CONSOLIDATED FINANCIAL STATEMENTS 2017
MCAN MORTGAGE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including the accounting requirements of our regulator, the Office of the Superintendent of Financial Institutions Canada.

The Company's accounting system and related internal controls are designed, and supporting procedures maintained to provide reasonable assurance that the Company's financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Office of the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the Trust and Loan Companies Act are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

William Jandrisits
President and Chief Executive Officer

Jeff Bouganim
Senior Vice President and Chief Financial Officer

Toronto, Canada,
February 23, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of **MCAN Mortgage Corporation**

We have audited the accompanying consolidated financial statements of MCAN Mortgage Corporation, which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

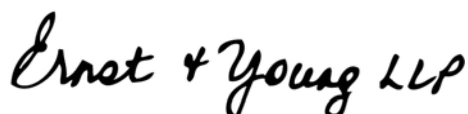
Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MCAN Mortgage Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants

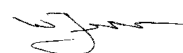
Toronto, Canada
February 23, 2018

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at December 31	Note	2017	2016
Assets			
Corporate Assets			
Cash and cash equivalents	6	$ 117,571	$ 111,732
Marketable securities	7	62,518	55,126
Mortgages	8	863,384	904,112
Financial investments	9	68,190	57,264
Other loans	10	2,612	3,584
Equity investment in MCAP Commercial LP	11	59,189	50,805
Foreclosed real estate	12	435	529
Deferred tax asset	18	2,672	1,782
Other assets	13	5,800	3,546
		1,182,371	**1,188,480**
Securitization Assets			
Cash held in trust	15	13,441	15,724
Mortgages	16	1,016,724	1,071,849
Other assets	13	4,239	4,802
		1,034,404	**1,092,375**
		$ 2,216,775	**$ 2,280,855**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	17	$ 884,460	$ 911,866
Deferred tax liabilities	18	3,572	3,050
Other liabilities	19	16,067	12,377
		904,099	**927,293**
Securitization Liabilities			
Financial liabilities from securitization	20	1,015,699	1,071,786
		1,015,699	**1,071,786**
		1,919,798	**1,999,079**
Shareholders' Equity			
Share capital	21	214,664	210,239
Contributed surplus		510	510
Retained earnings		65,365	55,923
Accumulated other comprehensive income	23	16,438	15,104
		296,977	**281,776**
		$ 2,216,775	**$ 2,280,855**

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.

On behalf of the Board:



William Jandrisits
President and Chief Executive Officer

Karen Weaver
Director, Chair of the Audit Committee

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

Years Ended December 31	Note	2017	2016
Net Investment Income - Corporate Assets			
Mortgage interest		$ 47,765	$ 50,670
Equity income from MCAP Commercial LP	11	14,427	13,509
Financial investments and other loans	9	9,018	6,487
Marketable securities		3,722	3,622
Fees	24	1,239	2,547
Interest on cash and cash equivalents		883	604
Whole loan gain on sale income	27	-	324
		77,054	**77,763**
Term deposit interest and expenses		20,837	22,035
Mortgage expenses	25	3,877	3,993
Interest on loans payable		38	244
Provision for (recovery of) credit losses	26	(111)	(210)
		24,641	**26,062**
		52,413	**51,701**
Other Income - Corporate Assets			
Gain on sale of investment in MCAP Commercial LP	11	785	-
Gain on dilution of investment in MCAP Commercial LP	11	91	-
		876	**-**
Net Investment Income - Securitization Assets			
Mortgage interest		27,028	28,298
Other securitization income	14	221	461
		27,249	**28,759**
Interest on financial liabilities from securitization		19,533	21,176
Mortgage expenses	25	2,103	1,805
		21,636	**22,981**
		5,613	**5,778**
Operating Expenses			
Salaries and benefits		10,555	9,406
General and administrative		8,663	8,557
		19,218	**17,963**
Net Income Before Income Taxes		**39,684**	**39,516**
Provision for (recovery) of income taxes			
Current	18	-	(100)
Deferred	18	(244)	(566)
		(244)	(666)
Net Income		**$ 39,928**	**$ 40,182**
Basic and diluted earnings per share		$ 1.72	$ 1.75
Dividends per share		$ 1.31	$ 1.17
Weighted average number of basic and diluted shares (000s)		23,265	22,968

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)

Years Ended December 31	2017	2016
Net income	$ 39,928	$ 40,182
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	2,283	3,981
Transfer of gains on sale of marketable securities to net income	(19)	(361)
Change in unrealized gain on available for sale financial investments	4,258	6,999
Transfer of income distribution from available for sale financial investments to net income	(986)	(3,181)
Transfer of unrealized gains on available for sale financial investments to net income	(4,324)	(967)
Less: deferred taxes	122	(660)
	1,334	5,811
Comprehensive income	**$ 41,262**	**$ 45,993**

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

Years Ended December 31	Note	2017	2016
Share capital			
Balance, beginning of year		$ 210,239	$ 206,382
Share capital issued	21	4,425	3,857
Balance, end of year		**214,664**	**210,239**
Contributed surplus			
Balance, beginning of year		510	510
Changes to contributed surplus		-	-
Balance, end of year		**510**	**510**
Retained earnings			
Balance, beginning of year		55,923	42,617
Net income		39,928	40,182
Dividends declared		(30,486)	(26,876)
Balance, end of year		**65,365**	**55,923**
Accumulated other comprehensive income			
Balance, beginning of year		15,104	9,293
Other comprehensive income		1,334	5,811
Balance, end of year		**16,438**	**15,104**
Total shareholders' equity		**$ 296,977**	**$ 281,776**

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)

Years Ended December 31	2017	2016
Cash provided by (used for):		
Operating Activities		
Net income	$ 39,928	$ 40,182
Adjustments to determine cash flows relating to operating activities:		
Current taxes	-	(100)
Deferred taxes	(244)	(566)
Equity income from MCAP Commercial LP	(14,427)	(13,509)
Gain on sale of investment in MCAP Commercial LP	(785)	-
Gain on dilution of MCAP Commercial LP	(91)	-
Provision for (recovery of) credit losses	(111)	(210)
Amortization of securitized mortgage and liability transaction costs	5,374	5,550
Amortization of other assets	550	353
Amortization of mortgage discounts	(91)	(95)
Changes in operating assets and liabilities:		
Marketable securities	(5,128)	(10,770)
Mortgages	91,780	39,614
Financial investments	(11,978)	(12,620)
Other loans	972	592
Other assets	(1,846)	(2,651)
Cash held in trust	2,283	(2,612)
Term deposits	(27,406)	8,825
Financial liabilities from securitization	(57,201)	517
Other liabilities	1,982	(150)
Cash flows from operating activities	**23,561**	**52,350**
Investing Activities		
Distributions from MCAP Commercial LP	4,971	6,895
Decrease in foreclosed real estate	94	-
Proceeds on sale of investment in MCAP Commercial LP	1,947	-
Acquisition of capital and intangible assets	(401)	(572)
Cash flows from investing activities	**6,611**	**6,323**
Financing Activities		
Issue of common shares	4,425	3,857
Dividends paid	(28,758)	(26,560)
Cash flows for financing activities	**(24,333)**	**(22,703)**
Increase in cash and cash equivalents	5,839	35,970
Cash and cash equivalents, beginning of year	111,732	75,762
Cash and cash equivalents, end of year	**$ 117,571**	**$ 111,732**

Supplementary Information		
Interest received	$ 74,011	$ 75,969
Interest paid	35,989	40,098
Distributions received from investments	11,535	9,451

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

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1. Corporate Information

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

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

MCAN's primary objective is to generate a reliable stream of income by investing its corporate funds in a diversified 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 taxed in the hands of our shareholders as capital gains dividends and interest income, respectively, to the extent that they are held in a non-registered plan.

MCAN's primary wholly owned subsidiary, XMC Mortgage Corporation ("XMC") (formerly Xceed Mortgage Corporation), is an originator of residential first-charge mortgage products across Canada. As such, XMC operates primarily in one industry segment through its sales team and mortgage brokers. XMC is incorporated in the Province of Ontario. The Company renamed the subsidiary to XMC during 2017.

MCAN is also a *National Housing Act* ("NHA") mortgage-backed securities ("MBS") issuer. For further details, refer to Note 14.

MCAN is incorporated in Canada. MCAN and XMC'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 (the "Board") on February 23, 2018.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") effective for the Company as at December 31, 2017, as issued by the International Accounting Standards Board ("IASB"), including the accounting guidance of OSFI.

The consolidated financial statements have been prepared on a historical cost basis, except for cash and cash equivalents, marketable securities, foreclosed real estate and financial investments, which have been designated as available for sale and are 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 December 31, 2017.

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 following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements. Certain policies adopted in or relevant to fiscal 2017 and 2016 are also discussed below.

(1) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

(ii) Measurement of financial instruments

All financial instruments are measured initially at their fair value plus, in the case of financial instruments not subsequently recorded at fair value through the consolidated statements of income, directly attributable transaction costs. Subsequent measurement and accounting treatment depend principally on the classification of financial instruments at initial recognition. The classification of an instrument in the measurement categories specified in IFRS depends on a number of factors, including the purpose and management's intention for which the financial instruments were acquired and their contractual characteristics. The Company classifies its financial instruments in the measurement categories noted below:

a. Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading are recorded at fair value. Changes in fair value are recognized in the consolidated statements of income. Interest income or expense is recorded in the consolidated statements of income on the accrual basis.

A financial asset or financial liability is classified as held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

b. Available for sale financial investments

Available for sale investments include marketable securities and financial investments. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through the consolidated statements of income.

Certain marketable securities are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or in response to changes in the market conditions.

c. Loans and receivables

The loans and receivables category includes mortgages, other loans, non-derivative financial assets and certain financial investments with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company upon initial recognition designates at fair value;
- Those that the Company, upon initial recognition, designates as available for sale; or
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, financial assets classified as loans and receivables are subsequently measured at amortized cost using the effective interest rate method (“EIM”), less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIM. The amortization is included in mortgage interest income or interest on financial investments and other loans in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income.

d. Financial liabilities

After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIM.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs using the EIM. The amortization is included in the related line in the consolidated statements of income. Unamortized premiums and discounts are recognized in the consolidated statements of income upon extinguishment of the liability.

(iii) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are capitalized and amortized over the expected life of the instrument using the EIM, except for transaction costs which are related to financial assets or financial liabilities classified as held for trading or designated at fair value, which are expensed.

4. Summary of Significant Accounting Policies (continued)

(2) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a qualifying "pass-through" arrangement; and either:
  - the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or
  - the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the financial asset.

When substantially all the risks and rewards of ownership of the financial asset have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer. When substantially all the risks and rewards of ownership of the financial asset have been retained, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received. Certain transaction costs incurred are also capitalized and amortized using the EIM. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. In that case, the Company also recognizes an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

(3) Determination of fair value

Per IFRS 13, *Fair Value Measurement*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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).

For financial instruments not traded in active markets, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Where available, their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. The fair value of certain real estate assets is determined using independent appraisals. Models and valuations are adjusted to reflect counterparty credit and liquidity spread and limitations in the models.

4. Summary of Significant Accounting Policies (continued)

(4) Foreclosed assets held for sale

Foreclosed assets are repossessed non-financial assets where the Company gains title, ownership or possession of individual properties, such as real estate properties, which are managed for sale in an orderly manner with the proceeds, used to reduce or repay any outstanding debt. The Company holds foreclosed properties for sale rather than for its business use.

Held-for-sale foreclosed assets are initially carried at fair value less costs to sell. In subsequent measurements, the asset is carried at the lower of its carrying amount and fair value less the estimated cost to sell at the date of foreclosure. Any difference between the carrying value of the asset before foreclosure and the initially estimated realizable amount of the asset is recorded in the provision for credit losses line in the consolidated statements of income. The Company predominantly relies on third-party appraisals to determine the carrying value of foreclosed assets.

(5) Impairment of financial assets

The Company assesses at each consolidated financial statement date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Impaired mortgages include uninsured mortgages that are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected in a timely manner. An insured mortgage is considered to be impaired when the mortgage is 365 days past due, whether or not collection is in doubt.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of the related interest income component. Mortgages, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the provision for credit losses.

4. Summary of Significant Accounting Policies (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("EIR"). If a mortgage has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of estimated future cash flows reflects the projected cash flows less costs to sell.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, risk rating, past-due status and other relevant factors. Risk ratings are mapped to rating agency assessments of corporate bonds. Corporate bond historical default rates are used for an actual historical period similar to the environment at the time of measurement, using factors such as housing starts, unemployment rate, and GDP growth.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available for sale financial investments

For available for sale financial investments, the Company assesses at the consolidated financial statement date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, one of the indications of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income - is removed from other comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded to the related interest income component. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

(6) Offsetting financial instruments

Financial assets and financial liabilities where the Company is considered the principal to the underlying transactions are offset and the net amount reported in the consolidated financial statements if, and only if, the Company currently has an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

As at December 31, 2017, the Company did not have any outstanding transactions that are subject to netting contracts with third parties.

4. Summary of Significant Accounting Policies (continued)

(7) Taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated financial statement date.

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 taxes within the MIC entity, however provisions are recorded as applicable in all subsidiaries of MCAN.

Current tax relating to items recognized directly to shareholders' equity is recognized in equity and not in the consolidated statements of income. Management periodically evaluates positions taken in the Company's tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the consolidated financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- In respect of taxable temporary differences associated with investments in subsidiaries or associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used, except in the following instances:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and

- In respect of deductible temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated financial statement date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated financial statement date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated financial statement date.

Deferred tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4. Summary of Significant Accounting Policies (continued)

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 deferred taxes within the MIC entity, however provisions are recorded as applicable in all subsidiaries of MCAN.

(8) Dividends on common shares

Dividends on common shares are deducted from shareholders' equity in the quarter that they are approved. Dividends that are approved after the consolidated financial statement date are not recognized as a liability in the consolidated financial statements but are disclosed as an event after the consolidated financial statement date.

(9) Investment in associate

The Company's investment in its associate, MCAP Commercial LP ("MCAP"), is accounted for using the equity method. An associate is an entity over which the Company has significant influence.

Under the equity method, the investment in the associate is carried on the consolidated balance sheets at cost plus post acquisition changes in the Company's share of net assets of the associate.

The consolidated statements of income reflect the Company's proportionate share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this change, when applicable, in the consolidated statements of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The most recent available financial statements of the associate are used by the investor in applying the equity method. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

Where necessary, adjustments are made to harmonize the accounting policies of the associate with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associate. The Company determines at each consolidated financial statement date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company then calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statements of income, thus reducing the carrying value by the amount of impairment.

(10) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and that the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Interest income or expense

For all financial investments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the EIM, which reflects the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account the contractual interest rate, along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts. Interest income or expense is included in the appropriate component of the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

(11) Cash and cash equivalents

Cash and cash equivalents (including cash held in trust) on the consolidated balance sheets comprise cash held at banks and short-term deposits with original maturity dates of less than 90 days.

(12) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date, further details of which are discussed in Note 28. The obligations are adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statements of income with a corresponding change to other liabilities. The liability is remeasured at fair value at each consolidated financial statement date up to and including the settlement date.

(13) Capital assets and intangible assets

Capital assets and intangible assets are recorded at cost less accumulated amortization. Amortization is recorded at the following rates:

Capital assets

Furniture and fixtures	Five years straight line
Computer hardware	Three to five years straight line
Leasehold improvements	Lease term and one renewal straight line

Intangible assets

Computer software	One year to five years straight line

The amortization expense is included in the general and administrative operating expense category in the consolidated statements of income.

The amortization period and the amortization method for capital assets and intangible assets are reviewed at least at the end of each reporting period.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

(14) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the share are either cancelled or re-issued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transactions costs, is included in equity.

4. Summary of Significant Accounting Policies (continued)

(15) Contingent liabilities

Provisions for legal claims are recognized when the Company (a) has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is included in interest expense.

(16) 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 IFRS 9 standard, which addresses impairment, classification and measurement, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and replaces IAS 39, *Financial Instruments: Recognition and Measurement*.

Project Plan/Implementation
The Company established an IFRS 9 Committee which includes representatives of finance, risk and other executives. The Committee is responsible for the overall implementation of IFRS 9, ensuring proper integration throughout the Company and providing review and approval of key decisions. The IFRS 9 Committee provides periodic reporting on the status of the implementation plan to the Audit Committee of the Board. Our project plan and implementation are substantially complete at this point in time.

Impairment
IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets, with the most significant impact on the Company's mortgage portfolio. The new ECL model will result in a general allowance being recorded on financial assets regardless of whether there has been an actual loss event. IFRS 9 requires the ECL model to consider past events, current market conditions and reasonable supportable information about future economic conditions (through the use of multiple probability-weighted scenarios) in determining whether there has been a significant increase in credit risk ("SICR") since origination, and in calculating the amount of ECL. In determining SICR, IFRS 9 provides a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. The Company does not plan to rebut this presumption. Additionally, IFRS 9 requires MCAN to apply expert credit judgment in calculating ECL.

The expected credit loss model requires the recognition of the portion of the ECL resulting from default events that are possible within the next 12 months at origination and the recognition of lifetime ECL on financial assets that have experienced an SICR since origination. Financial assets are classified into one of three "stages" for the purposes of ECL recognition at each reporting date, as follows:

- Stage 1: Financial instruments that are not credit impaired and do not reflect an SICR since origination; the portion of the ECL resulting from default events that are possible within the next 12 months is recognized.
- Stage 2: Financial instruments that are not credit impaired but reflect an SICR since origination; lifetime ECL is recognized.
- Stage 3: Financial instruments that have objective evidence of credit impairment; lifetime ECL is recognized as specific allowance.

IFRS 9 also provides a rebuttable presumption that objective evidence of impairment exists when contractual payments are 90 days or more past due. The Company does not plan to rebut this presumption.

4. Summary of Significant Accounting Policies (continued)

Classification and Measurement

IFRS 9 requires that debt instruments are classified based on the business model for managing the assets and the contractual cash flow characteristics of the asset. The business model test determines classification based on the business purpose for holding the asset. The Company's debt instruments that have contractual cash flows representing only payments of principal and interest will be classified as amortized cost, fair value reported through other comprehensive income ("FVOCI") with unrealized gains and losses recognized in other comprehensive income or fair value reported through profit and loss ("FVPL") with unrealized gains and losses recognized in net income. Equity instruments are measured at FVPL or FVOCI; if an equity instrument is measured at FVOCI then the recycling of gains and losses to the consolidated statement of income is not allowed.

Hedge Accounting

IFRS 9 has new hedge accounting principles that are designed to align hedge accounting more closely with risk management. The Company currently does not have any hedging relationships eligible for hedge accounting under IFRS 9 and therefore does not expect any impact from the adoption of IFRS 9 hedge accounting rules.

Transition Impact

MCAN expects the transition to IFRS 9 on January 1, 2018 to impact the Company as follows:

- *Corporate Mortgages*: MCAN will remeasure the allowances for credit losses in its corporate mortgage portfolio as at the transition date. The Company currently estimates that the impact of the transition to IFRS 9 on its corporate mortgage allowances will be insignificant, subject to refinement.

- *Equity investment in MCAP*: Under IAS 28, MCAN's accounting for its equity investment in MCAP must be consistent with the IFRS accounting policies reflected in its consolidated financial statements. Accordingly, the equity investment in MCAP must incorporate IFRS 9 as at the transition date. The Company is currently assessing and quantifying the impact of the transition to IFRS 9 on its equity investment in MCAP.

- *Marketable securities*: MCAN will reclassify its marketable securities portfolio from available for sale under IAS 39 to FVPL under IFRS 9. This reclassification will result in the transfer of the unrealized gain on marketable securities as at the transition date from accumulated other comprehensive income to retained earnings.

- *Financial Investments - Crown LP*: MCAN will reclassify its financial investment in Crown LP from available for sale under IAS 39 to FVPL under IFRS 9. This reclassification will result in the transfer of the unrealized gain on the investment in Crown LP as at the transition date from accumulated other comprehensive income to retained earnings.

- *Financial Investments - KingSett High Yield Fund*: MCAN will reclassify its financial investment in the KingSett High Yield Fund from available for sale under IAS 39 to FVPL under IFRS 9. This reclassification will result in the transfer of the fair value adjustment on the investment in the KingSett High Yield Fund as at the transition date from accumulated other comprehensive income to retained earnings.

- The reclassification of marketable securities and financial investments from available for sale under IAS 39 to FVPL under IFRS 9 will result in a transfer of $16,438 from accumulated other comprehensive to retained earnings on January 1, 2018.

The Company expects that the transition to IFRS 9 will not materially impact the carrying value of any other financial assets or liabilities as at January 1, 2018. MCAN will not restate financial information from comparative periods.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects in exchange for transferring goods or services to a customer. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. The standard does not apply to revenue associated with financial instruments under IFRS 9, therefore it will not impact the majority of the Company's revenue. The Company does not expect a material impact on its consolidated financial statements as a result of the adoption of IFRS 15.

4. Summary of Significant Accounting Policies (continued)

IFRS 2, *Share-based Payment Transactions*

In June 2016, the IASB issued amendments to IFRS 2 that clarify the accounting for the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not expect a material impact on its consolidated financial statements as a result of the amendments to IFRS 2.

IFRS 16, *Leases*

IFRS 16 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"). 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, *Leases* and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: (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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting IFRS 16 on its consolidated financial statements.

IFRIC 23, *Uncertainty over Income Tax Treatments*

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes* when there is uncertainty over income tax treatments. In such a circumstance, the Company shall recognize and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This interpretation is effective for annual periods beginning on or after January 1, 2019. The Company has not yet determined the impact of this interpretation on the 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

Significant influence represents the power to participate in the financial and operating policy decisions of an investee, but does not represent control or joint control over the entity. In determining whether it has significant influence over an entity, the Company makes certain judgments to form the basis for the Company's policies in accounting for its equity investments.

5. Significant Accounting Judgments and Estimates (continued)

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.

(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 may include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is 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.

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. Cash and Cash Equivalents

Cash and cash equivalents include balances with banks and certain short-term investments with original maturity dates of less than 90 days.

Refer to Note 30 for an analysis of the Company's available credit facilities.

7. Marketable Securities

As at December 31	2017	2016
Real estate investment trusts	$ 61,973	$ 53,953
Corporate bonds	545	1,173
	$ 62,518	**$ 55,126**

Marketable securities are designated as available for sale. Corporate bonds mature between 2018 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

	Gross	Allowance			Net
As at December 31, 2017	**Principal**	**Collective**	**Individual**	**Total**	**Principal**
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 199,264	$ 848	$ 62	$ 910	$ 198,354
- Insured	80,377	-	-	-	80,377
- Uninsured - completed inventory	51,410	220	-	220	51,190
Construction loans					
- Residential	389,098	2,536	-	2,536	386,562
- Non-residential	4,872	32	-	32	4,840
Commercial loans					
- Multi family residential	65,078	423	-	423	64,655
- Other commercial	78,095	689	-	689	77,406
	$ 868,194	**$ 4,748**	**$ 62**	**$ 4,810**	**$ 863,384**

	Gross	Allowance			Net
As at December 31, 2016	**Principal**	**Collective**	**Individual**	**Total**	**Principal**
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 249,296	$ 1,061	$ 170	$ 1,231	$ 248,065
- Insured	108,334	-	-	-	108,334
- Uninsured - completed inventory	18,240	78	-	78	18,162
Construction loans					
- Residential	381,904	2,472	220	2,692	379,212
- Non-residential	7,902	51	-	51	7,851
Commercial loans					
- Multi family residential	34,747	226	-	226	34,521
- Other commercial	108,938	971	-	971	107,967
	$ 909,361	**$ 4,859**	**$ 390**	**$ 5,249**	**$ 904,112**

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

8. Mortgages - Corporate (continued)

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 the Canada Mortgage and Housing Corporation ("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 multi family residential loans (e.g. loans secured by apartment buildings), and other commercial loans, which consist of commercial term mortgages (e.g. loans secured by retail/industrial buildings) and high ratio mortgage loans (e.g. second mortgages on residential construction projects).

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

As at December 31	2017	2016
Single family - uninsured	4.72%	4.57%
Single family - uninsured completed inventory	6.17%	5.23%
Single family - insured	3.22%	3.14%
Construction - residential	5.58%	5.16%
Construction - non residential	5.25%	5.41%
Commercial - multi family residential	5.11%	4.41%
Commercial - other	7.81%	7.05%
Total	**5.36%**	**4.90%**

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

As at December 31	2017	2016
Single family - insured	$ 27,797	$ 32,139
Single family - uninsured	9,535	3,026
Single family - uninsured completed inventory	1,955	1,229
Construction - residential	246,550	311,653
Construction - non-residential	2,720	203
Commercial - multi family residential	1,362	-
Commercial - other	1,285	15,911
Total	**$ 291,204**	**$ 364,161**

The fair value of the corporate mortgage portfolio as at December 31, 2017 was $869,147 (December 31, 2016 - $913,016). 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 31.

As at December 31, 2017, single family insured mortgages included $28,597 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, 2016 - $36,915).

8. Mortgages - Corporate (continued)

(b) Geographic Analysis

As at December 31, 2017	Single Family	Construction	Commercial	Total	
Ontario	$ 207,293	$ 179,088	$ 91,323	$ 477,704	55.3%
Alberta	62,376	34,736	13,905	111,017	12.9%
British Columbia	28,202	177,578	36,833	242,613	28.1%
Quebec	9,357	-	-	9,357	1.1%
Atlantic Provinces	13,681	-	-	13,681	1.6%
Other	9,012	-	-	9,012	1.0%
	$ 329,921	**$ 391,402**	**$ 142,061**	**$ 863,384**	**100.0%**

As at December 31, 2016	Single Family	Construction	Commercial	Total	
Ontario	$ 241,780	$ 164,649	$ 73,064	$ 479,493	53.0%
Alberta	67,674	90,583	22,587	180,844	20.0%
British Columbia	27,942	108,746	35,899	172,587	19.1%
Quebec	12,272	-	-	12,272	1.4%
Atlantic Provinces	16,719	-	-	16,719	1.8%
Other	8,174	23,085	10,938	42,197	4.7%
	$ 374,561	**$ 387,063**	**$ 142,488**	**$ 904,112**	**100.0%**

(c) Mortgage Allowances

Details of the allowances for mortgage credit losses for the current and prior years are as follows:

	Collective	Individual	2017 Total	Collective	Individual	2016 Total
Balance, beginning of year	$ 4,859	$ 390	$ 5,249	$ 4,920	$ 339	$ 5,259
Provisions	(107)	345	238	(58)	364	306
Reversals of provisions	-	(169)	(169)	-	(77)	(77)
Write-offs, net	(4)	(504)	(508)	(3)	(236)	(239)
Balance, end of year	**$ 4,748**	**$ 62**	**$ 4,810**	**$ 4,859**	**$ 390**	**$ 5,249**

(d) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2017	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 3,303	$ 225	$ 688	$ -	$ 4,216
Single family - insured	1,296	157	-	569	2,022
	$ 4,599	**$ 382**	**$ 688**	**$ 569**	**$ 6,238**

8. Mortgages - Corporate (continued)

As at December 31, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 3,992	$ 1,083	$ 1,044	$ -	$ 6,119
Single family - insured	2,081	76	-	888	3,045
	$ 6,073	**$ 1,159**	**$ 1,044**	**$ 888**	**$ 9,164**

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

	December 31, 2017			December 31, 2016		
As at	SF Insured	SF Uninsured	Total	SF Insured	SF Uninsured	Total
Ontario	$ -	$ 86	$ 86	$ 129	$ 1,079	$ 1,208
Alberta	32	1,546	1,578	623	1,228	1,851
Quebec	526	-	526	366	333	699
Atlantic Provinces	-	64	64	-	119	119
Other	274	-	274	-	-	-
	$ 832	**$ 1,696**	**$ 2,528**	**$ 1,118**	**$ 2,759**	**$ 3,877**

9. Financial Investments

As at December 31	2017	2016
Investment - Crown Realty II Limited Partnership	$ 32,037	$ 33,207
Investment - KingSett High Yield Fund	36,153	24,057
	$ 68,190	**$ 57,264**

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 into its core fund, which represents buildings expected to provide stable cash flows over a longer time horizon, and its opportunity fund, which represents buildings with medium-term capital appreciation. Its fair value is driven primarily by independent appraisals of the buildings, which occur annually at year-end. As property acquisitions are made by Crown LP, the Company advances its proportionate share to finance the acquisitions.

During 2017, the Company recorded a $4,380 gross increase in the unrealized gain on the investment in Crown LP (2016 - $7,242), which is recognized in the consolidated statements of comprehensive income net of deferred taxes. Additionally, the Company recognized $5,310 of gross income from the Crown LP investment in 2017 (2016 - $4,148), which is reflected in income from financial investments and other loans, with a corresponding deferred tax expense recorded. The recognition of income upon the receipt of partnership distributions from Crown LP is offset by a corresponding reduction to accumulated other comprehensive income.

The Company holds an investment in the KingSett High Yield Fund (“the Fund”), in which it has an 8.1% 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 distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. The Company’s total funding commitment is $63,000, which consists of $42,000 of capital advances for the Fund and $21,000 that supports credit facilities throughout the life of the Fund. As at December 31, 2017, the Company’s unfunded commitment was $26,483 (December 31, 2016 - $38,700).

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

10. Other Loans

As at December 31	Note	2017	2016
Loans receivable - Executive Share Purchase Plan	28	$ 1,141	$ 1,535
Loans receivable - other		1,471	2,049
		$ 2,612	**$ 3,584**

All other loans are classified as loans and receivables.

11. Equity Investment in MCAP Commercial LP

As at December 31, 2017, the Company held a 14.41% equity interest in MCAP (December 31, 2016 - 14.74%), consisting of 14.7% of voting class A units (December 31, 2016 - 15.0%), 0% of non-voting class B units (December 31, 2016 - 0%) and 16.7% of non-voting class C units (December 31, 2016 - 17.0%). The equity interest represents 4.2 million units held by MCAN of the 29.1 million total outstanding MCAP partnership units. MCAN holds a 14.7% voting interest in MCAP through its class A units (December 31, 2016 - 15.0%).

The following key transactions occurred in 2017:

- MCAN sold 100,000 partnership units in MCAP at a price of $19.47 per unit, recognizing a gain on sale of $785. MCAP also issued additional class B units to other partners of MCAP which decreased MCAN's equity interest in MCAP from 14.74% to 14.35% at the time of the transaction. As a result of the issuance of the new units at a price in excess of the carrying value per unit, MCAN recorded a dilution gain of $91.

- MCAP redeemed 114,500 partnership units held by another partner in MCAP, which increased MCAN's equity interest in MCAP from 14.35% to 14.41%.

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 December 31, 2017, 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.

Amongst the interparty rights in the MCAP partnership agreement, the majority partner in MCAP has the right to acquire MCAN's entire partnership interest in MCAP for "fair market value", which would be determined by an independent valuator agreed upon by both parties.

11. Equity Investment in MCAP Commercial LP (continued)

Years Ended December 31	2017	2016
Balance, beginning of year	$ 50,805	$ 44,191
Equity income	14,427	13,509
Dilution gain	91	-
Carrying value of portion of investment sold	(1,163)	-
Distributions received	(4,971)	(6,895)
Balance, end of year	**$ 59,189**	**$ 50,805**

Selected MCAP financial information is as follows:

As at November 30	2017	2016
MCAP's balance sheet:		
Assets	$ 29,719,416	$ 28,436,501
Liabilities	29,279,919	28,060,296
Equity	439,497	376,205

Years Ended November 30	2017	2016
MCAP revenue and net income:		
Revenue	$ 499,379	$ 516,896
Net income	$ 99,598	$ 91,678

12. Foreclosed Real Estate

The Company holds a real estate investment which is a previously impaired residential construction loan that was foreclosed upon. The investment is carried at the lower of its carrying amount and fair value less estimated costs to sell.

13. Other Assets

As at December 31	2017	2016
Corporate assets:		
Intangible assets, net	$ 918	$ 1,020
Capital assets, net	766	811
Prepaid expenses	841	778
Related party receivable - MCAP	3,135	876
Receivables	140	61
	$ 5,800	**$ 3,546**

Other securitization assets, totalling $4,239 as at December 31, 2017 (December 31, 2016 - $4,802), consist of interest-only strips from Canada Mortgage Bonds ("CMB") program multi-family securitizations (Note 14) and prepaid expenses. Other assets are carried at cost.

13. Other Assets (continued)

The capital assets and intangible assets continuity is as follows:

	Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Capital Assets Total	Intangible Assets
Cost					
At January 1, 2016	$ 816	$ 1,701	$ 1,837	$ 4,354	$ 4,690
Additions	-	15	-	15	556
At December 31, 2016	816	1,716	1,837	4,369	5,246
Additions	8	64	30	102	227
At December 31, 2017	**824**	**1,780**	**1,867**	**4,471**	**5,473**
Amortization					
At January 1, 2016	795	1,389	1,225	3,409	4,022
Amortization for the year	5	93	51	149	204
At December 31, 2016	800	1,482	1,276	3,558	4,226
Amortization for the year	5	96	46	147	329
At December 31, 2017	**805**	**1,578**	**1,322**	**3,705**	**4,555**
Net Book Value					
At December 31, 2016	16	234	561	811	1,020
At December 31, 2017	**$ 19**	**$ 202**	**$ 545**	**$ 766**	**$ 918**

14. 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") CMB program. In both programs, the Company originates or purchases mortgages for securitization.

Pursuant to the NHA MBS program, MBS investors 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. 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 2017, MCAN securitized $47,050 of MBS to third parties (2016 - $41,728). 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 16 and 20), due to the fact that MCAN retains significant continuing involvement with the assets.

CMB Program

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 requires the reinvestment by the issuer of mortgage principal repayments received during their term into certain permitted assets. 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 2017, MCAN securitized $62,653 of insured single family mortgages through the CMB program (2016 - $100,377). Similar to the market MBS program, the Company does not derecognize the securitized mortgages from its consolidated balance sheet when it retains significant continuing involvement with the assets such that the associated mortgages remain on the consolidated balance sheet while a corresponding liability is incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages are recognized on the accrual basis over the term of the mortgages.

14. Securitization Activities (Continued)

During 2016, the Company securitized $85,526 of insured multi family mortgages through the CMB program, but did not securitize any in 2017. Upon the securitization of multi family mortgages, the Company generally achieves derecognition as control over the assets is transferred. In 2016, the Company recognized an upfront gain of $394, which is included in other securitization income. Additionally, the Company recognized a receivable in the amount of estimated discounted spread income to be earned over the term of the securitized mortgages, which is included in other securitization assets.

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 32). 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 32).

MCAN has capitalized certain mortgage acquisition costs. These costs are amortized using the EIM, which incorporates mortgage prepayment assumptions.

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 have 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 December 31, 2017 was $1,016,724 (December 31, 2016 - $1,071,849) (Note 16). The financial liabilities from securitization balance as at December 31, 2017 was $1,015,699 (December 31, 2016 - $1,071,786) (Note 20).

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

MCAN sells MBS and in some cases sells the associated interest-only strips to third parties. Accordingly, MCAN then derecognizes the mortgages from its consolidated balance sheet as a result of the transfer of control of the asset or substantially all risks and rewards on sale. MCAN'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 was not reflected as an asset or liability on MCAN's consolidated balance sheet as at December 31, 2017. The MBS mature as follows:

	2017	2020	2021	2026	Total
December 31, 2017	$ -	$ 108,990	$ 73,786	$ 9,678	$ 192,454
December 31, 2016	$ 122,016	$ 132,075	$ 75,142	$ 9,911	$ 339,144

15. Cash Held in Trust

Cash held in trust represents securitized mortgage principal collections from borrowers payable to MBS holders. It includes balances with banks and certain short-term investments with original maturity dates of less than 90 days.

16. 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 14 and 20).

(a) Summary

As at December 31	2017	2016
Single family insured - Market MBS program	$ 867,406	$ 971,548
Single family insured - CMB program	149,318	100,301
	$ 1,016,724	**$ 1,071,849**

Certain capitalized transaction costs are included in mortgages and are amortized using the EIM. As at December 31, 2017, the unamortized capitalized cost balance was $6,536 (December 31, 2016 - $10,110). 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. The fair value of the securitized mortgage portfolio as at December 31, 2017 was $1,031,154 (December 31, 2016 - $1,106,997).

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

As at December 31	2017	2016
Single family - Market MBS program	2.49%	2.50%
Single family - CMB program	2.22%	2.21%
Total	**2.45%**	**2.47%**

(b) Geographic Analysis

As at	December 31, 2017		December 31, 2016	
Ontario	$ 576,785	56.7%	$ 613,036	57.2%
Alberta	231,335	22.8%	231,027	21.6%
British Columbia	90,174	8.9%	107,980	10.1%
Quebec	41,449	4.1%	42,715	4.0%
Atlantic Provinces	44,924	4.4%	41,407	3.9%
Other	32,057	3.1%	35,684	3.2%
	$ 1,016,724	**100.0%**	**$ 1,071,849**	**100.0%**

Securitized mortgages past due but not impaired are as follows:

As at December 31, 2017	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS Program	$ 5,207	$ 1,941	$ 263	$ 1,112	$ 8,523
Single family - CMB Program	280	-	-	-	280
	$ 5,487	**$ 1,941**	**$ 263**	**$ 1,112**	**$ 8,803**

As at December 31, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS program	$ 6,922	$ 2,948	$ 769	$ 1,398	$ 12,037
Single family - CMB program	336	649	-	-	985
	$ 7,258	**$ 3,597**	**$ 769**	**$ 1,398**	**$ 13,022**

16. Mortgages – Securitized (continued)

Impaired securitized mortgages are as follows:

	December 31, 2017			December 31, 2016		
As at	**CMB**	**Market MBS**	**Total**	**CMB**	**Market MBS**	**Total**
Quebec	$ -	$ -	$ -	$ -	$ 587	$ 587
	$ -	**$ -**	**$ -**	**$ -**	**$ 587**	**$ 587**

17. Term Deposits

Term deposits are issued to various individuals and institutions with contracted terms between 30 days and five years. The Company does not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor. The Company's term deposits are eligible for CDIC deposit insurance.

Term deposits maturities and the weighted average interest rate are as follows:

	Within 3 Months	3 Months to 1 Year	One to three years	Three to five years	Total	Average Rate
December 31, 2017	$ 98,760	$ 314,574	$ 318,321	$ 152,805	$ 884,460	2.34%
December 31, 2016	$ 119,472	$ 327,739	$ 336,926	$ 127,729	$ 911,866	2.21%

Term deposits are classified as other financial liabilities and are recorded at amortized cost. The estimated fair value of term deposits as at December 31, 2017 was $882,553 (December 31, 2016 - $913,071), and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

18. Income Taxes

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

Years Ended December 31	**2017**	**2016**
Income before income taxes	$ 39,684	$ 39,516
Statutory rate of tax	0%	0%
Tax provision (recovery) before the following:	-	-
Income subject to tax in subsidiaries	(244)	(666)
	$ (244)	**$ (666)**

Years Ended December 31	**2017**	**2016**
Current tax		
Current tax provision	$ -	$ (100)
Deferred tax provision (recovery)		
Financial investments	596	91
Relating to loss carry forward benefit	(580)	(568)
Other	(260)	(89)
	$ (244)	**$ (666)**

18. Income Taxes (continued)

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

As at December 31	2017	2016
Deferred tax asset		
Loss carry forward benefit	$ 2,058	$ 1,478
Other	614	304
	$ 2,672	**$ 1,782**
Deferred tax liability		
Financial investments	$ 3,524	$ 3,050
Other	48	-
	$ 3,572	**$ 3,050**

The loss carry forward benefit reflected in the deferred tax asset relates to losses in subsidiaries to which the Company has attributed a future benefit.

Deferred taxes recorded in accumulated other comprehensive income relating to financial investments were $(122) in 2017 (2016 - $660).

The Company has loss carry forward amounts in the non-consolidated MIC entity of $11,269 (December 31, 2016 - $11,052), the benefit of which has not been recorded in deferred tax assets. Tax activity for 2017 has not been reflected in the table below as the Company's 2017 tax position has not been finalized. Tax loss carry forwards expire after 20 years, as follows:

2033	$ 5,527
2034	5,535
2036	207
	$ 11,269

19. Other Liabilities

As at December 31	2017	2016
Accounts payable and accrued charges	$ 7,417	$ 5,454
Dividends payable	8,650	6,923
	$ 16,067	**$ 12,377**

20. 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 December 31	Note	2017	2016
Financial liabilities - Market MBS program	14	$ 868,244	$ 972,263
Financial liabilities - CMB program	14	147,455	99,523
		$ 1,015,699	**$ 1,071,786**

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

As at December 31	2017	2016
Financial liabilities - Market MBS program	1.83%	1.84%
Financial liabilities - CMB program	1.64%	1.42%
	1.80%	**1.80%**

20. Financial Liabilities from Securitization (continued)

Financial liabilities from securitization mature as follows:

	2018	2019	2020	2021	2022	Total
December 31, 2017	$ 99,020	$ 397,944	$ 349,519	$ 90,813	$ 78,403	$ 1,015,699
December 31, 2016	$ 120,825	$ 468,304	$ 383,134	$ 99,523	$ -	$ 1,071,786

21. Share Capital

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

	Number of Shares	2017	Number of Shares	2016
Balance, beginning of year	23,075,227	$ 210,239	22,782,433	$ 206,382
Issued				
Dividend reinvestment plan	295,849	4,325	280,376	3,680
Executive Share Purchase Plan	6,709	100	12,418	177
Balance, end of year	**23,377,785**	**$ 214,664**	**23,075,227**	**$ 210,239**

During 2017, the Company issued 295,849 (2016 - 280,376) shares under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%. The DRIP participation rate for the 2017 fourth quarter dividend was 17% (2016 fourth quarter - 15%).

For details on the Executive Share Purchase Plan, refer to Note 28.

The Company had no potentially dilutive instruments as at December 31, 2017 or December 31, 2016.

22. Dividends

Subsequent to the end of the year and before the date that these consolidated financial statements were authorized for issuance, the Board declared a quarterly dividend of $0.37 per share payable on March 29, 2018 to shareholders of record as of March 15, 2018.

23. 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 December 31	2017	2016
To be reclassified to the income statement in subsequent periods:		
Unrealized gain on available for sale marketable securities	$ 3,313	$ 1,049
Unrealized gain on available for sale financial investments	15,183	16,235
Less: deferred taxes	(2,058)	(2,180)
	13,125	14,055
	$ 16,438	**$ 15,104**

24. Fees

Fees consist of ancillary fees earned on the Company's corporate mortgage portfolio, such as letter of credit and amendment fees.

25. Mortgage Expenses

Corporate Assets

Years Ended December 31		2017		2016
Mortgage servicing expense	$	2,991	$	3,109
Letter of credit expense		588		605
Other mortgage expenses		298		279
	$	**3,877**	**$**	**3,993**

Letter of credit expense relates to outstanding letters of credit in the Company's credit facility, discussed in Note 30.

Securitization Assets

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

26. Provision for Credit Losses

Years Ended December 31	Note		2017		2016
Mortgages - collective provisions (recoveries), net	8	$	(107)	$	(58)
Mortgages - individual provisions (reversals), net	8		176		287
Other provisions (recoveries), net			(180)		(439)
		$	**(111)**	**$**	**(210)**

27. Whole Loan Gain on Sale Income

In 2016, the Company sold $13,343 of insured single family mortgages to a third party on a whole-loan basis and recorded a gain on sale of $324. The Company did not sell any mortgages during 2017.

28. Related Party Disclosures

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.

The consolidated financial statements include the financial statements of the Company and its equity-accounted associate, MCAP. The Company holds a 14.41% equity interest in MCAP (December 31, 2016 - 14.74%), a non-public entity. MCAP's principal activities include the origination and servicing of mortgages. The Company holds one of six seats on MCAP's Board of Directors.

In 2017, the Company purchased certain corporate services from MCAP in the amount of $100 (2016 - $144) and purchased certain mortgage servicing and administration services from MCAP in the amount of $3,794 (2016 - $3,904). The Company received $4,270 of mortgage fees from MCAP in 2017 (2016 - $3,907). Related party balances with MCAP are reflected in other assets and other liabilities on the consolidated balance sheet where applicable.

In 2017, the Company purchased $4,496 of uninsured single family mortgages from MCAP (2016 - $nil).

The Company held construction loans totalling $638 as at December 31, 2016 for which the borrower is a close family member of a member of the Board. These loans paid out during 2017. In 2017, the Company earned interest income of $15 (2016 - $110) on these loans. The outstanding commitment for future fundings of these loans as at December 31, 2017 was $nil (December 31, 2016 - $1,998). The loans were contracted at market terms.

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

28. Related Party Disclosures (continued)

Key management personnel of the Company consists of individuals that have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel includes the members of the Board.

The compensation of key management personnel is as follows:

Years Ended December 31	2017	2016
Short term employee benefits (salaries, benefits and director fees)	$ 3,524	$ 3,337
Share-based payments (DSU, RSU, PSU)	959	424
	$ 4,483	**$ 3,761**

Executive Share Purchase Plan

The Company has an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to senior management for the purpose of purchasing the Company's common shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

Dividend distributions on the common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions; 75% of capital gain distributions. Common shares are issued out of treasury for the Share Purchase Plan at the weighted average trading price for the 20 days preceding such issue.

In 2017, the Company advanced $100 of new loans under the Share Purchase Plan (2016 - $177). As at December 31, 2017, $1,141 of loans were outstanding (December 31, 2016 - $1,535). The loans under the Share Purchase Plan bear interest at prime plus 1% (4.20%) as at December 31, 2017 (December 31, 2016 - prime plus 1% (3.70%)) and have a five-year term. The shares are pledged as security for the loans and had a fair value of $2,554 as at December 31, 2017 (December 31, 2016 - $2,753).

In 2017, MCAN recognized $49 of interest income (2016 - $56) on the Share Purchase Plan loans.

Deferred Share Units Plan

The Company has a Deferred Share Units Plan (the "DSU Plan") whereby the Board granted units under the DSU Plan to the President and Chief Executive Officer (the "DSU Participant"). Each unit is equivalent in value to one common share of the Company. Following his retirement/termination date, the DSU Participant is entitled to receive cash for each unit. The individual unit value is based on the average market value of the Company's common shares for the five days preceding the retirement/termination date. The DSU Participant was initially granted 30,000 units under the DSU Plan and is entitled to receive dividend distributions in the form of additional units. All dividends paid after July 6, 2014 vest immediately such that as at December 31, 2017, all 57,790 units issued had vested (December 31, 2016 - 53,234).

The Company recognizes compensation expenses associated with the DSU Plan over the vesting period. The compensation expense recognized related to the DSU Plan for 2017 was $257 (2016 - $184). As at December 31, 2017, the accrued DSU Plan liability was $1,022 (December 31, 2016 - $766).

Restricted Share Units Plan

The Company has a Restricted Share Units Plan (the "RSU Plan") whereby the Board granted units under the RSU Plan to certain members of senior management of the Company (the "RSU Participants"). Each unit is equivalent in value to one common share of the Company. The RSU Participants are entitled to receive cash for each unit three years subsequent to the awarding of the units subject to continued employment with the Company. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years.

In 2017, the Company granted 5,873 new units to the RSU Participants under the RSU Plan (2016 - 3,808). Additionally, 14,093 units vested during 2017 (2016 - 9,452). At the time of vesting, the Company paid the RSU participants $216 (2016 - $133).

As at December 31, 2017, 40,014 units were outstanding (December 31, 2016 - 46,785) of which no units had vested (December 31, 2016 - nil).

28. Related Party Disclosures (continued)

The Company recognizes compensation recoveries or expenses associated with the RSU Plan over the vesting period. The compensation expense recognized related to the RSU Plan for 2017 was $342 (2016 - $231). As at December 31, 2017, the accrued RSU Plan liability was $453 (December 31, 2016 - $326).

Performance Share Units Plan

In 2016, the Company established a Performance Share Units Plan (the "PSU Plan") whereby the Board granted units under the PSU Plan to certain members of senior management of the Company (the "PSU Participants"). Each unit is equivalent in value to one common share of the Company and vests three years subsequent to the awarding of the units subject to continued employment with the Company. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the PSU Participants are entitled to receive dividend distributions in the form of additional units. At the time of vesting, a "Performance Factor" of 0-150% is applied to the number of units awarded which is based on earnings per share and other adjustments in the fiscal year two years subsequent to the grant date.

The units granted under the PSU Plan may be either PSU units or Performance Deferred Share Units ("PDSU" units). Holders of PSU units are paid in cash at the time of vesting. Holders of PDSU units are paid in cash at their retirement/termination date, provided that the units have vested. Additionally, the PDSU units earn dividends subsequent to vesting until the retirement/termination date.

In 2017, the Company granted 44,277 new units to the PSU Participants under the PSU Plan (2016 - 26,796). As at December 31, 2017, 74,791 units were outstanding (December 31, 2016 - 27,328). As at December 31, 2017, no units had vested (December 31, 2016 - nil).

The Company recognizes compensation recoveries or expenses associated with the PSU Plan over the vesting period. The compensation expense recognized related to the PSU Plan for 2017 was $436 (2016 - $56). As at December 31, 2017, the accrued PSU Plan liability was $492 (December 31, 2016 - $56).

29. 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 information on mortgage funding commitments, refer to Note 8.

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. In 2017, the Company entered into an agreement to increase the size of its leased premises and the duration of the lease. The increased lease obligation is reflected in the table below.

	Less than one year	One to three years	Three to five years	Over five years	December 31 2017	December 31 2016
Mortgage funding commitments	$ 169,599	$ 121,605	$ -	$ -	$ 291,204	$ 364,161
Commitment - KingSett High Yield Fund	-	26,483	-	-	26,483	38,700
Operating lease	903	1,711	1,735	4,303	8,652	4,569
	$ 170,502	**$ 149,799**	**$ 1,735**	**$ 4,303**	**$ 326,339**	**$ 407,430**

The Company incurred $676 of operating lease expenses during 2017 (2016 - $548), 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.

29. Commitments and Contingencies (continued)

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6,000. MCAP was awarded a judgment for approximately $500 against the same plaintiff in related proceedings. MCAN may be subject to the indemnification of MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, the Company does not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly has not recorded a provision.

30. Credit Facilities

The Company has a $75,000 line of credit facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.75% (3.95%) as at December 31, 2017 (December 31, 2016 - 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 December 31, 2017, the outstanding overdraft balance was $nil (December 31, 2016 - $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 December 31, 2017, there were letters of credit in the amount of $32,164 issued (December 31, 2016 - $30,537) and additional letters of credit in the amount of $31,521 committed but not issued (December 31, 2016 - $26,138).

The Company has an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, the Company may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing. As at December 31, 2017, the outstanding facility balance was $nil (December 31, 2016 - $nil).

31. 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 December 31, 2017 and December 31, 2016 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 Investment Committee of the Board each quarter.

The following tables present 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.

31. Interest Rate Sensitivity (continued)

As at December 31, 2017	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	$ 611,563	$ 31,558	$ 177,465	$ 168,748	$ 25,668	$ 5,250	$ 162,119	$ 1,182,371
Securitization	13,441	677	126,688	720,383	168,976	-	4,239	1,034,404
	625,004	32,235	304,153	889,131	194,644	5,250	166,358	2,216,775
Liabilities								
Corporate	-	98,760	314,574	318,321	152,805	-	19,639	904,099
Securitization	-	-	99,020	747,463	169,216	-	-	1,015,699
	-	98,760	413,594	1,065,784	322,021	-	19,639	1,919,798
Shareholders' Equity	-	-	-	-	-	-	296,977	296,977
GAP	**$ 625,004**	**$ (66,525)**	**$ (109,441)**	**$ (176,653)**	**$ (127,377)**	**$ 5,250**	**$ (150,258)**	**$ -**
YIELD SPREAD	**4.43%**	**3.16%**	**2.22%**	**1.52%**	**0.42%**	**2.94%**		

As at December 31, 2016	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$ 492,842	$ 88,766	$ 240,380	$ 146,335	$ 39,973	$ 36,362	$ 143,822	$ 1,188,480
Securitization	-	15,724	-	609,883	461,967	-	4,801	1,092,375
	492,842	104,490	240,380	756,218	501,940	36,362	148,623	2,280,855
Liabilities								
Corporate	-	119,472	327,739	336,926	127,729	-	15,427	927,293
Securitization	-	-	-	589,129	482,657	-	-	1,071,786
	-	119,472	327,739	926,055	610,386	-	15,427	1,999,079
Shareholders' Equity	-	-	-	-	-	-	281,776	281,776
GAP	**$ 492,842**	**$ (14,982)**	**$ (87,359)**	**$ (169,837)**	**$ (108,446)**	**$ 36,362**	**$ (148,580)**	**-**
YIELD SPREAD	**4.05%**	**2.45%**	**2.62%**	**1.26%**	**1.00%**	**6.71%**		

Certain construction and commercial mortgages are subject to the greater of a minimum interest rate (ranging between 3.75% and 10.25%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate as at December 31, 2017, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $nil (December 31, 2016 - $41,304), 3 months to 1 year - $807 (December 31, 2016 - $60,947) and 1 to 5 years - $nil (December 31, 2016 - $28,973).

An immediate and sustained parallel 1% increase to market interest rates as at December 31, 2017 would have an estimated positive effect of $4,253 (December 31, 2016 - $1,478) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates as at December 31, 2017 would have an estimated adverse effect of $2,061 (December 31, 2016 - $1,835) to net income over the following twelve month period. An immediate and sustained parallel 1% increase (decrease) to market interest rates as at December 31, 2017 would have an estimated adverse (positive) effect of $2 (December 31, 2016 - $9) on accumulated other comprehensive income. When calculating the effect of an immediate and sustained parallel 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.

32. 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 December 31	2017	2016
Regulatory Ratios (OSFI)		
Share capital	$ 214,664	$ 210,239
Contributed surplus	510	510
Retained earnings	65,365	55,923
Accumulated other comprehensive income	16,438	15,104
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(23,593)	(13,576)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional)	273,384	268,200
Deduction for equity investment in MCAP (All-in adjustment) [1]	(5,898)	(9,051)
Common Equity Tier 1, Tier 1 and Total Capital (All-in)	$ 267,486	$ 259,149
Total Exposures/Regulatory Assets		
Consolidated assets	$ 2,216,775	$ 2,280,855
Less: deductions from all-in Tier 1 Capital [1]	(29,491)	(22,627)
Other adjustments [2]	2,915	1,489
Total On-Balance Sheet Exposures	2,190,199	2,259,717
Mortgage and investment funding commitments	317,687	402,861
Less: conversion to credit equivalent amount (50%)	(158,844)	(201,431)
Letters of credit	32,164	30,537
Less: conversion to credit equivalent amount (50%)	(16,082)	(15,269)
Off-Balance Sheet Items	174,925	216,698
Total Exposures/Regulatory Assets	$ 2,365,124	$ 2,476,415
Leverage ratio	11.31%	10.46%

[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 2017, the deduction on the transitional basis is equal to 80% of the all-in adjustment (2016 - 60%). The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.
[2] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

As at December 31, 2017 and December 31, 2016, the Company was in compliance with the capital guidelines issued by OSFI under Basel III.

32. 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.

33. 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, cash held in trust, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits and loans payable.

All financial instruments that are carried at fair value on the consolidated balance sheets (marketable securities and certain financial investments) 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 tables summarize financial assets reported at fair value and financial assets and liabilities for which fair values are disclosed.

As at December 31, 2017	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Cash and cash equivalents	$ 117,571	$ -	$ -	$ 117,571	$ 117,571
Marketable securities	61,973	545	-	62,518	62,518
Financial investments - Crown Realty II Limited Partnership [1]	-	-	32,037	32,037	32,037
Financial investments - KingSett High Yield Fund [2]	-	-	36,153	36,153	36,153
Securitization program cash held in trust	13,441	-	-	13,441	13,441
	$ 192,985	$ 545	$ 68,190	$ 261,720	$ 261,720
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 869,147	$ 869,147	$ 863,384
Other loans [4]	-	-	2,612	2,612	2,612
Mortgages - securitized [3]	-	-	1,031,154	1,031,154	1,016,724
	$ -	$ -	$ 1,902,913	$ 1,902,913	$ 1,882,720
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 16,067	$ 16,067	$ 16,067
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 882,553	$ 882,553	$ 884,460
Financial liabilities from securitization [7]	-	-	1,010,975	1,010,975	1,015,699
	$ -	$ -	$ 1,893,528	$ 1,893,528	$ 1,900,159

[1] Fair value of investment is based on the underlying real estate properties determined by the discounted cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.
[2] Fair value is based on the redemption value of the fund less a credit allowance based on the nature of the underlying mortgages.
[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.

33. Financial Instruments (continued)

As at December 31, 2016	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Cash and cash equivalents	$ 111,732	$ -	$ -	$ 111,732	$ 111,732
Marketable securities	53,953	1,173	-	55,126	55,126
Financial investments - Crown Realty II Limited Partnership [1]	-	-	33,207	33,207	33,207
Financial investments - KingSett High Yield Fund [2]	-	-	24,057	24,057	24,057
Securitization program cash held in trust	15,724	-	-	15,724	15,724
	$ 181,409	$ 1,173	$ 57,264	$ 239,846	$ 239,846
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 913,016	$ 913,016	$ 904,112
Other loans [4]	-	-	3,584	3,584	3,584
Mortgages - securitized [3]	-	-	1,106,997	1,106,997	1,071,849
	$ -	$ -	$ 2,023,597	$ 2,023,597	$ 1,979,545
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 12,377	$ 12,377	$ 12,377
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 913,071	$ 913,071	$ 911,866
Financial liabilities from securitization [7]	-	-	1,086,583	1,086,583	1,071,786
	$ -	$ -	$ 1,999,654	$ 1,999,654	$ 1,983,652

[1] Fair value of investment is based on the underlying real estate properties determined by the discounted cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.
[2] Fair value is based on the redemption value of the fund less a credit allowance based on the nature of the underlying mortgages.
[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, 2016	$ 57,264
Advances	12,219
Repayments	(5,551)
Changes in fair value, recognized in other comprehensive income	4,258
Balance, December 31, 2017	**$ 68,190**

An increase of 0.25% to capitalization rates as at December 31, 2017 would result in a decrease to the fair value of financial investments by $1,151 (December 31, 2016 - $1,144). A decrease of 0.25% to capitalization rates as at December 31, 2017 would result in an increase to the fair value of financial investments by $1,183 (December 31, 2016 - $1,123).

There were no transfers between levels during the years ended December 31, 2017 or December 31, 2016.

33. 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. These policies are developed and implemented by management and reviewed and approved annually by the Board.

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.

34. 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.