



**MCAN MORTGAGE CORPORATION**

**ANNUAL INFORMATION FORM**

**February 26, 2016**

## TABLE OF CONTENTS

ABOUT THIS ANNUAL INFORMATION FORM .....	2
CORPORATE STRUCTURE .....	2
<i>Name, Address and Incorporation</i> .....	2
A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS .....	2
INTERCORPORATE RELATIONSHIPS.....	4
<i>Xceed Mortgage Corporation</i> .....	4
<i>Equity Investment in MCAP Commercial LP ("MCAP")</i> .....	4
THREE YEAR HISTORY.....	4
NARRATIVE DESCRIPTION OF THE BUSINESS.....	5
RISK GOVERNANCE AND MANAGEMENT .....	7
<i>Risk Governance</i> .....	7
<i>Risk Appetite</i> .....	8
DIVIDEND POLICY AND RECORD .....	17
<i>Dividend Reinvestment Plan</i> .....	18
DESCRIPTION OF CAPITAL STRUCTURE .....	19
MARKET FOR SECURITIES.....	19
SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER	20
DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY.....	20
<i>Directors</i> .....	20
<i>Executive Officers</i> .....	22
<i>Additional Disclosure Relating to Directors and Executive Officers</i> .....	22
<i>Conflicts of Interest</i> .....	23
AUDIT COMMITTEE INFORMATION .....	23
AUDIT FEES .....	24
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	24
TRANSFER AGENT AND REGISTRAR .....	24
MATERIAL CONTRACTS .....	24
INTEREST OF EXPERTS.....	25
ADDITIONAL INFORMATION .....	25
SCHEDULE A - MANDATE OF THE AUDIT COMMITTEE .....	26

## ABOUT THIS ANNUAL INFORMATION FORM

The information in this Annual Information Form is presented as at December 31, 2015, unless otherwise indicated, and except for information in documents incorporated by reference that have a different date. All references to dollar amounts and to “\$” or “dollar” in this document are to CAD dollars, unless indicated otherwise.

## CORPORATE STRUCTURE

### *Name, Address and Incorporation*

MCAN Mortgage Corporation (the “Company,” “MCAN”, “our”, “us” or “we”) was incorporated under the federal *Loan Companies Act*, now called the *Trust and Loan Companies Act* (Canada) (the “Trust Act”), by Letters Patent dated January 11, 1991. We received our certificate to commence business from the Office of the Superintendent of Financial Institutions (“OSFI”) on November 7, 1991.

As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by OSFI.

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. Xceed operates primarily in one industry segment through its sales team and mortgage brokers. MCAN acquired Xceed on July 4, 2013. Xceed is incorporated in the province of Ontario.

The head and registered office of the Company is located at 200 King Street West, Suite 600, Toronto, Ontario, M5H 3T4.

We conduct our operations so as to continuously qualify as a mortgage investment corporation (“MIC”) for purposes of the *Income Tax Act* (Canada) (the “Tax Act”). Our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are deductible for income tax purposes to the Company and are taxable in the shareholders’ hands as interest. In addition, a MIC can pay certain capital gains dividends which are taxed as capital gains in the shareholders’ hands.

We maintain registrations to accept term deposits from residents of all the Provinces of Canada.

## A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This Annual Information Form 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 Annual Information Form 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 the interest earned on mortgage portfolios and the interest to be 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 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 Canada Mortgage and Housing Corporation ("CMHC")'s National Housing Authority ("NHA") Mortgage Backed Securities ("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; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this Annual Information Form 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.

## INTERCORPORATE RELATIONSHIPS

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.

The Company consolidates the accounts of its wholly owned subsidiaries and accounts for its investment in MCAP Commercial LP (an associate) and its wholly owned subsidiaries (collectively "MCAP") using the equity method. An associate is an entity in which the Company has significant influence.

### ***Xceed Mortgage Corporation***

On July 4, 2013, MCAN acquired all of the issued and outstanding common shares of Xceed. Xceed is a specialized, single family insured and uninsured residential mortgage lender in Canada, focused primarily on the insured area of the mortgage market.

The acquisition of Xceed was strategic for MCAN, and has provided MCAN with an in-house origination source, underwriting capability, enhanced portfolio management resulting from Xceed's database management and reporting capabilities, opportunities for future earnings due to mortgage renewal rights and CMHC approved lender status which will provide MCAN with the opportunity to expand the scope of its operations

### ***Equity Investment in MCAP Commercial LP ("MCAP")***

MCAP, an originator and servicer of mortgages for third party investors in Canada, is a strategic investment for MCAN providing access and scale to origination and servicing, and a well-recognized MCAP brand.

As at December 31, 2015, the Company held a 14.70% equity interest in MCAP (December 31, 2014 - 14.75%), consisting of 15.0% of voting class A units (December 31, 2014 - 15.0%), 0% of non-voting class B units (December 31, 2014 - 0%) and 17.0% of non-voting class C units (December 31, 2014 - 17.0%). The equity interest represents 4.3 million units held by MCAN from a total of 29.2 million outstanding MCAP partnership units.

During 2015, the Company's equity interest was reduced from 14.75% to 14.70% upon the issuance of new Class B units to another partner of MCAP. As a result of this transaction, the Company recognized a \$68,000 gain on dilution.

MCAP is provincially registered under the *Limited Partnerships Act* (Ontario). Our investment in MCAP had a net book value of \$44 million as at December 31, 2015.

MCAN uses the equity basis of accounting for the investment in MCAP as it has significant influence in MCAP per International Accounting Standard 28, *Investments in Associates and Joint Ventures*.

## THREE YEAR HISTORY

### 2013

2013 was highlighted by the acquisition of Xceed, which was completed on July 4, 2013. In addition to providing us with an in-house mortgage origination platform, the acquisition created significant incremental income

through a bargain purchase gain and discount income earned on mortgages acquired as part of the acquisition. Additionally, we acquired renewal rights to a portfolio of off-balance sheet mortgages. Earnings per share totalled \$1.57 for the year, primarily due to the aforementioned non-recurring items associated with the acquisition of Xceed and a dilution gain and partial gain on sale associated with the equity investment in MCAP. Securitization income declined as a result of a significant negative fair market value adjustment to derivative financial instruments. Corporate assets increased steadily during the year and eclipsed the \$1 billion level for the first time. Late in the year, MCAN re-entered the market MBS program with a \$168 million issuance.

#### 2014

In 2014, our net income was \$25.4 million (\$1.23 per share), down from 2013 as a result of the significant one-time income items noted above in 2013 related to the Xceed acquisition and the MCAP dilution. We issued and sold \$561 million of new MBS through the market MBS program during 2014, which led to increased securitization income despite the continued maturity of Canada Mortgage Bonds (“CMB”) program issuances. Corporate assets increased by \$17 million to \$1.04 billion as at December 31, 2014. Our single family origination volumes generated through Xceed increased significantly compared to 2013 as in 2014 we had a full year of uninsured single family mortgage production.

#### 2015

Corporate asset growth exceeded our 10% annual target as we finished the year with a \$1.15 billion portfolio. During the year we also achieved the milestone of over 50% of the Balance Sheet being represented by insured mortgages. On July 13, 2015, we completed a rights offering with 1,406,084 new common shares issued and \$15.1 million of new share capital raised.

In 2015, we earned record net income of \$32.9 million while earnings per share increased to \$1.51. Originations from the Xceed origination platform increased significantly with \$518 million in new mortgages originated. Equity income from our investment in MCAP also increased significantly to over \$10 million. Our market MBS program securitization volumes were \$589 million as the securitized mortgage portfolio continued to provide a reliable source of incremental income.

#### Future

Our strategy remains focused on growth in our insured and uninsured single family mortgage portfolio sourced through our direct Xceed origination platform. Our current view is that 2016 originations and portfolio growth in single family mortgages will allow us to continue to achieve our annual corporate asset growth target of 10%, which will further diversify and re-balance our portfolio to optimize return and lower our risk profile.

### **DESCRIPTION OF THE BUSINESS**

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’s 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 loans, financial investments and real estate. 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. The 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.

Xceed focuses on the origination and sale to third party mortgage aggregators of residential first-charge mortgage products across Canada. As MCAN's internal source of single family insured and uninsured mortgages, Xceed operates primarily in one industry segment through its sales team and mortgage brokers and over the past year has grown to be sufficient to satisfy MCAN's growth objectives. MCAN continues to be the sub-servicer for these mortgages and assists with activities related to the Market MBS Program.

MCAN is also active in the mortgage securitization market as an issuer in CMHC's NHA MBS program and through its participation in the market MBS program. As part of this program, we originate and purchase insured single family mortgages to sell as MBS and may also elect to sell the net economics and cash flows from the underlying mortgages ("interest-only strips") to third parties in future periods. 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. From 2007-2015, we also participated in the CMB program, which involves the securitization of insured mortgages sold to third parties, in addition to reinvestment assets purchased. The final CMB issuance matured in June of 2015.

We separate our assets into corporate and securitization portfolios for reporting purposes. Corporate assets represent our core strategic investments, and are funded by term deposits and share capital. Securitization assets consist primarily of mortgages securitized through the market MBS program, and previously, from the CMB program.

The composition of our corporate mortgage portfolio is as follows:

(amounts in thousands except %)	December 31, 2015		December 31, 2014	
Single family uninsured	\$ 390,745	41.4%	\$ 310,566	34.7%
Single family insured	83,619	8.9	132,290	14.8
Construction	355,403	37.6	371,808	41.5
Commercial	114,342	12.1	80,803	9.0
	<b>\$ 944,109</b>	<b>100.0%</b>	<b>\$ 895,467</b>	<b>100.0%</b>

Our Board of Directors (the "Board") has ultimate responsibility for the management and investments of MCAN. The Board has established a Risk Committee ("RCB") from among its members consisting of at least three directors, the majority of whom are independent directors. The RCB is responsible for the review and approval of our Risk Appetite Framework ("RAF"), including investment limits, target asset mix and investment approval authorities. The RCB meets at least quarterly to review our investment program and to monitor compliance with the RAF, the Trust Act and the Tax Act.

#### People

As at December 31, 2015, MCAN had 64 employees.

## 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.

### *Risk Governance*

The RCB is responsible for overseeing risk management across the Company. It looks to ensure the relevance of the Company's RAF and its alignment with the Company's strategy. It has the responsibility to ensure that the risk management function is independent from the business activity it oversees, and is supported by an Enterprise Risk Management framework ("ERMF") consisting of policies, procedures and controls. The goal of the ERMF is to manage risks within the Company's risk framework and appetite.

The Chief Executive Officer ("CEO") and the executive management team are responsible for developing the strategy and a comprehensive set of enterprise wide policies, including the RAF and ERMF for approval by the Board. They are responsible for fostering a strong risk culture through the "tone at the top" and applying the approved strategy and RAF to the business operations of the Company to help maximize, within the Company's risk appetite, the benefit to shareholders and other stakeholders from a portfolio of risks that the Company is willing to accept. MCAN's Executive Committee recommends a risk appetite that aligns with the Mission Statement, Operating Philosophies and Goals and Objectives of the Company and the Operating Committee provides governance over the operations of MCAN to ensure that the strategy and tactics used by MCAN in its funding and investing activities are effective in meeting the Company's stated objectives.

The Company's operating model is predicated on the three-lines-of-defense approach to the management of risk. The operating areas headed by the CEO are the first line of defense in the Company's management of risk. They "own" the risk in their areas of responsibility and are responsible for ensuring the Company pursues only suitable business opportunities that are within the Company's risk appetite.

The second line of defense establishes the enterprise level risk management frameworks and policies, and provides risk guidance and oversight of the effectiveness of first line risk management practices. These activities are provided by:

- The Chief Risk Officer ("CRO"), who is responsible for providing independent review and oversight of enterprise-wide risks and for the fostering of a strong risk culture throughout the organization. The CRO has responsibility for maintaining and managing the RAF and in that regard for confirming and reporting on the significant business risks as identified by and assessed by the first line of defense of the Company.
- The Chief Financial Officer ("CFO"), who is responsible for the accuracy and integrity of the Company's accounting and financial reporting systems, financial statements, and planning and



budgeting systems and documents. The CFO ensures legal and regulatory compliance for all financial matters within the Company. The CFO is responsible for the Company's financial and capital plans which are presented to the Executive Committee and the Board for annual approval. Progress against these plans is regularly reported to the Board and regulators. The Finance department, led by the CFO, also updates the plan with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.

- The Chief Compliance Officer ("CCO"), who is responsible for measuring, and reporting on, compliance with the Company's policies and processes that have been designed to manage and mitigate regulatory compliance risk. The CCO is mandated to promote a sound compliance culture, report to the Board on compliance with legislative requirements and make recommendations related to compliance activities.
- The Chief Anti-Money Laundering Officer ("CAMLO"), who is responsible for the Company's adherence to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) with regard to its deposit taking and lending activities.

The third line of defense is provided by MCAN's internal audit group which monitors, and reports on, the effectiveness of controls, risk management, and governance practices within the Company.

### ***Risk Appetite***

MCAN's Risk Appetite Framework ("RAF") sets out the approach to risk management used by the Company in pursuing its strategic and business objectives.

Key principles that guide MCAN's approach to risk appetite are as follows:

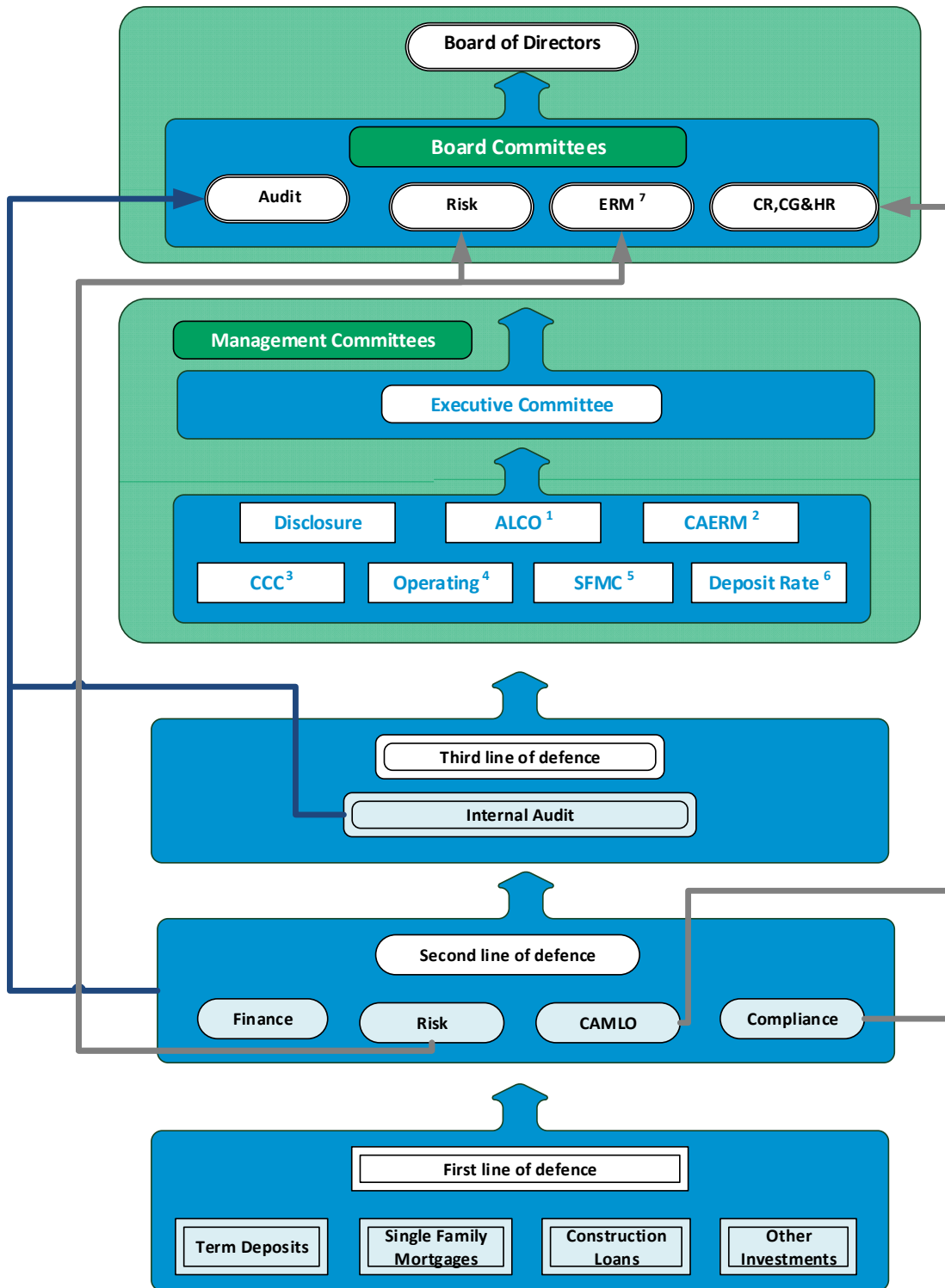
- MCAN's strategy, including business objectives, business plans and stakeholder expectations should be reflected in the risk appetite.
- The approach should engage both top down senior management and Board leadership and bottom up involvement of employees at all levels.
- Risk appetite considerations should be embedded in both strategic and day-to-day decisions and supported by a reinforced risk culture aligning decision making and risk.
- The approach to risk appetite should reflect good industry practices and relevant regulatory guidance.
- The approach should be forward looking and enable adaptation to changing business and market conditions; it should also give consideration to the skills, resources and technology required to manage and monitor identified risk exposures and the potential impacts of stressed conditions.

The RAF purposes and objectives are as follows:

- Define maximum levels of risk that are within MCAN's risk capacity including regulatory constraints in order to achieve its strategic objectives within appropriate and approved target returns.
- Give consideration to all material risks reflecting all key aspects of the business.
- Contain both qualitative and quantitative elements to define acceptable risk levels within MCAN's risk capacity.

- Set out limits and targets to enable the Board and senior management to assess MCAN’s performance and current risk levels relative to risk appetite.
- Consider MCAN’s current capital position and ability to handle the range of results that may occur under normal operating conditions and under a range of stress scenarios.

The Board has overall responsibility for risk governance within MCAN. It provides oversight and carries out its risk management mandate primarily through the RCB, the Audit Committee of the Board (the “Audit Committee”), the Conduct Review, Corporate Governance and Human Resources Committee of the Board (the “CRCG&HR Committee”), and the Enterprise Risk Management Ad Hoc Committee (the “ERM Ad Hoc Committee”). There is a further committee structure at the management level as illustrated in the following diagram:



<sup>1</sup> Asset and Liability Committee

<sup>2</sup> Compliance, Audit and Enterprise Risk Management Committee

<sup>3</sup> Capital Commitments Committee

<sup>4</sup> Operating Committee

<sup>5</sup> Single Family Management Committee

<sup>6</sup> Deposit Rate Setting Committee

<sup>7</sup> Enterprise Risk Management Ad Hoc Committee

## Liquidity and Funding 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.

### *Liquidity Risk Management*

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The RCB is responsible for the review and approval of liquidity policies. The Asset and Liability Committee (“ALCO”), which is comprised of management, is responsible for liquidity management. We have an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities, MCAN-issued market MBS retained on our balance sheet, 75% of CMHC-insured single family mortgages, 50% of CMHC-insured single family second mortgages and 50% of privately insured mortgages) of at least 100% of term deposits maturing within 100 days. As at December 31, 2015 and December 31, 2014, we met this internal target. In addition, all single family mortgages are readily marketable within a time frame of one to three months, providing us with added flexibility to meet unexpected liquidity needs. We have access to capital through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed.

We also maintain an overdraft facility to fund asset growth or meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility is \$75 million, with sub-limits of \$50 million for overdrafts and \$50 million for letters of credit.

As at December 31, 2015, we maintained a credit warehouse facility with interest payable at the prime rate. This facility provided up to \$50 million of borrowings, with insured mortgages eligible to act as collateral in the facility for a period of no longer than one year. Subsequent to year end, the credit warehouse facility counterparty ceased its operations and was placed under supervisory administration, and as a result thereof, the credit warehouse facility was terminated. We believe that the termination of the credit warehouse facility did not have a material impact on our operations or liquidity, given the other sources of funding options available to the Company.

We believe that our liquidity position and our access to capital markets in the form of term deposits and the banking facility support our ability to meet current and future commitments as they come due.

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also completes monthly and quarterly stress testing which is reviewed by ALCO and the RCB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis.

We have established and maintain liquidity policies and procedures which meet the standards set under the Trust Act and any regulations or guidelines issued by OSFI.

**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.

*Reputational Risk Management*

We believe that the most effective way for the Company to safeguard its public reputation is through the successful management of the underlying risks in the business.

**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.

*Strategic and Business Risk Management*

Strategic and business risk is managed by the CEO and the Board. The Board approves the Company's strategies at least annually and reviews results against those strategies at least quarterly.

**Operational Risk**

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, or systems, or external events. The risk of loss from people includes internal or external fraud, non-adherence to internal procedures, values or objectives, or unethical behaviour. The largest component of this risk has been separately identified as outsourcing 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

*Operational Risk Management*

We manage operational risk through various committees and processes. Our management team reviews operational measures on a recurring basis as part of the Operating Committee, Compliance Audit and Enterprise Risk Management Committee, and ALCO. We also provide monthly updates to the Board to provide an update on operations and other key factors and issues that arise.

We also maintain appropriate insurance coverage through a financial institution bond policy, which is reviewed at least annually by the Board for changes to coverage and our operations.

**Cyber Risk**

We collect and store confidential and personal information. 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.

#### *Cyber Risk Management*

We manage cyber risk through oversight by management, including an IT Management Committee, as well as the use of external third party advisors to provide technical expertise.

#### **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.

#### *Outsourcing Risk Management*

MCAN's Outsourcing Policy, which is approved annually by the Board, incorporates the relevant requirements of OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. We review our outsourced arrangements on an annual basis to determine if the arrangement is material. If the arrangement is material it is subjected to a risk management program, which includes detailed monitoring activities.

#### **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.

#### *Credit Risk Management*

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving ALCO and a formal quarterly review involving the RCB. A CRO Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the RCB on a quarterly basis. Weekly monitoring also takes place through our Capital Commitments Committee, which is comprised of certain members of management.

Our exposure to credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments. Credit limits, based on our risk appetite, which is approved by the Board at least annually, have been established for concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and our risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risks in our mortgage portfolio by way of regular review of market metrics, which are a key component of quarterly market reports provided to the RCB. We also undertake site visits of active mortgage properties. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, annual reviews of large loans and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over our exposure to credit risk. In the current economic environment, we have increased our monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears.

We assign a credit score and risk rating for all mortgages at the time of underwriting based on the quality of the borrower and the underlying real estate. Risk ratings are reviewed annually for large exposures, and whenever there is an amendment or a material adverse change such as a default or impairment.

We have established a methodology for determining the adequacy of our collective allowances. The adequacy of collective allowances is assessed periodically, taking into consideration economic factors such as Gross Domestic Product, employment, housing market conditions as well as the current position in the economic cycle.

We record an individual allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Individual allowances include all of the accumulated provisions for credit losses on a particular mortgage.

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, whose maximum credit exposure also includes outstanding commitments for future mortgage fundings.

### **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 34 to the consolidated financial statements.

#### *Interest Rate Risk Management*

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities, including both parallel and non-parallel changes in interest rates. By managing and matching the terms of corporate assets and term deposits so that they offset each other, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, we also manage cash flow mismatches. ALCO reviews our 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 RCB each quarter.

We are exposed to interest rate risk on insured single family mortgages between the time that a mortgage rate is committed to borrowers and the time that the mortgage is funded, or in the case of mortgages securitized through the market MBS program, the time that the mortgage is securitized. To manage this risk, we may enter into interest rate swaps or we may match them with long-term fixed-rate term deposits.

We manage interest rate risk associated with securitization assets and liabilities through the use of “pay-floating, receive-fixed” interest rate swaps.

Ultimately, risk management is monitored and controlled at the highest level of the Company. ALCO reviews and manages these risks on a monthly basis. The Board also reviews and approves all risk management policies and procedures at least annually. Management reports to the Board on the status of risk management at least quarterly.

### **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.

#### *Market Risk Management*

Our marketable securities portfolio is susceptible to market price risk arising from uncertainties about future values of the securities. We manage the equity price risk through diversification and limits on both individual and total securities. Reports on the portfolio are submitted to senior management on a regular basis and to the Board on a quarterly basis.

### **Other Risk Factors**

#### *General Litigation*

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

To the best of our knowledge, we do not expect the outcome of any existing proceedings to have a material adverse effect on the consolidated financial position or results of operations of the Company.

#### *Reliance on Key Personnel*

Our future performance is dependent on the abilities, experience and efforts of our management team and other key personnel. There is no assurance that we will be able to continue to attract and retain key personnel, although it remains a key objective of the Company. Should any key personnel be unwilling or unable to continue their employment with MCAN, there may be an adverse effect on our financial condition and results of operations.

#### *Economic Conditions*

Factors that could impact general business conditions include changes in short-term and long-term interest rates, commodity prices, inflation, consumer, business and government spending; real estate prices and adverse economic events.

#### *Regulatory Risk*

Changes in laws and regulations, including interpretation or implementation, may affect the Company by limiting the products or services that we can provide and increasing the ability of competitors to compete with our products and services. Also, any failure by the Company to comply with applicable laws and regulations



may result in sanctions and financial penalties which may adversely impact our earnings and damage our reputation. Increasing regulations and expectations as a result of the recent financial crisis, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

#### *Qualification as a Mortgage Investment Corporation*

Although we intend to qualify at all times as a MIC, no assurance can be provided in this regard. If for any reason we do not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes and such dividends will no longer be deemed by the rules in the Tax Act that apply to MICs to have been received by shareholders as interest or a capital gain, as the case may be. As a consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined rate of corporate and shareholder tax could be significantly greater.

#### *Mortgage Renewal Risk*

We retain renewal rights on mortgages that we originate that are either sold to third parties or retained on the consolidated balance sheet. If mortgagors are unable to renew their mortgages at their scheduled maturities, we may be required to use our own financial resources to fund these obligations until mortgage arrears are collected or proceeds are received from mortgage insurers following the sale of mortgaged properties.

#### *Mortgage Prepayment Risk*

In acquiring certain mortgages from third parties, we pay a premium to the mortgage par value based on the expected term of the mortgage. To the extent that mortgages repay prior to maturity, we may be required to accelerate the amortization of the premium and sustain a financial loss.

#### *Competition Risk*

Our operations and income are a function of the interest rate environment, the availability of mortgage products at reasonable yields and the availability of term deposits at reasonable cost. The availability of mortgage products for the Company and the yields thereon are dependent on market competition. In the event that we are unable to compete successfully against our current or future competitors or raise term deposits to fund our lending activities, there may be an adverse effect on our financial condition and results of operations.

#### *Monetary Policy*

Our earnings are affected by the monetary policies of the Bank of Canada. Changes in the supply and demand of money and the general level of interest rates could affect our earnings. Changes in the level of interest rates affect the interest spread between our mortgages, loans and investments, securitization investments and term deposits, and as a result may impact our net investment income. Changes to monetary policy and in financial markets in general are beyond our control and are difficult to predict or anticipate.

#### *Environmental Risk*

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying a rigorous environmental policy and procedures to our commercial and development lending activities.

### *Changes in Laws and Regulations*

Changes to current laws, regulations, regulatory policies or guidelines (including changes in their interpretation, implementation or enforcement), the introduction of new laws, regulations, regulatory policies or guidelines or the exercise of discretionary oversight by regulatory or other competent authorities including OSFI, may adversely affect us, including by limiting the products or services that we provide, restricting the scope of our operations or business lines, increasing the ability of competitors to compete with our products and services or requiring us to cease carrying on business. In addition, delays in the receipt of any regulatory approvals and authorizations that may be necessary to the operation of our business may adversely affect our operations and financial condition. Our failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact our earnings and damage our reputation.

### *Changes in Accounting Standards and Accounting Policies*

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements.

### *Accuracy and Completeness of Information on Customers and Counterparties*

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished by them, including financial statements and other information. We may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information. Our financial condition and results of operations may be negatively affected to the extent that we rely on financial statements and other information that do not comply with International Financial Reporting Standards, that are materially misleading or that do not fairly represent, in all material respects, the financial condition and results of operations of the customers and counterparties.

### *Leverage*

Leverage increases our potential exposure to all risk factors described above.

### *No Assurance of Achieving Investment Objectives or Payment of Dividends*

As a result of the risks discussed above, there is no assurance that we will be able to achieve our investment objectives or be able to pay dividends at targeted or historic levels. The funds available for the payment of dividends to our shareholders will vary according to, among other things, the principal and interest payments received in respect of the Company's investments. There can be no assurance that the Company will generate any returns or be able to pay dividends to our shareholders in the future.

## **DIVIDEND POLICY AND RECORD**

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. As a MIC under the Tax Act, we can deduct dividends paid to shareholders during the year and within 90 days thereafter from income for tax purposes. These dividends are taxable in the shareholders' hands as interest. In addition, a MIC can pay certain capital gains dividends which are taxed as capital gains in the shareholders' hands.

Dividends per share over the past three years were as follows:

Fiscal Period	2015	2014	2013
First Quarter - Regular Dividend	\$ 0.28	\$ 0.28	\$ 0.28
First Quarter - Extra Dividend	-	-	0.03
Second Quarter	0.28	0.28	0.28
Third Quarter	0.28	0.28	0.28
Fourth Quarter	0.29	0.28	0.28
	<b>\$ 1.13</b>	<b>\$ 1.12</b>	<b>\$ 1.15</b>
Taxable Dividends	\$ 1.13	\$ 1.12	\$ 1.15
Capital Gains Dividends	-	-	-
	<b>\$ 1.13</b>	<b>\$ 1.12</b>	<b>\$ 1.15</b>

Consistent with the prior quarter dividend increase, the Board declared a first quarter regular dividend of \$0.29 per share to be paid on March 31, 2016 to shareholders of record as of March 15, 2016.

Our current intention is to continue to declare a consistent regular dividend to our shareholders on a quarterly basis.

#### ***Dividend Reinvestment Plan***

On November 14, 2011, we announced that we had received approval from the TSX to amend and restate our dividend reinvestment plan effective November 11, 2011 (the “Dividend Reinvestment Plan”) to, among other things, provide eligible participants with a 2% discount on the purchase of MCAN common shares (“Common Shares”) issued from treasury. Pursuant to the amended terms of the Dividend Reinvestment Plan, the discount is effective until further notice from MCAN. Notwithstanding the foregoing, we continue to reserve the right to deliver Common Shares purchased on the open market, in which case the discount would not apply.

Pursuant to the Dividend Reinvestment Plan, cash dividends paid to participating holders of Common Shares (less any applicable withholding taxes) are automatically reinvested in Common Shares purchased by Computershare Trust Company of Canada (“Computershare”), as agent, at our discretion, either (i) on the open market at market prices or (ii) from treasury at the weighted average trading price of Common Shares on the TSX for the five trading days preceding the relevant dividend payment date less a discount of 2%

There are no commissions, service charges or brokerage fees payable by participants under the Dividend Reinvestment Plan, except where purchases of Common Shares under the Dividend Reinvestment Plan are made on the open market. Such purchases are made through registered brokers whose fees are included in determining the average weighted cost to participants of Common Shares so purchased. All other administrative costs of the Dividend Reinvestment Plan, including the fees and expenses of Computershare, as agent, are borne by MCAN.

A copy of the Dividend Reinvestment Plan and a form permitting registered shareholders to elect to participate in or withdraw from the Dividend Reinvestment Plan are available by calling our Corporate Secretary at (416) 591-5214, and a copy of the Dividend Reinvestment Plan is available on our website at [www.mcanmortgage.com](http://www.mcanmortgage.com) under the heading “Investor Relations”, then “Investor Materials” or on SEDAR at [www.sedar.com](http://www.sedar.com). Beneficial owners of Common Shares must make arrangements with the financial institution or stock brokerage through which they hold their Common Shares to participate in the Dividend Reinvestment Plan. Once a registered holder or a beneficial owner has enrolled in the Dividend Reinvestment Plan, participation continues automatically unless terminated by the participant in accordance with the terms of the Dividend Reinvestment Plan.

## DESCRIPTION OF CAPITAL STRUCTURE

Our authorized capital consists of an unlimited number of Common Shares with no par value. These Common Shares are the only voting securities of MCAN.

At December 31, 2015 there were 22,782,433 Common Shares outstanding. As of the date hereof, the number of Common Shares outstanding is 22,862,723. Generally, each Common Share provides one vote per share. However, the Directors are elected by cumulative voting, as required by our by-laws and the Trust Act. The Trust Act requires cumulative voting for the election of directors where more than 10% of the voting shares of a company are beneficially owned, directly or indirectly, by a shareholder. In addition, our by-laws provide for cumulative voting for the election of directors where a shareholder beneficially owns, directly or indirectly, more than 9% of the voting shares of MCAN. Under the cumulative voting system, each holder of Common Shares has the right to cast a number of votes equal to the number of votes attached to the Common Shares held by the shareholder multiplied by the number of directors to be elected at the meeting. The shareholder may cast all such votes in favor of one nominee or distribute them among the nominees in any manner.

Pursuant to the Tax Act, if any shareholder or related group of shareholders acquires more than 25% of the Common Shares, we will no longer qualify as a MIC.

Changes to our share capital over the past two years are analyzed in Note 23 of our consolidated financial statements for the year ended December 31, 2015, contained in our 2015 Annual Report, which is incorporated by reference in this Annual Information Form. Our 2015 Annual Report is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.mcanmortgage.com](http://www.mcanmortgage.com).

## MARKET FOR SECURITIES

MCAN's Common Shares are listed and posted for trading on the TSX under the trading symbol "MKP". The volume of Common Shares traded during 2015 was 3,706,888 compared to 3,925,700 in 2014. The range of trading prices during 2015 was \$10.40 to \$14.40.

The monthly high and low closing prices and trading volumes for the periods indicated below were as follows:

<u>Period</u>	<u>Volume Traded</u>	<u>High (\$)</u>	<u>Low (\$)</u>
January 2015	293,090	14.40	13.00
February	241,648	14.07	13.09
March	200,452	14.20	13.31
April	426,257	13.75	12.88
May	283,728	13.43	12.61
June	448,570	13.26	11.80
July	655,212	12.13	10.40
August	350,855	12.35	10.90
September	243,001	13.60	11.88
October	131,215	13.35	12.48
November	171,620	13.10	12.60
December	261,240	12.79	11.25
January 2016	206,730	12.66	11.06

**SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER**

To our knowledge, the only Common Shares that are subject to a contractual restriction on transfer are the following:

Designation of class	Number of securities that are subject to a contractual restriction on transfer <sup>1</sup>	Percentage of class
Common shares	8,648	0.04%

- The common shares set forth above were purchased pursuant to the Employee Share Purchase Plan (“ESPP”). MCAN has had an employee share purchase plan or ownership plan since 2000, which was initially established by the Board to enable employees of MCAN and MCAP to purchase common shares of the Company in a convenient and systematic manner. As of January 31, 2014, MCAP cancelled its participation in the ESPP.

Participation in the ESPP is voluntary. An employee may contribute no more than 6% and no less than 1% of annual salary into the ESPP and the employee’s employer will contribute 50% of the employee’s contribution, up to a maximum of 3% of the employee’s base salary. Contributions are used to acquire Common Shares on the open market. During 2014, administration of the ESPP was transferred to Computershare. Common Shares acquired with an employee’s contributions vest immediately. Two withdrawals or transfers of Common Shares acquired with an employee’s contribution are permitted in a calendar year. A third withdrawal or transfer results in a suspension of the employer’s future contributions to the employee’s plan for a period of twelve months. Common Shares acquired with the employer’s contribution to the ESPP vest on the Vesting Date of the year in which the Common Shares are acquired. Unvested Common Shares cannot be withdrawn or transferred until the Vesting Date each year. The number of unvested Common Shares immediately prior to the vesting of such Common Shares pursuant to the ESPP as at December 31, 2014 is represented in the table above. The annual Vesting Date is November 30.

**DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY**

As at December 31, 2015, as a group, the directors and executive officers of MCAN beneficially owned, directly or indirectly, or exercised control or direction over 5,731,924 common shares, representing a 25.16% interest in MCAN.

***Directors***

Information concerning our directors as at December 31, 2015, and their municipalities of residence and principal occupations, is as shown in the table below. The term of office of each of the directors will expire at the time of our next Annual Meeting of shareholders to be held on May 11, 2016.

We are required to have an Audit Committee and a Conduct Review, Corporate Governance & Human Resources Committee.

<u>Name and Municipality of Residence</u>	<u>Director Since</u>	<u>Principal Occupation for the last five years</u>	<u>Common Shares Owned and/or Controlled at December 31, 2015<sup>9</sup></u>	<u>Approximate Percentage of Common Shares</u>
<b>SCOTT COATES</b> <sup>1,3</sup> Burlington, Ontario, Canada	May 7, 2014	Managing Director, Mortgage Investments, KingSett Capital (real estate)	Nil <sup>9</sup>	0.00%
<b>BRYDON D. CRUISE</b> <sup>3</sup> Oakville, Ontario, Canada	May 11, 2010	President and Managing Partner, Brookfield Financial (real estate)	410,000	1.80%
<b>VERNA E. CUTHBERT</b> <sup>2,3</sup> Westmount, Quebec, Canada	September 26, 2013	Counsel, Fasken Martineau DuMoulin LLP	5,100	0.02%
<b>SUSAN M. DORÉ</b> <sup>1,2</sup> Toronto, Ontario, Canada	May 11, 2010	Corporate Director	1,514,935 <sup>5</sup>	6.65%
<b>WILLIAM JANDRISITS</b> <sup>4</sup> Richmond Hill, Ontario, Canada	August 4, 2010	President and CEO, MCAN Mortgage Corporation <sup>6</sup>	74,113	0.33%
<b>BRIAN A. JOHNSON</b> <sup>2,3,4</sup> Toronto, Ontario, Canada	January 10, 2001	Partner, Crown Realty Partners (real estate)	131,323	0.58%
<b>IAN SUTHERLAND</b> <sup>4</sup> Oro-Medonte, Ontario, Canada	January 11, 1991	Chair, MCAN Mortgage Corporation <sup>7</sup>	3,325,900	14.60%
<b>KAREN H. WEAVER</b> <sup>1</sup> Toronto, Ontario, Canada	November 11, 2011	Executive Vice President & Chief Financial Officer, DH Corporation (financial technologies) <sup>8</sup>	6,124	0.03%
<b>W. TERRENCE WRIGHT</b> <sup>1,2,4</sup> Winnipeg, Manitoba, Canada	September 26, 2013	Counsel, Pitblado LLP	5,515	0.02%

1. Member of the Audit Committee.

2. Member of the Conduct Review, Corporate Governance & Human Resources Committee.

3. Member of the Risk Committee.

4. Member of the Enterprise Risk Management Ad Hoc Committee.

5. Includes 1,373,190 Common Shares owned and/or controlled by Raymond Doré.

6. Since August 2010.

7. From February 2010 to August 2010, Mr. Sutherland was appointed to serve as MCAN's Interim CEO.

8. Since September 2014. From 2004-2014, Ms. Weaver was Executive Vice President & Chief Financial Officer, First Capital Realty Inc. (real estate).

9. KingSett Capital owned 2,242,443 Common Shares (9.84%) as at December 31, 2015.

10. The information as to Common Shares owned, directly or indirectly, or over which control or direction is exercised has been furnished by the respective directors.

**Executive Officers**

Information concerning our executive officers as at December 31, 2015, and their municipalities of residence and principal occupation is as shown in the table below.

<u>Name and Municipality of Residence</u>	<u>Office</u>	<u>Principal Occupation for the last five years</u>	<u>Common Shares Owned and/or Controlled at December 31, 2015 <sup>2</sup></u>	<u>Approximate Percentage of Common Shares</u>
<b>WILLIAM JANDRISITS</b> Richmond Hill, Ontario, Canada	President and Chief Executive Officer	Prior to 2010, Mr. Jandrisits was Director of Investor Relations & Strategic Initiatives Canada and Director of Finance, Starwood Capital Group	74,113	0.33%
<b>JEFFREY BOUGANIM</b> Mississauga, Ontario, Canada	Vice President and Chief Financial Officer	Mr. Bouganim was appointed Vice President & CFO of Xceed Mortgage Corporation in 2010 – a position he continues to hold since its acquisition by MCAN;	62,103	0.27%
<b>MICHAEL MISENER</b> Mississauga, Ontario, Canada	Vice President and Chief Investment Officer	Vice President, Investments <sup>1</sup>	55,114	0.24%
<b>DEREK SUTHERLAND</b> Toronto, Ontario, Canada	Vice President and Chief Risk Officer	Prior to December 2012, Mr. Sutherland was Vice President, Operations. Prior to 2011, Mr. Sutherland was AVP Investments	120,631	0.53%
<b>CARL BROWN</b> Toronto, Ontario, Canada	Vice President, Operations	Prior to 2013, Mr. Brown was Vice President of Funding & Administration at MCAP Financial Corporation	21,066	0.09%

<sup>1</sup> Mr. Misener's title was changed to Vice President and Chief Investment Officer in January 2013.

<sup>2</sup> The information as to Common Shares owned, directly or indirectly, or over which control or direction is exercised has been furnished by the respective executive officers.

**Additional Disclosure Relating to Directors and Executive Officers**

To our knowledge, no director or executive officer of MCAN is, or has been in the last ten years, a director, chief executive officer or chief financial officer of a company that (i) was the subject of an order that was issued while that person was acting in that capacity, or (ii) was subject to an order that was issued after that person ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in that capacity.

For the purposes of the above paragraph, "order" means (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days.

To our knowledge, no director or executive officer of MCAN or a shareholder holding a sufficient number of securities of MCAN to affect materially the control of MCAN, (i) is or has been within the last ten years, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (ii)

has, within the last ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder, except for as follows:

- Mr. Johnson was, until March 26, 2010, a director of Big Sky Farms Inc., a private Saskatchewan company which sought and obtained an order on November 10, 2009 under the *Companies' Creditors Arrangement Act* (Canada).
- Mr. Johnson was a director of Stegg USA Inc., a private company which filed a voluntary petition under Chapter 7 of the United States Bankruptcy Code within one year of Mr. Johnson's resignation from the Board of Directors of Stegg USA Inc. on September 26, 2008.

To our knowledge, no director or executive officer of MCAN, or a shareholder holding a sufficient number of securities of MCAN to affect materially the control of MCAN has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

Except as disclosed herein or as discussed in our Management Information Circular dated March 11, 2016 (the "2016 Circular"), which is incorporated herein by reference, there are no conflicts of interest of which we are aware. Our 2016 Circular will be available after March 29, 2016 on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website [www.mcanmortgage.com](http://www.mcanmortgage.com)

### **AUDIT COMMITTEE INFORMATION**

The Audit Committee's primary purpose is to assist the Board in fulfilling its oversight responsibilities with respect to (i) the quality and integrity of financial information; (ii) the effectiveness of MCAN's internal control over financial reporting; (iii) the effectiveness of MCAN's risk management and compliance practices; (iv) the independent auditor's performance, qualifications and independence; (v) the performance of the internal audit function; (vi) MCAN's compliance with legal and regulatory requirements and (v) governance of MCAN's Information Technology architecture, systems, processes and initiatives. The Audit Committee's role and responsibilities are outlined in Schedule "A" to this Annual Information Form.

As of December 31, 2015, the members of the Audit Committee were Karen H. Weaver (Chair), Susan M. Doré, Scott Coates and William Terrence Wright. All members of the Audit Committee are, for the purposes of *National Instrument 52-110 - Audit Committees*, considered to be independent and financially literate. The following is a description of the education and experience of each member of the committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee.

Ms. Weaver holds a B.S. degree and is licensed by the Washington State Board of Public Accountants. She is a certified corporate director ("ICD.D") in Canada and a member of the Institute of Corporate Directors. Ms. Weaver has previously held various financial roles, including Chief Financial Officer at Brookfield Properties Ltd., and in January 2004 was appointed as Chief Financial Officer at First Capital Realty Inc. Ms. Weaver built a decade of executive financial leadership experience at First Capital Realty prior to her mid 2014 appointment as Executive Vice President and Chief Financial Officer at DH Corporation. Ms. Weaver also serves on the Board of Trustees of The Centennial Centre of Science and Technology.

Ms. Doré is a member of the Certified General Accountant's Association of Ontario, and currently serves on the Board of a non-public Canadian company. She has previously served as an officer and director of a federally



regulated financial institution and in the capacity of Chief Financial Officer for a securities dealer. Ms. Doré is an ICD.D in Canada and a member of the Institute of Corporate Directors.

Mr. Coates has been the Managing Director of KingSett Capital's mortgage lending business since 2006. Before KingSett, he was responsible for opening the Toronto office of Trez Capital, where he led the mortgage lending business for Eastern Canada. Prior to Trez Capital, he expanded his real estate finance expertise in progressive positions with The Toronto-Dominion Bank, Scotiabank, Sun Life Financial and MCAP Commercial LP. Mr. Coates has over 27 years of experience in commercial and residential mortgage lending, whole loan sales, securitization and corporate finance. Mr. Coates is a graduate of the Schulich School of Business at York University with a Bachelor of Business Administration Degree.

Mr. Wright holds degrees in both Economics and Law and was called to the Bar in Manitoba in 1971. His career has included various executive positions within the financial services industry and he is currently Counsel at Pitblado LLP, a position he has held since 2006. Prior to that, Mr. Wright was Senior Vice President, General Counsel and Secretary of IGM Financial Inc. (Investors Group) from 1992 to 2005. He currently serves on the Boards of ICE Futures (Canada) Inc. and ICE Clear (Canada) Inc.

## AUDIT FEES

Fees paid to the Company's auditor, Ernst & Young LLP for the past two years are as follows. Amounts listed below represent the amount billed in the year.

	2015	2014
Audit Fees	\$ 456,000	\$ 421,390
Audit-Related Fees <sup>1</sup>	56,000	96,294
Tax Fees <sup>2</sup>	38,800	30,170
All Other Fees <sup>3</sup>	<u>0</u>	<u>44,282</u>
Total Fees	<u>\$ 550,800</u>	<u>\$ 592,136</u>

1. Audit-Related Fees include AMF (Autorité des marchés financiers) and CMHC compliance
2. Tax Fees include tax planning, review of tax returns and tax advice
3. Other Fees includes accounting consultation services

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Information relating to Interest of Management and Others in Material Transactions may be found in the "Indebtedness of Directors and Executive Officers" section of our 2014, 2015 and 2016 Management Information Circulars dated March 14, 2014, March 13, 2015 and March 11, 2016 respectively. Such Management Information Circulars are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on our website at [www.mcanmortgage.com](http://www.mcanmortgage.com).

## TRANSFER AGENT AND REGISTRAR

Computershare, located in Toronto, Ontario, is our transfer agent and registrar for the Common Shares.

## MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, the only material contract entered into by the Company within the most recently completed financial year, or before the most recently completed financial year which is currently in effect is as follows:

On November 11, 2010, MCAN and MCAP entered into an amended mortgage acquisition agreement, which replaces the mortgage origination and servicing agreement dated October 20, 2006 between the parties. Pursuant to the agreement, MCAP originates and services investment mortgages (which are intended to be

held by MCAN on a long-term investment basis) for MCAN. The agreement also sets forth certain terms applicable to a sale of investment mortgages by MCAN, in that MCAN has certain rights of first refusal to assist with such sale. The origination and servicing rates are set forth in the agreement, and vary depending upon the type of mortgage that is being originated and serviced. Either party may terminate the agreement on 90 days' notice.

### **INTEREST OF EXPERTS**

Ernst & Young LLP, the external auditor of MCAN, reported on our 2015 consolidated financial statements. At the time of preparing its report on the 2015 consolidated financial statements, Ernst & Young LLP was independent of MCAN in accordance within the meaning of the Rules of Professional Conduct of Chartered Professional Accountants of Ontario.

### **ADDITIONAL INFORMATION**

Additional information about MCAN is available on our web site at [www.mcanmortgage.com](http://www.mcanmortgage.com) and under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, securities authorized for issuance under equity compensation plans and interests of insiders in material transactions, is contained in our 2016 Circular in connection with our Annual Meeting of Shareholders scheduled to be held May 11, 2016. Additional financial information is provided in our consolidated financial statements and Management's Discussion and Analysis in our 2015 Annual Report for the year ended December 31, 2015.

Copies of our Annual Information Form, as well as copies of our 2015 Annual Report for the year ended December 31, 2015 and 2016 Circular may be obtained from:

MCAN Mortgage Corporation  
200 King Street West  
Suite 600  
Toronto, ON M5H 3T4

Attn: Corporate Secretary  
Telephone: (416) 591-5214  
Fax: (416) 598-4142

**SCHEDULE A - MANDATE OF THE AUDIT COMMITTEE**

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**Role**

The primary purpose of the Audit Committee (the “Committee”) is to assist the Board in its oversight role with respect to:

1. the quality and integrity of financial information;
2. the effectiveness of MCAN’s internal control over financial reporting;
3. the meeting of MCAN’s reporting issuer obligations;
4. the independent auditor’s performance, qualifications and independence;
5. the performance of the internal audit function;
6. MCAN’s compliance with legal and regulatory requirements; and
7. the Information Technology function.

**Composition and Operations**

1. The Committee shall consist of at least three directors appointed annually by the Board.
2. No member of the Committee shall be an officer or employee of MCAN, its subsidiaries or affiliates. Members of the Committee will not be affiliated with MCAN as such term is defined in the *Trust and Loan Companies Act* (Canada).
3. Each member of the Committee shall satisfy the applicable independence, proficiency and experience requirements of the laws governing MCAN, the applicable stock exchange on which MCAN’s securities are listed, applicable securities regulatory authorities and MCAN’s Director Independence Policy.
4. The Board shall appoint one member of the Committee as the Committee Chair.
5. Each member of the Committee shall be financially literate as such qualification is defined by applicable law and interpreted by the Board in its business judgement.
6. The Committee shall meet at least quarterly and as many additional times as necessary. The Committee shall report to the Board on its activities, findings and recommendations after each of its meetings.

**Specific Duties*****Oversight of the Independent Auditor***

1. Recommend to the Board the appointment, reappointment or removal of the independent auditor for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attestation services for MCAN, subject to required shareholder approval.
2. Review and approve the scope and terms of all audit engagements and recommend to the Board the compensation of the independent auditor.
3. Provide oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attestation services (including resolution of disagreements between management and the independent auditor regarding financial reporting). Ensure that the independent auditor reports directly to the Committee.

4. Pre-approve all audit services and permitted non-audit services (including the fees, terms and conditions for the performance of such services) to be provided by the independent auditor. When appropriate, the Committee may delegate to the Chair of the Committee the authority to grant pre-approvals of audit and permitted non-audit services, provided that such authorization does not exceed \$25,000 at any given time, and the full Committee shall be informed of such approvals at its next scheduled meeting.
5. Evaluate the qualifications, performance and independence of the independent auditor, including:
  - (i) reviewing and evaluating the lead partner on the independent auditor's engagement with MCAN;
  - (ii) considering whether the independent auditor's quality controls are adequate and that the provision of permitted non-audit services are compatible with maintaining the auditor's independence; and
  - (iii) addressing any concerns raised by regulatory authorities or other stakeholders regarding the independent auditor's independence.
6. Present the Committee's conclusions with respect to the independent auditor to the Board and, if so determined by the Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the independent auditor.
7. At least annually, obtain and review a report from the independent auditor regarding:
  - (i) the independent auditor's internal quality-control procedures;
  - (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the independent auditor;
  - (iii) any steps taken to deal with any such issues; and
  - (iv) all relationships between the independent auditor and MCAN.
8. Review and discuss with management and the independent auditor, prior to the annual audit, the scope, planning, materiality and staffing of the annual audit, satisfy itself that the audit plan is risk-based and addresses all of the relevant activities over a measurable cycle and that the work of the independent auditor and the internal auditor is coordinated.
9. Ensure the rotation of the lead audit partner having primary responsibility for the audit as required by the Rules of Conduct of the Canadian Institute of Chartered Accountants.
10. Review and approve hiring policies regarding partners and employees or former partners and employees of the present and former independent auditor.
11. Establish and maintain free and open communication with the independent auditor, meet separately with the independent auditor to assess the adequacy and effectiveness of the internal control systems and report to the Board on the effectiveness of the independent audit process.

### ***Financial Reporting***

12. Review and discuss with management and the independent auditor the annual audited financial statements, the independent auditor's report thereon, any changes to the audit scope or strategy, and any other returns or transactions required to be reviewed by the Committee and report to the Board prior to approval by the Board and publication of earnings.

13. Review and discuss with management MCAN's quarterly financial statements prior to approval by the Board and publication of earnings.
14. Review and discuss with management and the independent auditor, as appropriate, the annual and quarterly disclosures made in management's discussion and analysis prior to approval by the Board and publication.
15. Review such returns as the Office of the Superintendent of Financial Institutions may specify.
16. Require management to implement and maintain appropriate and effective internal control procedures.
17. Review, evaluate and approve the procedures established under item 16.
18. Review such investments and transactions that could adversely affect MCAN's well-being as the independent auditor or any officer of MCAN may bring to the attention of the Committee.
19. At least annually, review and discuss with management and the independent auditor significant financial reporting issues and judgements made in connection with the preparation of MCAN's financial statements, including:
  - (i) key areas of risk for material misstatement of the financial statements, including critical accounting estimates or areas of measurement uncertainty;
  - (ii) whether the independent auditor considers estimates to be within an acceptable range and the rationale for the final valuation decision and whether it is consistent with industry practice;
  - (iii) any significant changes in MCAN's selection or application of accounting principles;
  - (iv) any major issues as to the adequacy of MCAN's internal controls; and
  - (v) any special steps adopted in light of material control deficiencies.
20. At least annually, review and discuss with management and the independent auditor reports from the independent auditor on:
  - (i) critical accounting policies and practices to be used;
  - (ii) significant financial reporting issues, estimates and judgements made in connection with the preparation of the financial statements;
  - (iii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
  - (iv) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
21. At least annually, review and discuss with management and the independent auditor any significant changes to MCAN's accounting principles and practices suggested by the independent auditor, internal audit personnel or management and assess whether MCAN's accounting practices are appropriate.
22. At least annually, review and discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on MCAN's financial statements.

23. At least annually, review and recommend to the Board the Disclosure Policy, which governs the release of information about MCAN and requires timely, accurate and fair disclosure of such information in compliance with all legal and regulatory requirements.
24. Review all financial public disclosure documents, including information contained in earnings press releases, Annual Information Form, Annual Report and Management Information Circular prior to approval by the Board.
25. Review and discuss with the CEO and the CFO the procedures undertaken in connection with the CEO and CFO certifications for the annual and interim filings with applicable securities regulatory authorities.
26. Review disclosures made by the CEO and CFO during their certification process for the annual and interim filing with applicable securities regulatory authorities about any significant deficiencies in the design or operation of internal controls which could adversely affect MCAN's ability to record, process, summarize and report financial data or any material weaknesses in the internal controls, and any fraud involving management or other employees who have a significant role in MCAN's internal controls.
27. At least quarterly, discuss with management any legal matters that may have a material impact on the financial statements, operations, assets of MCAN and any material reports or inquiries received by MCAN or any of its subsidiaries from regulators or governmental agencies with respect to financial statements.
28. Meet with the Chief Audit Officer and with management to discuss the effectiveness of the internal control procedures established for MCAN pursuant to item 16.

#### ***Oversight of the Finance Function***

29. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the mandate of the Chief Financial Officer.
30. At least annually, review the budget, structure and resources of the Finance function.
31. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual performance evaluation of the Chief Financial Officer and assess the effectiveness of the Chief Financial Officer.
32. Review the results of periodic independent reviews of the Finance function.
33. At least quarterly, meet separately with the Chief Financial Officer to assess the adequacy and effectiveness of the internal control systems and to obtain reasonable assurance that the controls are effective and report to the Board thereon.
34. Annually assess and report to the Board on the effectiveness of the Finance function.

#### ***Oversight of the Internal Audit Function***

35. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the mandate of the Chief Audit Officer.
36. At least annually, review the independence, budget and structure of the Internal Audit function, prior to approval by the Board.
37. Review the Internal Audit 3-year audit plan, including any significant changes to the audit plan, and, as part of the review, satisfy itself that the audit plan is risk-based and addresses all relevant activities over a measurable cycle, prior to approval by the Board.

38. Review the scope of the audits to be performed by the Internal Audit function and the degree of co-ordination between the plans of the internal and independent auditor, and outstanding control matters as cited by the Office of the Superintendent of Financial Institutions or other regulatory agencies.
39. Review the quarterly reports of the Chief Audit Officer on internal audit activities, including audit findings, recommendations and progress in meeting the annual audit plan.
40. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual performance evaluation of the Chief Audit Officer and assess the effectiveness of the Chief Audit Officer and the Internal Audit function and report to the Board thereon.
41. At least quarterly, meet separately with the Chief Audit Officer to assess the adequacy and effectiveness of the internal control systems and to obtain reasonable assurance that the controls are effective and report to the Board thereon.

#### ***Oversight of the Information Technology (“IT”) Function***

42. Oversee the IT governance framework development at MCAN.
43. Review the development of plans and direction of the IT initiatives, the effectiveness of IT solutions and services in meeting stakeholder needs and expectations; identification and mitigation of IT risks, including Cyber risk; compliance with all legal and regulatory requirements relative to the security of data and privacy protection of information.
44. Periodically review practices for managing cyber risk, including how they apply to relations with third-party service providers, and reports on data breaches related to cybersecurity.

#### ***Other***

45. Establish procedures for the receipt, retention and treatment of complaints received by MCAN regarding accounting, internal accounting controls, or auditing matters, and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
46. Review correspondence with Canadian securities regulators and administrators.
47. Review the internal auditor’s report on the results of testing of the Business Continuity Plan as per the internal auditor’s cycle of audits.
48. At the discretion of the Committee, retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities.
49. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the Committee mandate.
50. Carry out any other appropriate duties and responsibilities assigned by the Board.

Approved: February 26, 2016