the quarter we tightened our underwriting policies for uninsured mortgages, specifically for self-employed applicants. We originated $36 million of single family mortgages in the quarter, consisting of $30 million of insured single family and $6 million of uninsured single family. We have seen an increase in mortgage applications that do not meet our underwriting standards and we have therefore experienced a notable increase in mortgage application declines. Accordingly, our focus during the second quarter was on the origination of products outside of the single family mortgage business.

The net result was that we ended the quarter carrying a larger proportion of our corporate assets in construction and commercial loans. The higher outstanding balances helped to increase corporate net investment income, as these product lines generally have higher spreads compared to the single family business. For the year to date, our corporate asset portfolio has grown by 9% compared to our target growth rate of 10% per annum.

Given the highly competitive mortgage market, concerns regarding the economic outlook for the Canadian real estate market (particularly centered in Toronto and Vancouver) and recent regulatory announcements, we believe that our 2016 year to date growth has been prudent. During the remainder of 2016, we will assess market conditions and supply dynamics while adhering to our underwriting standards and risk appetite.

The impaired total mortgage ratio decreased to 0.14% at June 30, 2016 from 0.20% at March 31, 2016. The impaired corporate mortgage ratio decreased to 0.29% at June 30, 2016 from 0.41% at March 31, 2016. Total mortgage arrears were $39 million at June 30, 2016, down $4 million from $43 million at March 31, 2016. Our arrears levels remain low by historical standards. We expect that the continued weakness in oil prices will continue to impact housing markets in Western Canada where job losses are expected to impact mortgage arrears. We 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 LP was $4.5 million in the second quarter of 2016, which was down $0.4 million from Q2 2015 but remained strong by historical standards. MCAP LP incurred higher origination expenses and had lower commitment and whole loan sales and fees in Q2 2016, offset by higher interest income from securitized mortgages. MCAP LP's annual earnings have increased recently in line with the growth in its mortgage originations and assets under administration. MCAP LP's origination volumes were $4.4 billion in the second quarter of 2016. MCAP LP had $56.1 billion of assets under administration as at May 31, 2016.

During the quarter, MCAP Corporation ("MCAP Corp") announced it had filed a preliminary prospectus regarding a proposed initial public offering (the "Offering") of Common Shares by MCAP Corp and a secondary offering of Common Shares of MCAP Corp held by MCAN and another unitholder of MCAP LP (the "Secondary Offering"). As at March 31, 2016, MCAN owned 4.3 million partnership units, or 14.74% of MCAP LP, representing an investment of $44.3 million. Prior to completion of the Offering, the partnership units in MCAP LP would have been exchanged for Common Shares in MCAP Corp, some of which were to be sold pursuant to the Secondary Offering. Although the number of Common Shares to be sold pursuant to the Secondary Offering had not yet been determined, MCAN had expected to sell less than 25% of its investment in MCAP Corp, subject to market conditions.

On June 29, 2016 MCAP Corp announced that due to adverse market conditions, it would not proceed with the Offering that had been previously announced. MCAP LP continues to evaluate market conditions and the opportunity for the proposed initial public offering.

Securitization Assets

During the second quarter of 2016 we recommenced our participation in the CMB program by securitizing $28 million of insured single family mortgages and $37 million of multi family mortgages. We also issued and sold $17 million of new MBS to third parties through the market MBS program.

Business Activities

Ontario and British Columbia continued to exhibit good fundamentals and growth, while Alberta housing markets have slowed as a result of impacts of the weakness in oil prices and weakening employment. We continued to focus our origination in Ontario and British Columbia and moderate our exposure to Alberta. We continue to closely monitor the performance of residential construction markets in Canada with particular vigilance in Alberta. Our new loan originations from Alberta continued to slow as a result of a weakening economy.

We have focused our production activity where housing markets show good economic fundamentals and job growth. Although we expected to see some impact of market conditions on our arrears levels, we reduced total mortgage arrears by 9% in the second quarter and believe that our balance sheet is well positioned with a relatively low level of mortgage arrears.

We will continue to focus on our origination capabilities through Xceed, and we expect that the enhancements to our underwriting processes and systems will provide a more efficient platform for origination in future periods. We have adjusted our underwriting criteria in line with our risk appetite, which has reduced the production of higher risk mortgages in the uninsured single family segment.

Income tax asset capacity, which represents available room for additional corporate asset investment, was $90 million at June 30, 2016. We believe that MCAN's 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 June 30, 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 August 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 %) For the Periods Ended June 30	Q2 2016	Q2 2015	Change (%)	YTD 2016	YTD 2015
Income Statement Highlights					
Net investment income - corporate assets	$ 16,996	$ 13,745	23.7%	$ 27,621	$ 21,143
Net investment income - securitization assets	1,421	1,058	34.3%	2,665	1,752
	18,417	14,803	24.4%	30,286	22,895
Other income	-	68	(100.0%)	-	68
Operating expenses	4,650	3,136	48.3%	9,169	6,707
Net income before income taxes	13,767	11,735	17.3%	21,117	16,256
Provision for (recovery of) income taxes	131	(183)	(171.6%)	(290)	42
Net income	$ 13,636	$ 11,918	14.4%	$ 21,407	$ 16,214
Basic and diluted earnings per share	$ 0.59	$ 0.56	5.4%	$ 0.93	$ 0.77
Dividends per share	$ 0.29	$ 0.28	3.6%	$ 0.58	$ 0.56
Taxable income per share [1]	$ 0.27	$ 0.24	12.5%	$ 0.68	$ 0.28
Return on average shareholders' equity [1]	20.10%	20.16%	(0.06%)	16.02%	13.92%
Yields					
Average mortgage portfolio yield - corporate [2]	5.21%	5.34%	(0.13%)	5.24%	5.41%
Term deposit average interest rate [2]	2.22%	2.38%	(0.16%)	2.24%	2.39%
Spread of mortgages over term deposits	2.99%	2.96%	0.03%	3.00%	3.02%
Average mortgage portfolio yield - securitized [2]	2.73%	2.75%	(0.02%)	2.71%	2.77%
Financial liabilities from securitization - average interest rate [2]	2.02%	2.09%	(0.07%)	2.02%	2.16%
Spread of mortgages over liabilities	0.71%	0.66%	0.05%	0.69%	0.61%

[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: Financial Position Highlights

(in thousands except for per share amounts and %)	June 30 2016	March 31 2016	December 31 2015	Change from Prior Quarter ($)	Change from Prior Quarter (%)
Balance Sheet Highlights					
Assets					
Corporate	$ 1,257,700	$ 1,230,832	$ 1,155,046	$ 26,868	2.2%
Securitization	1,086,199	1,063,747	1,091,912	22,452	2.1%
Total assets	$ 2,343,899	$ 2,294,579	$ 2,246,958	$ 49,320	2.1%
Mortgages - corporate	$ 1,019,455	$ 998,357	$ 944,109	$ 21,098	2.1%
Mortgages - securitized	$ 1,063,280	$ 1,050,929	$ 1,075,947	$ 12,351	1.2%
Liabilities					
Corporate	$ 1,007,274	$ 985,956	$ 917,852	$ 21,318	2.2%
Securitization	1,062,408	1,042,996	1,070,304	19,412	1.9%
Total liabilities	$ 2,069,682	$ 2,028,952	$ 1,988,156	$ 40,730	2.0%
Shareholders' equity	$ 274,217	$ 265,627	$ 258,802	$ 8,590	3.2%
Capital Ratios [1]					
Income Tax Assets to Capital Ratio	5.36	5.17	5.11		3.7%
Common Equity Tier 1 Capital Ratio (transitional)	21.65%	22.38%	23.64%		(0.73%)
Common Equity Tier 1 Capital Ratio (all-in)	21.27%	22.03%	23.08%		(0.76%)
Tier 1 Capital Ratio (transitional)	21.65%	22.38%	23.64%		(0.73%)
Tier 1 Capital Ratio (all-in)	21.27%	22.03%	23.08%		(0.76%)
Total Capital Ratio (transitional)	21.65%	22.38%	23.64%		(0.73%)
Total Capital Ratio (all-in)	21.27%	22.03%	23.08%		(0.76%)
Leverage ratio	10.01%	10.00%	9.96%		0.01%
Credit Quality					
Impaired mortgage ratio (total) [1]	0.14%	0.20%	0.11%		(0.06%)
Impaired mortgage ratio (corporate) [1]	0.29%	0.41%	0.23%		(0.12%)
Mortgage Arrears					
Corporate	$ 21,621	$ 23,648	$ 19,889	$ (2,027)	(8.6%)
Securitized	17,433	19,058	14,361	(1,625)	(8.5%)
Total	$ 39,054	$ 42,706	$ 34,250	$ (3,652)	(8.6%)
Common Share Information (end of period)					
Number of common shares outstanding	22,996	22,933	22,782		0.3%
Book value per common share [1]	$ 11.92	$ 11.58	$ 11.36	$ 0.34	2.9%
Common share price - close	$ 14.45	$ 13.00	$ 12.14	$ 1.45	11.2%
Market capitalization [1]	$ 332,292	$ 298,129	$ 276,573	$ 34,163	11.5%

[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 $13.6 million in Q2 2016, an increase of $1.7 million (14%) from $11.9 million in Q2 2015.
- Earnings per share increased by $0.03 (5%) to $0.59 in Q2 2016 from $0.56 in Q2 2015.
- Return on average shareholders' equity[1] of 20.10% in Q2 2016 compared to 20.16% in Q2 2015.
- Continued strong equity income from our investment in MCAP Commercial LP ("MCAP") of $4.5 million in Q2 2016 compared to $4.9 million in Q2 2015.
- Increase of 34% in securitization income as a result of continued growth in the market mortgage-backed securities ("MBS") program.
- Recognition of $3.8 million of income upon receipt of a distribution from our investment in Crown Realty II Limited Partnership ("Crown LP").

Corporate Activity

- Corporate assets totalled $1.26 billion at June 30, 2016, up $27 million from March 31, 2016.
- The corporate mortgage portfolio increased by $21 million during Q2 2016 to $1.02 billion from $998 million, which included increases of $21 million in commercial, $14 million in construction, $4 million in completed inventory and $3 million in insured single family, offset by a decrease of $21 million in uninsured single family.
- During Q2 2016, we originated $36 million of single family mortgages through our Xceed origination platform, consisting of $30 million of insured single family and $6 million of uninsured single family.
- Consistent with the prior quarter, the Board of Directors (the "Board") declared a 2016 third quarter dividend of $0.29 per share to be paid on September 30, 2016 to shareholders of record as of September 15, 2016.

Securitization Activity

- We recommenced our participation in the Canada Mortgage Bonds ("CMB") program in Q2 2016 by securitizing $28 million of insured single family mortgages and $37 million of insured multi family loans.
- We issued and sold $17 million of new MBS to third parties through the market MBS program.

Credit Quality

- The impaired total mortgage ratio[1] decreased to 0.14% at June 30, 2016 from 0.20% at March 31, 2016.
- The impaired corporate mortgage ratio[1] decreased to 0.29% at June 30, 2016 from 0.41% at March 31, 2016.
- Total mortgage arrears[1] were $39 million at June 30, 2016, down $4 million (9%) from $43 million at March 31, 2016.

Capital

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 21.65% at June 30, 2016 on the transitional basis and 21.27% on the "all-in" basis compared to 22.38% and 22.03%, respectively, at March 31, 2016.
- Our leverage ratio[1] was 10.01% at June 30, 2016 compared to 10.00% at March 31, 2016.
- Income tax asset capacity[1] was $90 million at June 30, 2016 compared to $135 million at March 31, 2016.

[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. The Canadian dollar has continued to weaken after oil futures decreased with the prospect of further drilling in the United States.

We expect financial markets to remain volatile for the second 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. The manufacturing sector has been weak as sales declined 1.0% in May, which was the third decrease in five months. Manufacturing shipment volumes were down 2.1%, highlighting a lower level of activity during the month. Concerns over low or negative economic growth and increases in unemployment rates are expected to have a spillover effect on consumer confidence. The Canadian government's Child Benefit program will see spending growth in families eligible for payments.

Home sales remain strong in Toronto and Vancouver, where volumes continue to grow, prices are increasing and housing inventory levels remain low. Meanwhile, 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 lower oil prices. The Fort McMurray fires have lengthened the duration of the forecasted negative economic outlook and have led to increased unemployment. Nearly one third of the recent rise in the Alberta unemployment rate occurred in the regional municipality of Wood Buffalo, which includes Fort McMurray. On a year-over-year basis, the overall number of employment insurance beneficiaries in Alberta has increased by 59%.

The Bank of Canada's 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 probability of increased interest and mortgage rates is 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 in 2016 due to weakness in demand and slow job growth.

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. Vancouver has become one of the most attractive places to invest in real estate globally, which helped to increase prices by 30% (approximately $200,000 per home) in just one year. The newly legislated 15% tax on non-resident real estate purchases is intended to help restore housing affordability for residents in the Metro Vancouver Area by raising non-residents' cost of purchasing and, on the margin, discouraging foreign speculation. The government intends to use some of these new tax revenues to help boost housing supply.

The key risks to the housing market are the prolonged slow, and possibly negative, economic growth and increases in regional unemployment rates. Global economic problems have proved to have a significant impact on Canada given its exposure to commodities. 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.

We will continue to diversify and re-balance our portfolio to optimize return and lower our risk profile. For the year to date, our corporate asset portfolio has grown by 9% compared to our target growth rate of 10% per annum. We expect the moderation in our single family origination volumes to continue into the second half of 2016, as we tighten our underwriting criteria to address concerns of high levels of price inflation in Vancouver and Toronto.

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands) For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Net Investment Income - Corporate Assets				
Mortgage interest	$ 13,367	$ 13,556	$ 25,955	$ 26,097
Equity income from MCAP Commercial LP	4,509	4,938	7,024	6,034
Fees	673	533	1,226	1,063
Marketable securities	819	424	1,528	811
Financial investments and other loans	4,456	193	4,940	337
Interest on cash and cash equivalents	128	216	253	344
Whole loan gain on sale income	1	130	324	335
Realized and unrealized loss on financial instruments	-	(21)	-	(1,502)
	23,953	**19,969**	**41,250**	**33,519**
Term deposit interest and expenses	5,535	5,110	10,858	10,251
Mortgage expenses	1,018	905	1,971	1,799
Interest on loans payable	109	247	180	427
Provision for (recovery of) credit losses	295	(38)	620	(101)
	6,957	**6,224**	**13,629**	**12,376**
	16,996	**13,745**	**27,621**	**21,143**
Other Income - Corporate Assets				
Gain on dilution of investment in MCAP Commercial LP	-	68	-	68
	-	68	**-**	**68**
Net Investment Income - Securitization Assets				
Mortgage interest	6,984	6,115	13,989	11,066
Interest on short-term investments	9	34	16	59
Other securitization income	114	46	114	80
	7,107	6,195	14,119	11,205
Interest on financial liabilities from securitization	5,247	4,750	10,570	8,772
Mortgage expenses	439	340	884	610
	5,686	5,090	11,454	9,382
Net investment income before fair market value adjustment	1,421	1,105	2,665	1,823
Fair market value adjustment - derivative financial instruments	-	(47)	-	(71)
	1,421	**1,058**	**2,665**	**1,752**
Operating Expenses				
Salaries and benefits	2,568	1,873	5,086	3,933
General and administrative	2,082	1,263	4,083	2,774
	4,650	3,136	9,169	6,707
Net income before income taxes	13,767	11,735	21,117	16,256
Provision for (recovery of) income taxes	131	(183)	(290)	42
Net Income	**$ 13,636**	**$ 11,918**	**$ 21,407**	**$ 16,214**
Basic and diluted earnings per share	$ 0.59	$ 0.56	$ 0.93	$ 0.77
Dividends per share	$ 0.29	$ 0.28	$ 0.58	$ 0.56

Net Income

The $1.7 million increase in net income from Q2 2015 was primarily due to significant income recognized upon the receipt of a distribution from our investment in Crown LP and higher securitization income, offset by higher operating expenses.

Net Investment Income - Corporate Assets

Mortgage interest income

Table 4: Interest Income and Average Rate by Mortgage Portfolio (Corporate) - Q2

For the Quarters Ended June 30	2016			2015		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 340,691	$ 3,988	4.64%	$ 301,571	$ 3,701	4.88%
- Insured	114,851	1,061	3.67%	152,070	1,350	3.53%
- Uninsured - completed inventory	14,332	174	4.83%	12,014	173	5.76%
Construction loans						
- Residential	429,008	5,968	5.52%	326,154	5,678	5.52%
- Non residential	6,806	97	5.66%	-	-	-
Commercial loans						
- Uninsured	111,709	2,079	7.38%	92,072	2,654	9.16%
Mortgages - corporate portfolio	$ 1,017,397	$ 13,367	5.21%	$ 883,881	$ 13,556	5.34%
Term deposits	960,240	5,535	2.22%	827,190	5,110	2.38%
Spread of mortgages over term deposits			2.99%			2.96%
Mortgages - securitized portfolio	$ 1,028,188	$ 6,984	2.73%	$ 902,831	$ 6,115	2.75%
Financial liabilities from securitization	1,036,694	5,247	2.02%	922,583	4,750	2.09%
Spread of mortgages over liabilities			0.71%			0.66%

[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. Excluding discount income on impaired loans and deferred interest, non-recurring items were immaterial for the quarters ended June 30, 2016 and June 30, 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 Q2 2016, we continued to focus our efforts on the residential construction portfolio to offset lower single family originations. We were able to fund newly originated construction loans at attractive yields while also making additional advances on previously funded loans. Higher construction income has provided a balance against the lower single family income for the year to date. New single family originations remained low in Q2 2016 as a result of reduced spreads from a competitive market and the tightening of our underwriting standards for uninsured single family, specifically self-employed borrowers.

Although the average corporate mortgage portfolio balance increased by 15% in Q2 2016, corporate mortgage interest income decreased slightly due to non-recurring items from Q2 2015. In Q2 2015, we earned $1.1 million of discount income from the payout of a previously impaired construction loan and $529,000 of deferred interest on a commercial loan, both of which were excluded from the average mortgage portfolio yield given their non-recurring nature.

Significant funding volumes in the construction loan portfolio since late 2015 have led to the increase in the average balance in Q2 2016 from Q2 2015. Although the prime rate decreased by 0.30% during 2015, the construction average mortgage portfolio yield was unchanged from Q2 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 uninsured single family mortgage portfolio compared to Q2 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 Q2 2016 origination volumes were lower than recent quarters, the high 2015 production levels still led to an increase in the average balance from Q2 2015. Market rates for the funding of new single family mortgages have decreased steadily since 2015, which led to the decrease in the average portfolio yield.

In general, the majority of our insured single family originations from the Xceed platform are destined for securitization such that the majority of the portfolio is held on a short-term basis. Given our lower securitization volumes in Q2 2016 compared to Q2 2015, the average insured single family portfolio balance was significantly lower in Q2 2016.

The increase in the commercial portfolio average balance in Q2 2016 was 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

The decrease in equity income from our investment in MCAP from Q2 2015 was a result of a higher origination expense and lower commitment and whole loan sales and fees in Q2 2016, offset by higher interest income from securitized mortgages. By historical standards, Q2 2016 equity income from MCAP was very strong.

Other net investment income

The significant increase in income from financial investments and other loans is a result of the recognition of $3.8 million of income upon the receipt of a distribution from our investment in Crown LP. We did not receive a similar distribution in Q2 2015. The distribution related to the refinancing of an underlying property held by Crown LP and led to a transfer from accumulated other comprehensive income to net income. For further information on our investment in Crown LP, refer to the "Other Corporate Assets" sub-section of the "Financial Position" section of this MD&A.

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 2015.

Mortgage expenses, consisting primarily of mortgage servicing fees, increased from Q2 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 to our participation in the market MBS program and CMB program, which involve the securitization of insured mortgages through the Canada Mortgage and Housing Corporation ("CMHC") National Housing Act ("NHA") MBS program. Income from our securitization programs has increased steadily over the past few years as we have securitized $1.44 billion of mortgages since late 2013. For further details on this program, refer to the "Securitization Programs" section of this MD&A.

We resumed our participation in the CMB program in Q2 2016 after ceasing our initial involvement with the program in Q2 2015. For further information, refer to the "CMB Program" sub-section of the "Securitization Programs" section of this MD&A.

In Q2 2016, our total securitization volumes were $82 million (Q2 2015 - $172 million), consisting of $17 million of insured single family mortgages (Q2 2015 - $172 million) through the market MBS program and $28 million of insured single family mortgages (Q2 2015 - n/a) and $37 million of insured multi family loans (Q2 2015 - n/a) through the CMB program. Securitization volumes in 2016 have been lower than the past two years due to the reduced origination volumes noted above.

Market MBS Program

Spread income from the market MBS program increased from Q2 2015 in line with a 14% increase in the average outstanding securitized mortgage portfolio balance. Additionally, the Q2 2016 average portfolio balance contains a higher proportion of mortgages originated through our internal Xceed platform than Q2 2015. Our internally originated mortgages are significantly more profitable than externally purchased mortgages for market MBS program purposes, which contributed to the 0.05% increase in the spread of the average mortgage interest rate over the average liability interest rate.

CMB Program

We recognized minimal spread income on the securitized insured single family mortgages in Q2 2016 as the securitization transactions occurred late in the quarter. These mortgages remained on our consolidated balance sheet since we retained significant continuing involvement with the mortgages.

On securitization, the multi family loans were derecognized from our balance sheet as we transferred control of the assets at that time. Accordingly, we recognized an upfront gain of $123,000 on the securitization of these mortgages, which is included in other securitization income.

In Q2 2015, we incurred a $76,000 net loss from the CMB program. Our initial participation in the CMB program ceased at this point in time with the maturity of the final bond liability.

Table 5: Interest Income and Average Rate by Mortgage Portfolio (Corporate) - YTD

For the Six Months Ended June 30	2016			2015		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 348,760	$ 7,897	4.54%	$ 301,675	$ 7,354	4.88%
- Insured	99,407	1,823	3.68%	153,504	2,833	3.69%
- Uninsured - completed inventory	18,195	421	4.64%	15,607	455	5.82%
Construction loans						
- Residential	410,134	11,418	5.58%	346,415	10,708	5.52%
- Non residential	6,276	180	5.73%	-	-	-
Commercial loans						
- Uninsured	110,282	4,216	7.67%	84,902	4,747	9.93%
Mortgages - corporate portfolio	$ 993,054	$ 25,955	5.24%	$ 902,103	$ 26,097	5.41%
Term deposits	933,459	10,858	2.24%	838,992	10,251	2.39%
Spread of mortgages over term deposits			3.00%			3.02%
Mortgages - securitized portfolio	$ 1,038,705	$ 13,989	2.71%	$ 817,719	$ 11,066	2.77%
Financial liabilities from securitization	1,046,714	10,570	2.02%	830,917	8,772	2.16%
Spread of mortgages over liabilities			0.69%			0.61%

[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. Excluding discount income on impaired loans and deferred interest, non-recurring items are immaterial for the six months ended June 30, 2016 and June 30, 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.*

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 6: Net Interest Income - Q2

For the Quarters Ended June 30	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	$ 72,932	$ 128	0.71%	$ 95,258	$ 216	0.91%
Marketable securities	51,405	819	6.41%	26,844	424	6.34%
Mortgages - corporate	1,017,397	13,367	5.21%	883,881	13,556	5.34%
Financial investments	19,533	648	13.34%	7,487	174	9.32%
Other loans	3,954	51	5.19%	1,712	19	4.45%
Corporate interest earning assets	1,165,221	15,013	5.18%	1,015,182	14,389	5.69%
Short term investments	13,321	9	0.27%	28,377	34	0.96%
Mortgages - securitized	1,028,188	6,984	2.73%	902,831	6,115	2.75%
Financial investments	-	-	-	31	-	-
Securitization interest earning assets	1,041,509	6,993	2.70%	931,239	6,149	2.73%
Total interest earning assets	2,206,730	22,006	4.01%	1,946,421	20,538	4.27%
Non interest earning assets	80,490	3,757	-	73,392	-	-
Total assets	$ 2,287,220	$ 25,763	3.87%	$ 2,019,813	$ 20,538	4.11%
Liabilities and shareholders' equity						
Term deposits	$ 960,240	$ 5,535	2.22%	$ 827,190	$ 5,110	2.38%
Loans payable	12,863	109	3.41%	27,141	247	3.21%
Corporate liabilities	973,103	5,644	2.24%	854,331	5,357	2.42%
Securitization liabilities	1,036,694	5,247	2.02%	922,583	4,750	2.09%
Total interest bearing liabilities	2,009,797	10,891	2.13%	1,776,914	10,107	2.25%
Non interest bearing liabilities	6,119	-	-	6,386	-	-
Shareholders' equity	271,304	-	-	236,513	-	-
Total liabilities and shareholders' equity	$ 2,287,220	$ 10,891	1.87%	$ 2,019,813	$ 10,107	1.98%
Net Interest Income [2]		$ 14,872			$ 10,431	

[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. Excluding discount income on impaired loans and deferred interest, non-recurring items are immaterial for the quarters ended June 30, 2016 and June 30, 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.

Table 7: Net Interest Income - YTD

For the Six Months Ended June 30	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	$ 70,344	$ 253	0.72%	$ 78,150	$ 344	0.89%
Marketable securities	46,880	1,528	6.55%	26,545	811	6.16%
Mortgages - corporate	993,054	25,955	5.24%	902,103	26,097	5.41%
Financial investments	17,135	1,080	12.68%	6,655	300	9.32%
Other loans	4,009	103	5.17%	1,691	37	4.41%
Corporate interest earning assets	1,131,422	28,919	5.14%	1,015,144	27,589	5.45%
Short term investments	11,923	16	0.27%	23,682	59	1.00%
Mortgages - securitized	1,038,705	13,989	2.71%	817,719	11,066	2.77%
Financial investments	-	-	-	191	1	2.11%
Securitization interest earning assets	1,050,628	14,005	2.68%	841,592	11,126	2.74%
Total interest earning assets	2,182,050	42,924	3.96%	1,856,736	38,715	4.22%
Non interest earning assets	82,336	3,757	-	73,666	-	-
Total assets	$ 2,264,386	$ 46,681	3.82%	$ 1,930,402	$ 38,715	4.06%
Liabilities and shareholders' equity						
Term deposits	$ 933,459	$ 10,858	2.24%	$ 838,992	$ 10,251	2.39%
Loans payable	9,814	180	3.28%	21,132	427	3.25%
Corporate liabilities	943,273	11,038	2.26%	860,124	10,678	2.42%
Securitization liabilities	1,046,714	10,570	2.02%	830,917	8,772	2.16%
Total interest bearing liabilities	1,989,987	21,608	2.13%	1,691,041	19,450	2.29%
Non interest bearing liabilities	7,065	-	-	6,392	-	-
Shareholders' equity	267,334	-	-	232,969	-	-
Total liabilities and shareholders' equity	$ 2,264,386	$ 21,608	1.87%	$ 1,930,402	$ 19,450	2.01%
Net Interest Income [2]		$ 25,073			$ 19,265	

[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. Excluding discount income on impaired loans and deferred interest, non-recurring items are immaterial for the six months ended June 30, 2016 and June 30, 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.

The increase in net interest income from 2015 is primarily due to income recognized on the receipt of a distribution from Crown LP in 2016 and higher securitization income from a larger average outstanding market MBS program portfolio. Corporate net interest income, which was comparable to 2015, is discussed further in the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

Credit Quality

Table 8: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Individual provision (recovery)				
Single family uninsured	$ 124	$ (104)	$ 186	$ (17)
Residential construction	-	375	-	375
	$ 124	$ 271	$ 186	$ 358
Collective provision (recovery)				
Single family uninsured	(90)	26	(145)	76
Single family uninsured - completed inventory	17	(47)	(63)	(61)
Construction	99	(253)	485	(419)
Commercial	154	99	190	181
Corporate mortgages - total	180	(175)	467	(223)
Other provisions (recoveries)	(9)	(134)	(33)	(236)
	$ 171	$ (309)	$ 434	$ (459)
Total provision for (recovery of) credit losses	$ 295	$ (38)	$ 620	$ (101)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 304	$ 96	$ 653	$ 135
Net write offs	$ 115	$ 114	$ 199	$ 337
Net write offs (basis points)	4.5	5.2	4.0	7.5

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.

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

Table 9: Operating Expenses

(in thousands) For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Salaries and benefits	$ 2,568	$ 1,873	$ 5,086	$ 3,933
General and administrative	2,082	1,263	4,083	2,774
	$ 4,650	**$ 3,136**	**$ 9,169**	**$ 6,707**

The increase in salaries and benefits in Q2 2016 is partly due to an increase in the number of employees from Q2 2015. Additionally, certain accruals relating to long-term compensation expense were higher in Q2 2016 as a result of an 11% increase in the share price during the quarter.

The increase in general and administrative expense includes expenditures in Q2 2016 relating to the development of new systems and processes in risk management, compliance and single family operations to maintain a sound corporate governance environment and risk management framework. Additionally, in Q2 2015 we received a $358,000 capital tax refund relating to a prior year, which contributed to the increase in Q2 2016.

Provision for Income Taxes

Table 10: Income Taxes

(in thousands) **For the Periods Ended June 30**	**Q2 2016**	**Q2 2015**	**YTD 2016**	**YTD 2015**
Current tax provision (recovery)	$ -	$ -	$ (100)	$ -
Deferred tax provision (recovery)	131	(183)	(190)	42
	$ 131	**$ (183)**	**$ (290)**	**$ 42**

The deferred tax provision in Q2 2016 was due to the partial application of loss carry forwards as a result of taxable income earned at the subsidiary level, while in Q2 2015 we had a deferred tax recovery due to tax losses recognized at the subsidiary level.

As at June 30, 2016, we had $11 million of losses available for carry-forward in the MCAN mortgage investment corporation ("MIC") parent company on a non-consolidated basis (March 31, 2016 - $12 million), the benefit of which is not reflected in deferred taxes. The decrease in the loss carry-forward balance during Q2 2016 was a result of the finalization of our 2015 corporate tax position. The March 31, 2016 dividend represents a timing difference in the loss carry forward balance since it will be deducted from 2016 taxable income as it was paid 91 days subsequent to year end. This deduction will increase the loss carry forward by $6.6 million when we finalize our 2016 corporate tax position. 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 securitization program origination costs, securitization gains or losses, 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 CMB program and sold to third parties or retained on our balance sheet (for further details on these programs, 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 Q2 2016, we incurred $1.1 million of origination costs on securitized mortgages (Q2 2015 - $3.7 million); for the year to date we have incurred $1.8 million (2015 - $9.5 million) including market MBS held by MCAN. As at June 30, 2016, the unamortized origination fee balance was $16.3 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 11: Taxable Income Reconciliation [1]

(in thousands) For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Net income for accounting purposes	$ 13,636	$ 11,918	$ 21,407	$ 16,214
Adjustments:				
Equity income from MCAP	(4,176)	(4,182)	(4,271)	(3,296)
Equity income from subsidiaries [2]	(2,928)	542	(2,045)	1,440
Provision for (recovery of) credit losses [2]	182	(166)	466	(247)
Amortization of upfront securitization program costs [3]	1,553	1,467	3,104	2,604
Securitization program mortgage origination costs [3]	(1,130)	(3,656)	(1,770)	(9,481)
CMB program tax adjustment [4]	(678)	-	(678)	-
Other securitization program cash outflows	(26)	(565)	(26)	(929)
Other items	(364)	(248)	(675)	(418)
Taxable Income	**$ 6,069**	**$ 5,110**	**$ 15,512**	**$ 5,887**

[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. Individual mortgage allowances are 90% deductible for tax purposes.
[3] Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes, however amortization is added back in calculation of taxable income.
[4] This adjustment reverses the recognition of the non-cash component of the upfront accounting gain.

Table 12: Quarterly Net Income

(in thousands) For the Quarters Ended	June 30 2016	March 31 2016	Change from Prior Quarter ($)	(%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 13,367	$ 12,588	$ 779	6%
Equity income from MCAP Commercial LP	4,509	2,515	1,994	79%
Fees	673	553	120	22%
Marketable securities	819	709	110	16%
Financial investments and other loans	4,456	484	3,972	821%
Interest on cash and cash equivalents	128	125	3	2%
Whole loan gain on sale income	1	323	(322)	(100%)
	23,953	**17,297**	**6,656**	**38%**
Term deposit interest and expenses	5,535	5,323	212	4%
Mortgage expenses	1,018	953	65	7%
Interest on loans payable	109	71	38	54%
Provision for (recovery of) credit losses	295	325	(30)	(9%)
	6,957	**6,672**	**285**	**4%**
	16,996	**10,625**	**6,371**	**60%**
Net Investment Income - Securitization Assets				
Mortgage interest	6,984	7,005	(21)	(0%)
Interest on short-term investments	9	7	2	29%
Other securitization income	114	-	114	-
	7,107	7,012	95	1%
Interest on financial liabilities from securitization	5,247	5,323	(76)	(1%)
Mortgage expenses	439	445	(6)	(1%)
	5,686	5,768	(82)	(1%)
	1,421	**1,244**	**177**	**14%**
Operating Expenses				
Salaries and benefits	2,568	2,518	50	2%
General and administrative	2,082	2,001	81	4%
	4,650	4,519	131	3%
Net Income Before Income Taxes	13,767	7,350	6,417	87%
Provision for (recovery of) income taxes	131	(421)	552	(131%)
Net Income	**$ 13,636**	**$ 7,771**	**$ 5,865**	**75%**
Basic and diluted earnings per share	$ 0.59	$ 0.34	$ 0.25	74%
Dividends per share	$ 0.29	$ 0.29	$ -	-

Q2 2016 vs. Q1 2016

Net Income

Q2 2016 net income increased by $5.9 million from Q1 2016, primarily due to the recognition of $3.8 million of income upon the receipt of a distribution from Crown LP and higher equity income from MCAP in Q2 2016.

Net Investment Income - Corporate Assets

The Q2 2016 increase in mortgage interest income was primarily due to an increase in the average corporate mortgage portfolio balance to $1,017 million in Q2 2016 from $969 million in Q1 2016, offset by a decrease in the average mortgage yield to 5.21% in Q2 2016 from 5.27% in Q1 2016. The growth in the average portfolio balance related primarily to construction as we maintained a higher balance given lower single family originations.

The increase in income from financial investments and other loans relates primarily to the above-noted income recognized from our investment in Crown LP in Q2 2016.

Term deposit interest and expenses were comparable to Q1 2016. The average outstanding balance increased to $960 million in Q2 2016 from $907 million in Q1 2016, while the average interest rate decreased to 2.22% in Q2 2016 from 2.25% in Q1 2016.

Net Investment Income - Securitization Assets

The increase in net investment income from securitization assets is primarily due to the upfront gain recorded on the securitization of insured multi family loans through the CMB program. The average market MBS mortgage balance was comparable to Q1 2016. The spread of mortgage interest over liability interest increased to 0.71% in Q2 2016 from 0.68% in Q1 2016.

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 taxable income earned in subsidiaries in Q2 2016 compared to losses incurred at the subsidiary level in Q1 2016.

Cash Flows

Operating activities provided cash flows of $12 million in 2016 and provided $66 million in 2015. 2016 had a lower net inflow from financial liabilities from securitization, which was offset by a lower net outflow from mortgages.

Investing activities provided cash flows of $3 million in 2016 and provided minimal inflows in 2015. 2016 had higher distributions from the equity investment in MCAP.

Financing activities used cash flows of $17 million in 2016 and used $8 million in 2015. 2016 had lower net inflows from loans payable and the issuance of common shares.

FINANCIAL POSITION

Table 13: Assets

(in thousands) As at	June 30 2016	March 31 2016	December 31 2015	Change from Prior Quarter ($)	(%)
Corporate Assets					
Cash and cash equivalents	$ 73,954	$ 78,386	$ 75,762	$ (4,432)	(6%)
Marketable securities	55,902	49,207	40,735	6,695	14%
Mortgages	1,019,455	998,357	944,109	21,098	2%
Financial investments	49,397	51,318	41,793	(1,921)	(4%)
Other loans	4,027	3,980	4,176	47	1%
Equity investment in MCAP Commercial LP	47,563	44,287	44,191	3,276	7%
Foreclosed real estate	529	529	529	-	0%
Deferred tax asset	1,392	1,237	1,125	155	13%
Other assets	5,481	3,531	2,626	1,950	55%
	1,257,700	**1,230,832**	**1,155,046**	**26,868**	**2%**
Securitization Assets					
Short-term investments	19,500	10,123	13,112	9,377	93%
Mortgages	1,063,280	1,050,929	1,075,947	12,351	1%
Other assets	3,419	2,695	2,853	724	27%
	1,086,199	**1,063,747**	**1,091,912**	**22,452**	**2%**
	$ 2,343,899	**$ 2,294,579**	**$ 2,246,958**	**$ 49,320**	**2%**

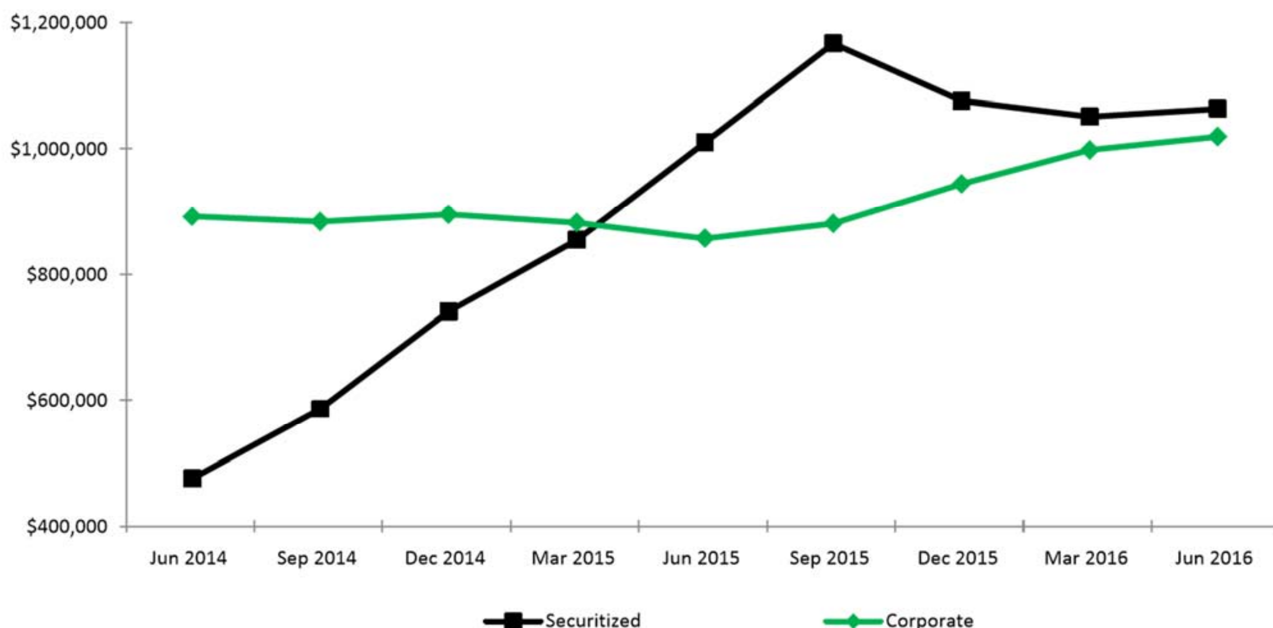
Mortgages - Corporate & Securitized

Table 14: Mortgage Summary

(in thousands) As at	June 30 2016	March 31 2016	December 31 2015	Change from Prior Quarter ($)	 (%)
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 322,385	$ 343,544	$ 359,465	$ (21,159)	(6%)
- Insured	109,681	106,997	83,619	2,684	3%
- Uninsured - completed inventory	16,732	12,834	31,280	3,898	30%
Construction loans					
- Residential	422,070	409,024	349,808	13,046	3%
- Non-residential	6,975	5,766	5,595	1,209	21%
Commercial loans					
- Uninsured	141,612	120,192	114,342	21,420	18%
	1,019,455	**998,357**	**944,109**	**21,098**	**2%**
Securitized portfolio:					
Single family insured - Market MBS program	1,035,138	1,050,929	1,075,947	(15,791)	(2%)
Single family insured - CMB program	28,142	-	-	28,142	-
	1,063,280	**1,050,929**	**1,075,947**	**12,351**	**1%**
	$ 2,082,735	**$ 2,049,286**	**$ 2,020,056**	**$ 33,449**	**2%**

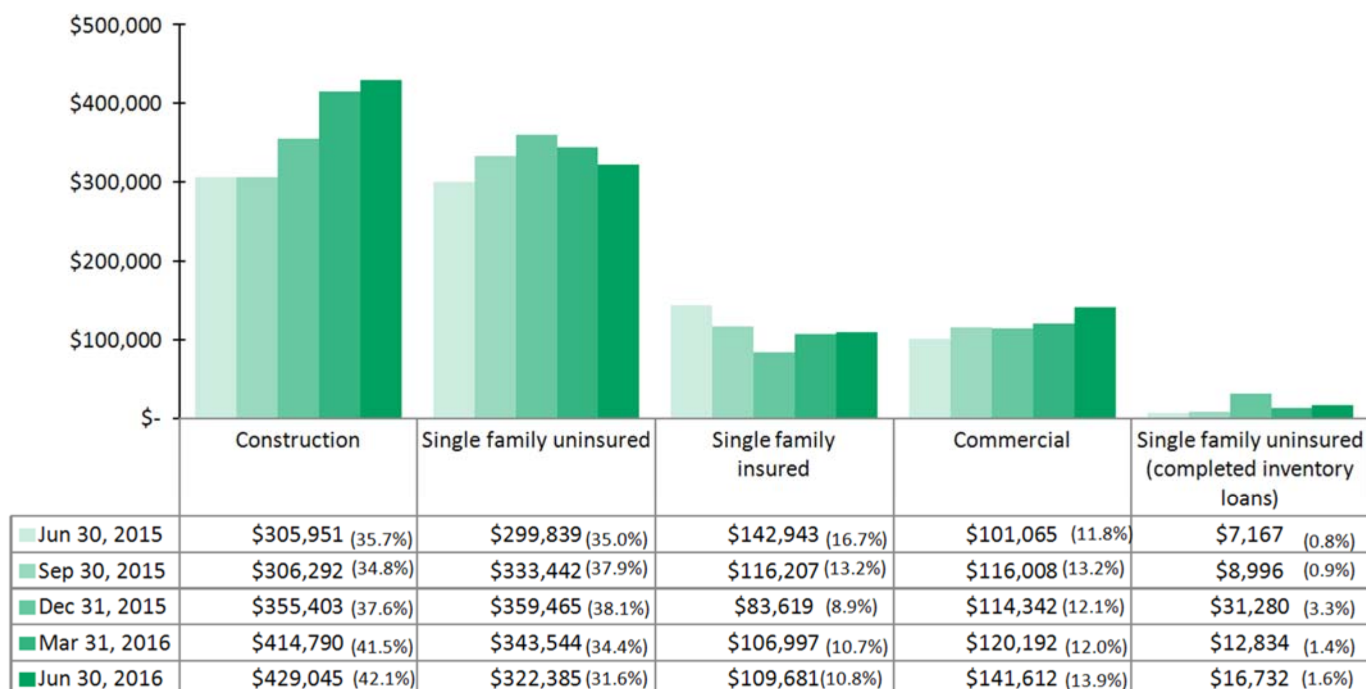
Corporate and Securitized Mortgage Portfolio Analysis

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



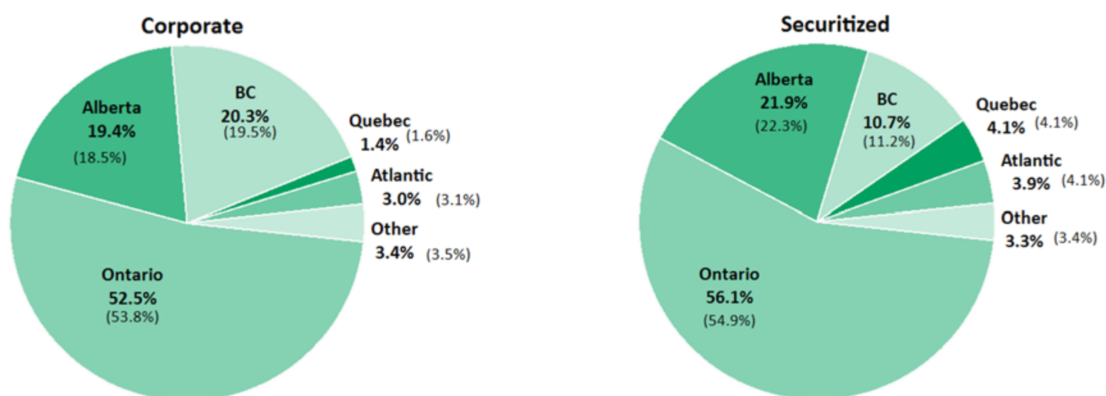
The decrease in securitized mortgages in Q4 2015 was a result of the sale of interest-only strips and the derecognition of the associated mortgages from the balance sheet. In Q2 2016, we resumed the issuance of MBS to the market and had a small increase in the securitized portfolio.

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)
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%)
Jun 30, 2016	$429,045 (42.1%)	$322,385 (31.6%)	$109,681 (10.8%)	$141,612 (13.9%)	$16,732 (1.6%)

Figure 3: Mortgage Portfolio Geographic Distribution as at June 30, 2016 (March 31, 2016)



Corporate Mortgages

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.

As we securitize mortgages that do not achieve derecognition, the 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 completed 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.

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.

Commercial loans

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

Other items

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 $9.0 million of outstanding corporate and securitized single family mortgages, respectively, and $12.9 million of off-balance sheet mortgages as at June 30, 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. The fire in the Fort McMurray region has not had a material impact on net income to date and is not expected to have a future material impact on net income.

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 June 30, 2016, we had the renewal rights to $1.1 billion of single family mortgages (March 31, 2016 - $1.1 billion). The June 30, 2016 amount includes $173 million of mortgages originated by Xceed and sold to a third party which is currently in receivership. 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 15: Arrears and Impaired Mortgages

(in thousands except %) As at	June 30 2016	March 31 2016	December 31 2015
Impaired mortgages			
Single family - uninsured	$ 2,940	$ 4,136	$ 2,196
Single family - insured	1,001	797	531
	$ 3,941	$ 4,933	$ 2,727
Impaired mortgage ratio (total) [1]	0.14%	0.20%	0.11%
Impaired mortgage ratio (corporate) [1]	0.29%	0.41%	0.23%
Total corporate mortgage arrears [1]			
Single family - uninsured	$ 13,699	$ 16,331	$ 14,826
Single family - insured	7,531	7,317	5,063
Residential construction	391	-	-
	21,621	23,648	19,889
Total securitized mortgage arrears [1]	17,433	19,058	14,361
Total mortgage arrears [1]	$ 39,054	$ 42,706	$ 34,250
Collective allowance	$ 5,387	$ 5,207	$ 4,920
Individual allowance	326	317	339
Total allowance	$ 5,713	$ 5,524	$ 5,259

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

Economic volatility and continued weakness in commodity prices continue to affect housing markets in impacted provinces such as Alberta and Saskatchewan where job losses have impacted industry mortgage arrears. We 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.

Figure 4: Impaired Corporate Mortgage Ratio

Table 16: Mortgage Originations

(in thousands) For the Periods Ended June 30	Q2 2016	Q2 2015	Q1 2016	YTD 2016	YTD 2015
Single family - insured	$ 29,552	$ 107,017	23,862	$ 53,414	$ 155,744
Single family - uninsured	5,760	29,617	6,571	12,331	54,776
Single family - uninsured completed inventory	10,911	681	3,040	13,951	681
Non-residential construction (advances)	638	-	-	638	-
Residential construction (new loan fundings)	20,608	25,042	31,514	52,122	49,342
Commercial	34,216	10,988	13,549	47,765	23,457
	$ 101,685	**$ 173,345**	**78,536**	**$ 180,221**	**$ 284,000**

Single family originations remained low in Q2 2016 as a result of reduced spreads from a competitive market and the tightening of our underwriting standards, specifically for uninsured self-employed borrowers. During the quarter, we saw an increase in mortgage applications that do not meet our underwriting standards and we have therefore experienced a notable increase in mortgage application declines. The Toronto and Vancouver markets have experienced significant price inflation recently which is well in excess of supporting employment and income growth. Accordingly, we have tightened our underwriting standards to mitigate these risks.

Residential construction new loan fundings represent first advances on newly originated loans, i.e. they exclude additional fundings on existing loans in the portfolio. We have continued to target this asset class for growth given the low single family origination volumes.

Table 17: Average Mortgage Loan to Value (LTV) Ratios

As at	June 30 2016	March 31 2016	December 31 2015
Corporate portfolio:			
Single family mortgages			
- Uninsured	74.2%	74.3%	74.3%
- Uninsured completed inventory	58.1%	67.3%	63.3%
- Insured	85.9%	85.6%	85.9%
Construction loans			
- Residential	65.4%	65.9%	66.1%
- Non-residential	59.9%	59.1%	59.4%
Commercial loans			
- Uninsured	70.3%	69.8%	68.7%
	70.9%	71.3%	71.1%
Securitized portfolio:			
Single family insured - Market MBS Program	87.1%	87.0%	87.0%
Single family insured - CMB Program	85.5%	-	-
	87.1%	87.0%	87.0%
	79.1%	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 18: Single Family Mortgages by Province as at June 30, 2016

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 62,934	57.5%	$ 227,006	67.0%	$ 148	58.8%	$ 596,611	56.1%	$ 886,699	58.7%
Alberta	21,862	20.0%	53,349	15.7%	52	20.6%	232,982	21.9%	308,245	20.4%
British Columbia	4,598	4.2%	33,420	9.9%	52	20.6%	113,257	10.7%	151,327	10.0%
Quebec	6,922	6.3%	7,513	2.2%	-	-	43,350	4.1%	57,785	3.8%
Atlantic Provinces	9,798	9.0%	9,569	2.8%	-	-	41,688	3.9%	61,055	4.0%
Other	3,315	3.0%	8,260	2.4%	-	-	35,392	3.3%	46,967	3.1%
Total	**$ 109,429**	**100.0%**	**$ 339,117**	**100.0%**	**$ 252**	**100.0%**	**$ 1,063,280**	**100.0%**	**$ 1,512,078**	**100.0%**

Table 19: 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 20: Single Family Mortgages by Amortization Period as at June 30, 2016

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 64,223	$ 88,248	$ 283,890	$ 12,330	$ 107	$ 448,798
	14.3%	19.7%	63.3%	2.7%	0.0%	100.0%
Securitized	$ 136,314	$ 566,785	$ 262,364	$ 97,469	$ 348	$ 1,063,280
	12.8%	53.3%	24.7%	9.2%	0.0%	100.0%
Total	**$ 200,537**	**$ 655,033**	**$ 546,254**	**$ 109,799**	**$ 455**	**$ 1,512,078**
	13.3%	**43.3%**	**36.1%**	**7.3%**	**0.0%**	**100.0%**

Table 21: Single Family Mortgages by Amortization Period as at March 31, 2016

(in thousands except %)	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 22: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) For the Periods Ended June 30	Q2 2016	Average LTV	YTD 2016	Average LTV	Q2 2015	Average LTV	YTD 2015	Average LTV
Ontario	$ 13,997	75.4%	$ 22,044	74.1%	$ 22,103	72.9%	$ 39,049	72.8%
Alberta	982	71.1%	1,890	73.7%	5,852	76.7%	10,448	75.0%
British Columbia	1,692	68.4%	2,195	71.1%	1,266	71.7%	3,068	71.6%
Atlantic Provinces	-	-	-	-	-	-	1,336	62.7%
Other	-	-	153	57.7%	1,077	71.1%	1,556	70.7%
	$ 16,671	**74.4%**	**$ 26,282**	**73.7%**	**$ 30,298**	**73.5%**	**$ 55,457**	**72.8%**

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 73.4% as at June 30, 2016 (March 31, 2016 - 74.0%). Based on an industry index that incorporates current real estate values, the ratios would be 60.7% and 63.0%, respectively.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, decreased by $4 million in Q2 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 $7 million in Q2 2016, which included a $3.5 million increase in the unrealized gain on the portfolio, which was reflected in accumulated other comprehensive income. REIT valuations increased in Q2 2016 as a result of economic volatility and the expectation of lower long-term interest rates. 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 $29 million investment in Crown LP, in which we have a 14.1% equity interest (March 31, 2016 - $32 million). Crown LP invests primarily in commercial office buildings and classifies them as either buildings with medium-term capital appreciation or buildings expected to provide stable cash flows over a longer time horizon. Its fair value is based on independent appraisals of the buildings. As property acquisitions are made by Crown LP, we advance our proportionate share to finance the acquisitions. During Q2 2016 we received a $4.1 million distribution from Crown LP related to the refinancing of an underlying property (Q2 2015 - $nil). This distribution reduced the carrying value of our investment and also created a transfer of $3.8 million from accumulated other comprehensive income to net income, which is included in income from financial investments and other loans.

We have funded a $21 million investment in the KingSett High Yield Fund, in which we have a 9% equity interest (March 31, 2016 - $19 million). 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 Q2 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 $48 million as at June 30, 2016 (March 31, 2016 - $44 million). 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 $41 million as at June 30, 2016 (March 31, 2016 - $42 million). 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 $4.4 billion in Q2 2016. MCAP had $56.1 billion of assets under administration as at May 31, 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.

During Q2 2016, MCAP filed a preliminary prospectus with respect to an initial public offering of common shares which is available on SEDAR at www.sedar.com. Subsequently, MCAP withdrew the offering due to adverse market conditions. Since the events did not lead to a change in accounting, we continue to use the equity basis of accounting for our investment in MCAP.

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 and CMB program. During Q2 2016 we recognized $17 million of new securitized mortgages on our balance sheet from our participation in the market MBS program and $28 million from the CMB program.

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

Table 23: Liabilities and Shareholders' Equity

(in thousands) As at	June 30 2016	March 31 2016	December 31 2015	Change from Prior Quarter ($)	(%)
Corporate Liabilities					
Term deposits	$ 1,000,513	$ 975,663	$ 903,041	$ 24,850	3%
Loans payable	-	4,085	-	(4,085)	(100%)
Current tax liabilities	-	-	100	-	-
Deferred tax liabilities	2,306	2,203	2,299	103	5%
Other liabilities	4,455	4,005	12,412	450	11%
	1,007,274	**985,956**	**917,852**	**21,318**	**2%**
Securitization Liabilities					
Financial liabilities from securitization	1,062,408	1,042,996	1,070,304	19,412	2%
	1,062,408	**1,042,996**	**1,070,304**	**19,412**	**2%**
	2,069,682	**2,028,952**	**1,988,156**	**40,730**	**2%**
Shareholders' Equity					
Share capital	209,102	208,198	206,382	904	-
Contributed surplus	510	510	510	-	-
Retained earnings	50,744	43,758	42,617	6,986	16%
Accumulated other comprehensive income	13,861	13,161	9,293	700	5%
	274,217	**265,627**	**258,802**	**8,590**	**3%**
	$ 2,343,899	**$ 2,294,579**	**$ 2,246,958**	**$ 49,320**	**2%**

We issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance to fund our corporate operations. The Q2 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 and CMB program, representing MBS that we have sold to third parties but have not been derecognized from our balance sheet. Q2 2016 activity consists of the creation of $17 million of new liabilities from our participation in the market MBS program and $28 million from the CMB program less $26 million of net repayments. For further information on the market MBS program, refer to the "Securitization Programs" section of this MD&A.

Share capital activity for Q2 2016 reflects new common shares issued through the Dividend Reinvestment Plan ("DRIP") as part of the June 30th dividend. For further information, refer to Note 15 to the consolidated financial statements.

Retained earnings activity for Q2 2016 consists of net income of $13.6 million less dividends of $6.7 million.

Accumulated other comprehensive income represents unrealized gains or losses on available for sale marketable securities and financial investments. During Q2 2016, we recorded a $3.5 million increase in the fair value of the marketable securities portfolio. Additionally, we transferred $3.8 million of the balance to net income (included in income from financial investments and other loans) relating to a distribution received from our investment in Crown LP.

SELECTED QUARTERLY FINANCIAL DATA

Table 24: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q2/16	Q1/16	Q4/15	Q3/15	Q2/15	Q1/15	Q4/14	Q3/14
Net investment income - corporate assets	$ 16,996	$ 10,625	$ 12,602	$ 8,996	$ 13,745	$ 7,398	$ 10,262	$ 8,707
Other income - corporate assets	-	-	-	-	68	-	71	-
Gross investment income - securitization assets	1,421	1,244	1,469	1,246	1,105	718	603	319
Fair value adjustment	-	-	-	-	(47)	(24)	(133)	(414)
Net investment income - securitization assets	1,421	1,244	1,469	1,246	1,058	694	470	(95)
Operating expenses	4,650	4,519	4,224	3,577	3,136	3,571	3,201	3,596
Net income before income taxes	13,767	7,350	9,847	6,665	11,735	4,521	7,602	5,016
Provision for (recovery of) income taxes	131	(421)	397	(528)	(183)	225	473	165
Net income	$ 13,636	$ 7,771	$ 9,450	$ 7,193	$ 11,918	$ 4,296	$ 7,129	$ 4,851
Average mortgage portfolio yield - corporate [1]	5.21%	5.27%	5.31%	5.25%	5.34%	5.48%	5.43%	5.52%
Average term deposit interest rate [1]	2.22%	2.25%	2.27%	2.32%	2.38%	2.40%	2.43%	2.45%
Basic and diluted earnings per share	$ 0.59	$ 0.34	$ 0.42	$ 0.32	$ 0.56	$ 0.21	$ 0.34	$ 0.23
Return on average shareholders' equity [1]	20.10%	11.80%	14.66%	11.36%	20.16%	7.49%	12.76%	8.74%
Dividends per share								
Regular	$ 0.29	$ 0.29	$ 0.29	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Total	$ 0.29	$ 0.29	$ 0.29	$ 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 Q3 2014 with the exception of significant increases in Q4 2015 and Q2 2016 primarily due to income recognized upon the receipt of distributions from Crown LP. Q2 2015 and Q2 2016 also had substantial equity income from MCAP. 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 losses on financial instruments 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.

For an analysis of the increase in operating expenses in recent quarters, refer to the "Operating Expenses" sub-section of the "Results of Operations" section of this MD&A.

SECURITIZATION PROGRAMS

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. We issue MBS through our internal market MBS program and the Canada Housing Trust ("CHT") CMB program. In both programs, 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 NHA 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 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.

In Q2 2016 we recommenced our participation in the CMB program after ceasing our initial CMB program involvement in Q2 2015.

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 Q2 2016, we pooled and sold $17 million of MBS to third parties (Q2 2015 - $172 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 the 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. As at June 30, 2016, we held $39 million of retained MBS on our balance sheet (March 31, 2016 - $41 million), which is included in the insured single family classification within corporate mortgages.

CMB Program

We recommenced our participation in the CMB program in Q2 2016 by securitizing both insured single family and insured multi family loans (e.g. loans secured by apartment buildings). The CMB program involves the sale of MBS to CHT who in turn issues a non-amortizing bullet bond to external investors. The CMB program generally includes the reinvestment of mortgage principal repayments by the MBS issuer into certain permitted assets, however we have transferred the benefits and obligations associated with the principal reinvestment function to a third party such that we only earn spread income on the amortizing mortgage balance. This transfer has no net ongoing financial impact on MCAN.

We securitized $28 million of insured single family mortgages during Q2 2016 (Q2 2015 - n/a). Similar to the market MBS program, we did not achieve 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 the accrual basis over the term of the mortgages.

We securitized $37 million of insured multi family loans during Q2 2016 (Q2 2015 - n/a), however upon securitization we achieved derecognition as control over the assets was transferred on securitization. In achieving derecognition, we recognized an upfront gain of $123,000, which is included in other securitization income. Additionally, we recognized a receivable in the amount of estimated discounted spread income to be earned over the term of the securitized mortgages.

Our initial participation in the CMB program ceased in Q2 2015, at which point the last remaining CMB bond liability at that time matured.

Other Accounting Considerations

The primary risks associated with the market MBS program and CMB 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). Prepayment risk includes the acceleration of the amortization of mortgage premiums as a result of early payouts.

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on the consolidated 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 are considered to be true mortgage sales and therefore 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.

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 our participation in the market MBS program and CMB 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.

In the case of mortgage defaults, we are required to make scheduled principal and interest payments to investors as part of the Timely Payment 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.

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 25: Income Tax Capital [1]

(in thousands except ratios) As at	June 30 2016	March 31 2016	December 31 2015
Income tax assets [1]			
Consolidated assets	$ 2,343,899	$ 2,294,579	$ 2,246,958
Adjust for assets in subsidiaries	12,085	4,212	5,535
Non-consolidated assets in MIC entity	2,355,984	2,298,791	2,252,493
Add: mortgage allowances	5,419	5,238	4,953
Less: securitization assets [2]	(1,085,928)	(1,063,069)	(1,091,099)
Less: equity investments in subsidiaries	(27,919)	(22,887)	(31,088)
Other adjustments	(7,980)	(4,146)	122
	$ 1,239,576	$ 1,213,927	$ 1,135,381
Income tax liabilities [1]			
Consolidated liabilities	$ 2,069,682	$ 2,028,952	$ 1,988,156
Adjust for liabilities in subsidiaries	(616)	(8,333)	(6,213)
Non-consolidated liabilities in MIC entity	2,069,066	2,020,619	1,981,943
Less: securitization liabilities [2]	(1,060,683)	(1,041,323)	(1,068,541)
	$ 1,008,383	$ 979,296	$ 913,402
Income tax capital [1]	$ 231,193	$ 234,631	$ 221,979
Income tax asset capacity [1]	$ 89,786	$ 135,201	$ 140,998
Income tax capital ratios [1]			
Income tax assets to capital ratio	5.36	5.17	5.11
Income tax liabilities to capital ratio	4.36	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.

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 26: Regulatory Capital

(in thousands except %) As at	June 30 2016	March 31 2016	December 31 2015
Regulatory Ratios (OSFI)			
Share capital	$ 209,102	$ 208,198	$ 206,382
Contributed surplus	510	510	510
Retained earnings	50,744	43,758	42,617
Accumulated other comprehensive income	13,861	13,161	9,293
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(12,085)	(10,635)	(7,324)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2]	$ 262,132	$ 254,992	$ 251,478
Deduction for equity investment in MCAP (All-in adjustment) [1]	(8,057)	(7,090)	(10,986)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2]	$ 254,075	$ 247,902	$ 240,492
Total Exposures/Regulatory Assets [2]			
Consolidated assets	$ 2,343,899	$ 2,294,579	$ 2,246,958
Less: deductions from all-in Tier 1 Capital [1]	(20,142)	(17,725)	(18,310)
Other adjustments [3]	2,200	1,414	2,229
Total On-Balance Sheet Exposures	2,325,957	2,278,268	2,230,877
Mortgage and investment funding commitments	389,139	364,055	333,667
Less: conversion to credit equivalent amount (50%)	(194,570)	(182,028)	(166,834)
Letters of credit	33,767	35,884	35,863
Less: conversion to credit equivalent amount (50%)	(16,883)	(17,942)	(17,932)
Total Off-Balance Sheet Items	211,453	199,969	184,764
Total Exposures/Regulatory Assets	$ 2,537,410	$ 2,478,237	$ 2,415,641
Leverage ratio [2]	10.01%	10.00%	9.96%
Risk weighted assets (transitional) [2]	$ 1,210,807	$ 1,139,526	$ 1,063,936
Risk weighted assets (all-in) [2]	$ 1,194,693	$ 1,125,346	$ 1,041,964
Regulatory Capital Ratios [2]			
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	21.65%	22.38%	23.64%
Tier 1 capital to risk-weighted assets ratio (transitional)	21.65%	22.38%	23.64%
Total capital to risk-weighted assets ratio (transitional)	21.65%	22.38%	23.64%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	21.27%	22.03%	23.08%
Tier 1 capital to risk-weighted assets ratio (all-in)	21.27%	22.03%	23.08%
Total capital to risk-weighted assets ratio (all-in)	21.27%	22.03%	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 27: Regulatory Risk-Weighted Assets

(in thousands except %)	June 30, 2016			March 31, 2016		
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	$ 73,954	21%	$ 15,231	$ 78,386	20%	$ 15,960
Short term investments	19,500	20%	3,900	10,123	20%	2,025
Marketable securities	55,902	100%	55,902	49,207	100%	49,207
Mortgages - corporate	1,019,455	69%	703,130	998,357	67%	669,831
Mortgages - securitized	1,063,280	4%	37,839	1,050,929	3%	26,649
Financial investments	49,397	100%	49,397	51,318	100%	51,318
Other loans	4,027	100%	4,027	3,980	100%	3,980
Equity investment in MCAP (all-in) [1]	47,563	58%	27,421	44,287	60%	26,562
Foreclosed real estate	529	100%	529	529	100%	529
Deferred tax asset	1,392	100%	1,392	1,237	100%	1,237
Other assets	8,900	100%	8,900	6,226	100%	6,226
			907,668			853,524
Off-Balance Sheet Items						
Letters of credit	33,767	50%	16,883	35,884	50%	17,942
Commitments	389,139	45%	174,529	364,055	45%	164,767
			191,412			182,709
Charge for operational risk			95,613			89,113
Risk-Weighted Assets (all-in)			1,194,693			1,125,346
Equity investment in MCAP (transitional adjustment) [1]			16,114			14,180
Risk-Weighted Assets (transitional)			**$ 1,210,807**			**$ 1,139,526**

[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 June 30, 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 June 30, 2016, we were in compliance with our internal liquidity ratios.

Table 28: Liquidity Ratios

(in thousands except %) **As at**	**June 30 2016**	**March 31 2016**	**December 31 2015**
Tier 1 liquid assets [1]			
Cash and cash equivalents	$ 73,954	$ 78,386	$ 75,762
Tier 2 liquid assets [1]			
Marketable securities	55,902	49,207	40,735
Less: marketable securities adjustment [2]	(13,596)	(11,983)	(10,104)
Market MBS retained by MCAN [3]	39,136	40,792	21,250
	81,442	78,016	51,881
Tier 3 liquid assets [1]			
Single family insured mortgages [4]	63,497	64,281	60,399
Less: single family insured mortgages adjustment [4]	(19,431)	(23,163)	(18,503)
	44,066	41,118	41,896
Total liquid assets [1]	$ 199,462	$ 197,520	$ 169,539
100 day term deposit maturities	$ 166,656	$ 202,880	$ 92,622
Liquidity ratios [1]			
Tier 1 & 2 liquid assets to 100 day term deposit maturities	93%	77%	138%
Total liquid assets to 100 day term deposit maturities	120%	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 market 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 29: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	June 30 2016	March 31 2016
Sources of liquidity							
Cash and cash equivalents	$ 73,954	$ -	$ -	$ -	$ -	$ 73,954	$ 78,386
Marketable securities	-	1,038	661	-	54,203	55,902	49,207
Mortgages - corporate	162,011	436,666	367,293	49,192	4,293	1,019,455	998,357
Financial investments	-	-	-	-	49,397	49,397	51,318
Other loans	1,709	-	-	2,318	-	4,027	3,980
	237,674	437,704	367,954	51,510	107,893	1,202,735	1,181,248
Uses of liquidity							
Term deposits	158,585	374,498	357,799	109,631	-	1,000,513	975,663
Loans payable	-	-	-	-	-	-	4,085
Other liabilities	4,455	-	-	-	-	4,455	4,005
	163,040	374,498	357,799	109,631	-	1,004,968	983,753
Net liquidity surplus (deficit)	**$ 74,634**	**$ 63,206**	**$ 10,155**	**$ (58,121)**	**$ 107,893**	**$ 197,767**	**$ 197,495**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 249,553	$ 107,471	$ 16,770	$ -	$ -	$ 373,794	$ 347,360
Commitment - KingSett High Yield Fund	-	-	-	-	15,345	15,345	16,695
	$ 249,553	$ 107,471	$ 16,770	$ -	$ 15,345	$ 389,139	$ 364,055

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 June 30, 2016, there were 22,995,912 common shares outstanding. As at August 10, 2016, there were 22,995,912 common shares outstanding.

During Q2 2016, we issued 63,100 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 30: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	June 30 2016	March 31 2016
Mortgage funding commitments	$ 357,024	$ 16,770	$ -	$ -	$ 373,794	$ 347,360
Commitment - KingSett High Yield Fund	-	-	-	15,345	15,345	16,695
Operating lease	288	1,151	1,180	2,239	4,858	5,002
	$ 357,312	**$ 17,921**	**$ 1,180**	**$ 17,584**	**$ 393,997**	**$ 369,057**

We retain mortgage servicing obligations relating to securitized mortgages 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 June 30, 2016, of our total single family mortgage renewal rights of $1.1 billion (March 31, 2016 - $1.1 billion), $173 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (March 31, 2016 - $210 billion).

DIVIDENDS

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

TRANSACTIONS WITH RELATED PARTIES

In Q2 2016, we purchased certain corporate services from MCAP in the amount of $44,000 (Q2 2015 - $58,000) and purchased certain mortgage origination and administration services from MCAP in the amount of $981,000 (Q2 2015 - $426,000). Also, we received $761,000 (Q2 2015 - $1,207,000) of mortgage fees from MCAP.

In Q2 2015, we paid $1.6 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 June 30, 2016, we had 63 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 June 30, 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 June 30, 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	June 30 2016	December 31 2015
Assets			
Corporate Assets			
Cash and cash equivalents		$ 73,954	$ 75,762
Marketable securities	7	55,902	40,735
Mortgages	8	1,019,455	944,109
Financial investments	9	49,397	41,793
Other loans		4,027	4,176
Equity investment in MCAP Commercial LP	10	47,563	44,191
Foreclosed real estate		529	529
Deferred tax asset	13	1,392	1,125
Other assets		5,481	2,626
		1,257,700	**1,155,046**
Securitization Assets			
Short-term investments		19,500	13,112
Mortgages	11	1,063,280	1,075,947
Other assets		3,419	2,853
		1,086,199	**1,091,912**
		$ 2,343,899	**$ 2,246,958**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	12	$ 1,000,513	$ 903,041
Current taxes payable	13	-	100
Deferred tax liabilities	13	2,306	2,299
Other liabilities		4,455	12,412
		1,007,274	**917,852**
Securitization Liabilities			
Financial liabilities from securitization	14	1,062,408	1,070,304
		1,062,408	**1,070,304**
		2,069,682	**1,988,156**
Shareholders' Equity			
Share capital	15	209,102	206,382
Contributed surplus	15	510	510
Retained earnings		50,744	42,617
Accumulated other comprehensive income	17	13,861	9,293
		274,217	**258,802**
		$ 2,343,899	**$ 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
(Unaudited) (in thousands of Canadian dollars except for per share amounts)

For the Quarters Ended June 30	Note	2016	2015
Net Investment Income - Corporate Assets			
Mortgage interest		$ 13,367	$ 13,556
Equity income from MCAP Commercial LP	10	4,509	4,938
Fees		673	533
Marketable securities		819	424
Financial investments and other loans	9	4,456	193
Interest on cash and cash equivalents		128	216
Whole loan gain on sale income		1	130
Realized and unrealized loss on financial instruments		-	(21)
		23,953	**19,969**
Term deposit interest and expenses		5,535	5,110
Mortgage expenses	18	1,018	905
Interest on loans payable		109	247
Provision for (recovery of) credit losses	19	295	(38)
		6,957	**6,224**
		16,996	**13,745**
Other Income - Corporate Assets			
Gain on dilution of investment in MCAP Commercial LP	10	-	68
		-	**68**
Net Investment Income - Securitization Assets			
Mortgage interest		6,984	6,115
Interest on short-term investments		9	34
Other securitization income	6	114	46
		7,107	6,195
Interest on financial liabilities from securitization		5,247	4,750
Mortgage expenses	18	439	340
		5,686	5,090
Net investment income before fair market value adjustment		1,421	1,105
Fair market value adjustment - derivative financial instruments		-	(47)
		1,421	**1,058**
Operating Expenses			
Salaries and benefits		2,568	1,873
General and administrative		2,082	1,263
		4,650	**3,136**
Net Income Before Income Taxes		**13,767**	**11,735**
Provision for (recovery of) income taxes			
Deferred	13	131	(183)
		131	(183)
Net Income		**$ 13,636**	**$ 11,918**
Basic and diluted earnings per share		$ 0.59	$ 0.56
Dividends per share		$ 0.29	$ 0.28
Weighted average number of basic and diluted shares (000's)		22,934	21,091

The accompanying notes and shaded areas of the "Risk Factors" and "Risk Management" sections 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 Six Months Ended June 30	Note	2016	2015
Net Investment Income - Corporate Assets			
Mortgage interest		$ 25,955	$ 26,097
Equity income from MCAP Commercial LP	10	7,024	6,034
Fees		1,226	1,063
Marketable securities		1,528	811
Financial investments and other loans	9	4,940	337
Interest on cash and cash equivalents		253	344
Whole loan gain on sale income		324	335
Realized and unrealized loss on financial instruments		-	(1,502)
		41,250	**33,519**
Term deposit interest and expenses		10,858	10,251
Mortgage expenses	18	1,971	1,799
Interest on loans payable		180	427
Provision for (recovery of) credit losses	19	620	(101)
		13,629	**12,376**
		27,621	**21,143**
Other Income - Corporate Assets			
Gain on dilution of investment in MCAP Commercial LP	10	-	68
		-	**68**
Net Investment Income - Securitization Assets			
Mortgage interest		13,989	11,066
Interest on short-term investments		16	59
Other securitization income	6	114	80
		14,119	11,205
Interest on financial liabilities from securitization		10,570	8,772
Mortgage expenses	18	884	610
		11,454	9,382
Net investment income before fair value adjustment		2,665	1,823
Fair value adjustment - derivative financial instruments		-	(71)
		2,665	**1,752**
Operating Expenses			
Salaries and benefits		5,086	3,933
General and administrative		4,083	2,774
		9,169	**6,707**
Net Income Before Income Taxes		**21,117**	**16,256**
Provision for (recovery of) income taxes			
Current	13	(100)	-
Deferred	13	(190)	42
		(290)	42
Net Income		**$ 21,407**	**$ 16,214**
Basic and diluted earnings per share		$ 0.93	$ 0.77
Dividends per share		$ 0.58	$ 0.56
Weighted average number of basic and diluted shares (000's)		22,897	21,017

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 Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Net income	$ 13,636	$ 11,918	$ 21,407	$ 16,214
Other comprehensive income				
Change in unrealized gain on available for sale marketable securities	3,511	(1,119)	6,832	305
Change in unrealized gain on available for sale financial investments	763	-	1,423	2,678
Transfer of unrealized gains on available for sale financial investments to net income	(3,757)	-	(3,757)	-
Less: deferred taxes	183	-	70	(355)
	700	(1,119)	4,568	2,628
Comprehensive income	**$ 14,336**	**$ 10,799**	**$ 25,975**	**$ 18,842**

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

For the Six Months Ended June 30	Note	2016	2015
Share capital			
Balance, beginning of period		$ 206,382	$ 183,939
Common shares issued	15	2,720	5,809
Balance, end of period		**209,102**	**189,748**
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		21,407	16,214
Dividends declared		(13,280)	(11,768)
Balance, end of period		**50,744**	**38,927**
Accumulated other comprehensive income			
Balance, beginning of period		9,293	6,373
Other comprehensive income		4,568	2,628
Balance, end of period		**13,861**	**9,001**
Total shareholders' equity		**$ 274,217**	**$ 238,186**

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 Six Months Ended June 30	2016	2015
Cash provided by (used for):		
Operating Activities		
Net income	$ 21,407	$ 16,214
Adjustments to determine cash flows relating to operating activities:		
Current taxes	(100)	-
Deferred taxes	(190)	42
Equity income from MCAP Commercial LP	(7,024)	(6,034)
Gain on dilution of MCAP Commercial LP	-	(68)
Provision for (recovery of) credit losses	620	(101)
Fair value adjustment - derivative financial instruments	-	71
Amortization of securitized mortgage and liability transaction costs	2,745	2,366
Amortization of other assets	175	168
Amortization of mortgage discounts	(40)	(1,045)
Amortization of premium on marketable securities	-	40
Changes in operating assets and liabilities:		
Mortgages	(65,349)	(231,286)
Term deposits	97,472	31,824
Financial liabilities from securitization	(8,386)	254,915
Marketable securities	(8,334)	(2,172)
Short-term investments	(6,388)	5,398
Financial investments	(9,939)	(3,182)
Other loans	149	363
Other assets	(3,218)	(716)
Other liabilities	(1,514)	(366)
Cash flows from operating activities	**12,086**	**66,431**
Investing Activities		
Distributions from MCAP Commercial LP	3,652	820
Acquisition of capital and intangible assets	(378)	(190)
Cash flows from investing activities	**3,274**	**630**
Financing Activities		
Issue of common shares	2,720	5,809
Decrease in loans payable	-	4,010
Dividends paid	(19,888)	(17,596)
Cash flows for financing activities	**(17,168)**	**(7,777)**
Increase (decrease) in cash and cash equivalents	(1,808)	59,284
Cash and cash equivalents, beginning of period	75,762	51,090
Cash and cash equivalents, end of period	**$ 73,954**	**$ 110,374**

Supplementary Information	2016	2015
Interest received	$ 39,511	$ 37,517
Interest paid	20,023	16,890
Distributions received from investments	6,692	1,000

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.

NOTES TO THE 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 is also a National Housing Act ("NHA") mortgage-backed securities ("MBS") issuer. 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 August 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 June 30, 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 June 30, 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 its internal market MBS program and the Canada Housing Trust ("CHT") Canada Mortgage Bonds ("CMB") program. In both programs, the Company originates or purchases mortgages for securitization.

Pursuant to the 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.

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 Q2 2016, MCAN pooled and sold $17,086 of MBS to third parties (Q2 2015 - $171,864). 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.

CMB Program

The Company recommenced its participation in the CMB program in Q2 2016 by securitizing both insured single family and insured multi family loans (e.g. loans secured by apartment buildings). The CMB program involves the sale of MBS to CHT who in turn issues a non-amortizing bullet bond to external investors. The CMB program generally includes the reinvestment of mortgage principal repayments by the MBS issuer into certain permitted assets, however the Company has transferred the benefits and obligations associated with the principal reinvestment function to a third party such that it only earns spread income on the amortizing mortgage balance.

During Q2 2016, the Company securitized $27,745 of insured single family mortgages (Q2 2015 - n/a). Similar to the market MBS program, the Company did not achieve derecognition as it 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 the accrual basis over the term of the mortgages.

During Q2 2016, the Company securitized $37,491 of insured multi family loans (Q2 2015 - n/a), however upon securitization achieved derecognition as control over the assets was transferred on securitization. In achieving derecognition, the Company recognized an upfront gain of $123, which is included in other securitization income, and recognized a receivable in the amount of the estimated discounted spread income to be earned over the term of the securitized mortgages.

MCAN's initial participation in the CMB program ceased in Q2 2015, at which point the last remaining CMB bond liability at that time matured.

Other Accounting Considerations

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

Any mortgages securitized through the market MBS program or CMB 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 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.

6. Securitization Activities (Continued)

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 its participation in the market MBS program and CMB 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.

In the case of mortgage defaults, MCAN is required to make scheduled principal and interest payments to investors as part of the Timely Payment 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.

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 obligation, the majority of the market MBS program and single family CMB 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 June 30, 2016 was $1,063,280 (December 31, 2015 - $1,075,947) (Note 11). The financial liabilities from securitization balance as at June 30, 2016 was $1,062,408 (December 31, 2015 - $1,070,304) (Note 14).

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 and CMB program at June 30, 2016 was not reflected as an asset or liability on MCAN's consolidated balance sheet. The MBS mature as follows:

	2016	2017	2020	2021	Total
June 30, 2016	$ 23,024	$ 139,804	$ 140,946	$ 37,438	$ 341,212
December 31, 2015	$ 29,272	$ 157,741	$ 147,219	$ -	$ 334,232

7. Marketable Securities

As at	June 30 2016	December 31 2015
Real estate investment trusts	$ 54,171	$ 37,958
Corporate bonds	1,731	2,777
	$ 55,902	**$ 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 June 30, 2016	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 323,868	$ 1,377	$ 106	$ 1,483	$ 322,385
- Insured	109,681	-	-	-	109,681
- Uninsured - completed inventory	16,804	72	-	72	16,732
Construction loans					
- Residential	425,052	2,762	220	2,982	422,070
- Non-residential	7,021	46	-	46	6,975
Commercial loans					
- Uninsured	142,742	1,130	-	1,130	141,612
	$ 1,025,168	**$ 5,387**	**$ 326**	**$ 5,713**	**$ 1,019,455**

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	June 30 2016	December 31 2015
Single family - uninsured	4.47%	4.42%
Single family - uninsured completed inventory	4.66%	5.10%
Single family - insured	3.18%	3.52%
Construction	5.47%	5.53%
Commercial	6.55%	7.22%
Total	**5.05%**	**5.12%**

8. Mortgages - Corporate (continued)

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

As at	June 30 2016	December 31 2015
Single family - insured	$ 39,653	$ 30,691
Single family - uninsured	660	10,396
Single family - uninsured completed inventory	665	789
Construction - residential	329,105	259,684
Construction - non residential	943	1,593
Commercial	2,768	5,089
Total	**$ 373,794**	**$ 308,242**

The fair value of the corporate mortgage portfolio as at June 30, 2016 was $1,030,446 (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.

As at June 30, 2016, single family insured mortgages included $39,136 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 June 30, 2016	Single Family	Construction	Commercial	Total	
Ontario	$ 290,088	$ 162,578	$ 82,856	$ 535,522	52.5%
Alberta	75,263	100,944	21,995	198,202	19.4%
British Columbia	38,070	143,569	25,508	207,147	20.3%
Quebec	14,435	-	-	14,435	1.4%
Atlantic Provinces	19,367	-	11,253	30,620	3.0%
Other	11,575	21,954	-	33,529	3.4%
	$ 448,798	**$ 429,045**	**$ 141,612**	**$ 1,019,455**	**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%**

8. Mortgages - Corporate (continued)

(c) Mortgage Allowances

Details of the collective allowances for mortgage credit losses for the quarter and year to date are as follows:

	Collective	Individual	2016 Total	Collective	Individual	2015 Total
Balance, beginning of quarter	$ 5,207	$ 317	$ 5,524	$ 4,263	$ 527	$ 4,790
Provisions	180	139	319	(175)	450	275
Reversal of provisions	-	(15)	(15)	-	(179)	(179)
Write-offs, net	-	(115)	(115)	(8)	(106)	(114)
Balance, end of quarter	**$ 5,387**	**$ 326**	**$ 5,713**	**$ 4,080**	**$ 692**	**$ 4,772**

	Collective	Individual	2016 Total	Collective	Individual	2015 Total
Balance, beginning of year	$ 4,920	$ 339	$ 5,259	$ 4,332	$ 642	$ 4,974
Provisions	467	210	677	(223)	570	347
Reversals of provisions	-	(24)	(24)	-	(212)	(212)
Write-offs, net	-	(199)	(199)	(29)	(308)	(337)
Balance, June 30	**$ 5,387**	**$ 326**	**$ 5,713**	**$ 4,080**	**$ 692**	**$ 4,772**

(d) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at June 30, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 6,768	$ 2,787	$ 1,205	$ -	$ 10,760
Single family - insured	2,351	1,006	284	2,889	6,530
Residential construction	391	-	-	-	391
	$ 9,510	**$ 3,793**	**$ 1,489**	**$ 2,889**	**$ 17,681**

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**

8. Mortgages - Corporate (continued)

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

As at June 30, 2016	SF Insured	SF Uninsured	Total
Ontario	$ 183	$ 1,118	$ 1,301
Alberta	214	1,221	1,435
Quebec	604	183	787
Atlantic Provinces	-	418	418
	$ 1,001	**$ 2,940**	**$ 3,941**

As at December 31, 2015	SF Insured	SF Uninsured	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	June 30 2016	December 31 2015
Corporate assets:		
Investment - Crown Realty II Limited Partnership	$ 28,590	$ 31,102
Investment - KingSett High Yield Fund	20,807	10,691
	$ 49,397	**$ 41,793**

The Company holds an investment in Crown Realty II Limited Partnership ("Crown LP"), in which it has a 14.1% equity interest. Crown LP invests primarily in commercial office buildings and classifies them as either buildings with medium-term capital appreciation or buildings expected to provide stable cash flows over a longer time horizon. Its fair value is based on independent appraisals of the buildings. As property acquisitions are made by Crown LP, the Company advances its proportionate share to finance the acquisitions. During Q2 2016, the Company recorded a $777 gross increase in the unrealized gain on the investment (Q2 2015 - $nil), which is recognized in the consolidated statements of comprehensive income net of deferred taxes.

During Q2 2016, the Company received a $4,141 distribution from Crown LP related to the refinancing of an underlying property. This distribution reduced the carrying value of the investment and also created a transfer of $3,757 from accumulated other comprehensive income to net income, which is included in income from financial investments and other loans in the consolidated statement of income.

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 June 30, 2016, the Company's unfunded commitment was $15,345 (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 June 30, 2016, the Company held a 14.74% equity interest in MCAP Commercial LP ("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 June 30, 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 Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Balance, beginning of period	$ 44,287	$ 39,888	$ 44,191	$ 38,792
Equity income	4,509	4,938	7,024	6,034
Dilution gain	-	68	-	68
Distributions received	(1,233)	(820)	(3,652)	(820)
Balance, end of period	**$ 47,563**	**$ 44,074**	**$ 47,563**	**$ 44,074**

Selected MCAP financial information is as follows:

As at	May 31 2016	November 30 2015
MCAP's balance sheet:		
Assets	$ 25,050,450	$ 21,081,191
Liabilities	24,706,693	20,748,503
Equity	343,757	332,688

For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
MCAP revenue and net income:				
Revenue	$ 133,098	$ 120,969	$ 215,422	$ 202,226
Net income	$ 30,519	$ 33,379	$ 47,242	$ 40,795

11. Mortgages - Securitized

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

(a) Summary

As at	June 30 2016	December 31 2015
Single family insured - Market MBS program	$ 1,035,138	$ 1,075,947
Single family insured - CMB program	28,142	-
	$ 1,063,280	**$ 1,075,947**

Certain capitalized transaction costs are included in mortgages and are amortized using the EIM. As at June 30, 2016, the unamortized capitalized cost balance was $11,775 (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 June 30, 2016 was $1,105,925 (December 31, 2015 - $1,107,168).

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

As at	June 30 2016	December 31 2015
Single family - Market MBS program	2.51%	2.48%
Single family - CMB program	2.37%	-
Total	**2.50%**	**2.48%**

(b) Geographic Analysis

As at	June 30, 2016		December 31, 2015	
Ontario	$ 596,611	56.1%	$ 589,912	54.8%
Alberta	232,982	21.9%	239,192	22.2%
British Columbia	113,257	10.7%	121,811	11.3%
Quebec	43,350	4.1%	43,960	4.1%
Atlantic Provinces	41,688	3.9%	43,712	4.1%
Other	35,392	3.3%	37,360	3.5%
	$ 1,063,280	**100.0%**	**$ 1,075,947**	**100.0%**

Mortgages past due but not impaired are as follows:

As at June 30, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS Program	$ 11,416	$ 3,604	$ 481	$ 1,752	$ 17,253
Single family - CMB Program	180	-	-	-	180
	$ 11,596	**$ 3,604**	**$ 481**	**$ 1,752**	**$ 17,433**

As at December 31, 2015	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS program	$ 10,651	$ 1,849	$ 1,356	$ 505	$ 14,361

There were no impaired securitized mortgages as at June 30, 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 June 30, 2016 was 2.23% (December 31, 2015 - 2.26%). The Company's term deposits are eligible for CDIC deposit insurance.

Term deposits mature as follows:

	Less than One year	One to three years	Three to five years	Total
June 30, 2016	$ 533,081	$ 357,801	$ 109,631	$ 1,000,513
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 June 30, 2016 was $1,002,535 (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 Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Income before income taxes	$ 13,767	$ 11,735	$ 21,117	$ 16,256
Statutory rate of tax	0%	0%	0%	0%
Tax provision (recovery) before the following:	-	-	-	-
Income subject to tax in subsidiaries	131	(183)	(290)	42
	$ 131	**$ (183)**	**$ (290)**	**$ 42**

For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Current tax provision (recovery)	$ -	$ -	$ (100)	$ -
Deferred tax provision (recovery)				
Financial investment	286	-	77	-
Relating to loss carry forward benefit	(93)	(186)	(161)	39
Other	(62)	3	(106)	3
	131	(183)	(190)	42
	$ 131	**$ (183)**	**$ (290)**	**$ 42**

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

As at	June 30 2016	December 31 2015
Deferred tax asset		
Loss carry forward benefit	$ 1,071	$ 910
Other	321	215
	$ 1,392	**$ 1,125**
Deferred tax liability		
Financial investments	$ 2,306	$ 2,299
	$ 2,306	**$ 2,299**

13. Income Taxes (continued)

The Company has loss carry forward amounts in the non-consolidated MIC entity of $11,052 (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:

2033	$ 5,517
2034	5,535
	$ 11,052

14. Financial Liabilities from Securitization

Financial liabilities from securitization consist of liabilities relating to the Company's participation in the market MBS program and the CMB program.

As at	Note	June 30 2016	December 31 2015
Financial liabilities - Market MBS program	6	$ 1,034,635	$ 1,070,304
Financial liabilities - CMB program	6	27,773	-
		$ 1,062,408	**$ 1,070,304**

The weighted average interest rate on financial liabilities from securitization is as follows:

As at	June 30 2016	December 31 2015
Financial liabilities - Market MBS program	1.86%	1.87%
Financial liabilities - CMB program	1.19%	-
	1.84%	**1.87%**

Financial liabilities from securitization mature as follows:

	2018	2019	2020	2021	Total
June 30, 2016	$ 130,436	$ 491,863	$ 412,336	$ 27,773	$ 1,062,408
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
Issued				
Dividend reinvestment plan	63,100	904	159,657	1,949
Balance, June 30	**22,995,912**	**$ 209,102**	**21,250,931**	**$ 189,748**

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 June 30, 2016 dividend was 14% (June 30, 2015 - 33%).

The Company had no potentially dilutive instruments as at June 30, 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 September 30, 2016 to shareholders of record as of September 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	June 30 2016	December 31 2015
To be reclassified to the income statement in subsequent periods:		
Unrealized gain (loss) on available for sale marketable securities	$ 4,261	$ (2,571)
Unrealized gain on available for sale financial investments	11,341	13,675
Less: deferred taxes	(1,741)	(1,811)
	9,600	11,864
	$ 13,861	**$ 9,293**

18. Mortgage Expenses

Corporate Assets

For the Periods Ended June 30	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Mortgage servicing expense	$ 805	$ 716	$ 1,573	$ 1,426
Letter of credit expense	160	146	314	303
Other mortgage expenses	53	43	84	70
	$ 1,018	**$ 905**	**$ 1,971**	**$ 1,799**

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

Securitization Assets

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

19. Provision for Credit Losses

For the Periods Ended June 30	Note	Q2 2016	Q2 2015	YTD 2016	YTD 2015
Mortgages - collective provisions (recoveries), net	8	$ 180	$ (175)	$ 467	$ (223)
Mortgages - individual provisions (recoveries), net	8	124	271	186	358
Other provisions (recoveries), net		(9)	(134)	(33)	(236)
		$ 295	**$ (38)**	**$ 620**	**$ (101)**

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 Q2 2016, the Company purchased certain corporate services from MCAP in the amount of $44 (Q2 2015 - $58) and purchased certain mortgage origination and administration services from MCAP in the amount of $981 (Q2 2015 - $426). The Company received $761 of mortgage fees from MCAP in Q2 2016 (Q2 2015 - $1,207).

In Q2 2015, the Company paid $1,576 in mortgage premiums to MCAP as part of the acquisition of mortgages securitized through the market MBS program.

The Company holds construction loans totalling $949 as at June 30, 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.

	Less than one year	One to three years	Three to five years	Over five years	June 30 2016	December 31 2015
Mortgage funding commitments	$ 357,024	$ 16,770	$ -	$ -	$ 373,794	$ 308,242
Commitment - KingSett High Yield Fund	-	-	-	15,345	15,345	25,425
Operating lease	288	1,151	1,180	2,239	4,858	5,145
	$ 357,312	**$ 17,921**	**$ 1,180**	**$ 17,584**	**$ 393,997**	**$ 338,812**

The Company incurred $135 of operating lease expenses during Q2 2016 (Q2 2015 - $117), included in general and administrative expenses.

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 June 30, 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 June 30, 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 June 30, 2016, there were letters of credit in the amount of $33,767 issued (December 31, 2015 - $35,863) and additional letters of credit in the amount of $20,623 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 March 31, 2016, the Company had an outstanding facility balance of $4,085 at which was repaid in Q2 2016. 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 June 30, 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 June 30, 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	$ 429,136	$ 123,047	$ 282,254	$ 209,677	$ 50,980	$ 24,879	$ 137,727	$ 1,257,700
Securitization	-	19,500	-	363,375	699,905	-	3,419	1,086,199
	429,136	142,547	282,254	573,052	750,885	24,879	141,146	2,343,899
Liabilities								
Corporate	-	158,585	374,498	357,799	109,631	-	6,761	1,007,274
Securitization	-	-	-	289,396	773,012	-	-	1,062,408
	-	158,585	374,498	647,195	882,643	-	6,761	2,069,682
Shareholders' Equity	-	-	-	-	-	-	274,217	274,217
GAP	**$ 429,136**	**$ (16,038)**	**$ (92,244)**	**$ (74,143)**	**$ (131,758)**	**$ 24,879**	**$ (139,832)**	-
YIELD SPREAD	**4.05%**	**2.60%**	**2.94%**	**1.55%**	**0.92%**	**7.94%**		

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 June 30, 2016, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $42,057 (December 31, 2015 - $33,005), 3 months to 1 year - $89,867 (December 31, 2015 - $75,877) and 1 to 5 years - $53,910 (December 31, 2015 - $85,065).

An immediate and sustained 1% increase to market interest rates as at June 30, 2016 would have an estimated positive effect of $1,850 (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 June 30, 2016 would have an estimated adverse effect of $1,884 (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 June 30, 2016 would have an estimated adverse (positive) effect of $31 (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	June 30 2016	December 31 2015
Regulatory Ratios (OSFI)		
Share capital	$ 209,102	$ 206,382
Contributed surplus	510	510
Retained earnings	50,744	42,617
Accumulated other comprehensive income	13,861	9,293
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(12,085)	(7,324)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional)	262,132	251,478
Deduction for equity investment in MCAP (All-in adjustment) [1]	(8,057)	(10,986)
Common Equity Tier 1, Tier 1 and Total Capital (All-in)	$ 254,075	$ 240,492
Total Exposures/Regulatory Assets [2]		
Consolidated assets	$ 2,343,899	$ 2,246,958
Less: deductions from all-in Tier 1 Capital [1,2]	(20,142)	(18,310)
Other adjustments [3]	2,200	2,229
Total On-Balance Sheet Exposures	2,325,957	2,230,877
Mortgage and investment funding commitments	389,139	333,667
Less: conversion to credit equivalent amount (50%)	(194,570)	(166,834)
Letters of credit	33,767	35,863
Less: conversion to credit equivalent amount (50%)	(16,883)	(17,932)
Off-Balance Sheet Items	211,453	184,764
Total Exposures/Regulatory Assets [2]	$ 2,537,410	$ 2,415,641
Leverage ratio [2]	10.01%	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 June 30, 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 June 30, 2016	Level 1	Level 2	Level 3	Total	Carrying value
Assets measured at fair value					
Cash and cash equivalents	$ 73,954	$ -	$ -	$ 73,954	$ 73,954
Marketable securities	54,171	1,731	-	55,902	55,902
Financial investments - Crown Realty II Limited Partnership [1]	-	-	28,590	28,590	28,590
Financial investments - KingSett High Yield Fund [2]	-	-	20,807	20,807	20,807
Securitization program cash held in trust	19,500	-	-	19,500	19,500
	$ 147,625	$ 1,731	$ 49,397	$ 198,753	$ 198,753
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 1,030,446	$ 1,030,446	$ 1,019,455
Other loans [4]	-	-	4,027	4,027	4,027
Mortgages - securitized [3]	-	-	1,105,925	1,105,925	1,063,280
	$ -	$ -	$ 2,140,398	$ 2,140,398	$ 2,086,762
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 4,455	$ 4,455	$ 4,455
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 1,002,535	$ 1,002,535	$ 1,000,513
Financial liabilities from securitization [7]	-	-	1,091,880	1,091,880	1,062,408
	$ -	$ -	$ 2,094,415	$ 2,094,415	$ 2,062,921

[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 CMB and MBS.

25. Financial Instruments (continued)

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 - Crown Realty II Limited Partnership [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 CMB and MBS.

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

Balance, December 31, 2015	$ 41,793
Advances	10,324
Repayments	(1,981)
Changes in fair value, recognized in other comprehensive income	(739)
Balance, June 30, 2016	**$ 49,397**

An increase of 0.25% to capitalization rates as at June 30, 2016 would result in a decrease to the fair value of the investment in Crown LP by $361 (December 31, 2015 - $361). A decrease of 0.25% to capitalization rates as at June 30, 2016 would result in an increase to the fair value of the investment in Crown LP by $376 (December 31, 2015 - $376).

There were no transfers between levels during the quarters ended June 30, 2016 or June 30, 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
Chair, 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

Leonard Zaidener
Vice President, Investments

Robert Horton
Vice President and Chief Risk Officer

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

Jeffrey Lum
Vice President, Treasury and Securitization

Sylvia Pinto
Corporate Secretary
Chief Compliance Officer

Dipti Patel
Chief Audit Officer

CORPORATE INFORMATION

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termdeposits@mcanmortgage.com

Stock Listing
Toronto Stock Exchange
Symbol: MKP

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Goodmans LLP
Toronto, Ontario

Auditors
Ernst & Young LLP
Toronto, Ontario

Bank
Bank of Montreal
First Canadian Place
Toronto, Ontario

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Websites
www.mcanmortgage.com
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 Second 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