



MCAN MORTGAGE CORPORATION

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF OPERATIONS**

MARCH 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2019 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2018. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2018 remain substantially unchanged. Information has been presented as at May 7, 2019.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. All information contained in this MD&A, other than statements of current and historical fact, is forward-looking information. All of the forward-looking information in this MD&A is qualified by this cautionary note. Often, but not always, forward-looking information can be identified by the use of words such as “may,” “believe,” “will,” “anticipate,” “expect,” “planned,” “estimate,” “project,” “future,” and variations of these or similar words or other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Forward-looking information in this MD&A includes, among others, statements and assumptions with respect to:

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

Forward-looking information is not, and cannot be, a guarantee of future results or events. Forward-looking information reflects management’s current beliefs and is based on information currently available to management. Forward-looking information is based on, among other things, opinions, assumptions, estimates and analyses that, while considered reasonable by us at the date the forward-looking information is provided, inherently are subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to be materially different from those expressed or implied by the forward-looking information.

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

- our ability to successfully implement and realize on our business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of our business;
- computer failure or security breaches;
- the availability of funding and capital to meet our requirements;
- the value of mortgage originations;
- the expected margin between interest earned on mortgage portfolios and interest paid on deposits;
- the relative uncertainty and volatility of real estate markets;
- acceptance of our products in the marketplace;
- our ability to forecast future changes to borrower credit and credit scores, loan to value ratios and other forward-looking factors used in assessing expected credit losses;
- availability of key personnel;
- our operating cost structure; and
- the current tax regime.

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

- global market activity;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- changes in Canada Mortgage Bonds (“CMB”) and mortgage-backed securities (“MBS”) spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;

- adverse legislation or regulation, including recent changes implemented by OSFI and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- our ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- our ability to retain our executive officers and other employees;
- the success of the business underlying our investment in MCAP, marketable securities and non-marketable securities;
- litigation risk;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update or revise any forward-looking information after the date of this MD&A whether as a result of new information, future events or otherwise or to explain any material difference between subsequent actual events and any forward-looking information. However, any further disclosures made on related subjects in subsequent reports should be consulted.

ACRONYMS

ALCO	<i>Asset and Liability Committee</i>	EIR	<i>Effective Interest Rate</i>	MBS	<i>Mortgage Backed Securities</i>
BCBS	<i>Basel Committee on Banking Supervision</i>	FVPL	<i>Fair Value Through Profit and Loss</i>	MD&A	<i>Management's Discussion & Analysis</i>
CAR	<i>Capital Adequacy Requirements</i>	HELOC	<i>Home Equity Line of Credit</i>	MIC	<i>Mortgage Investment Corporation</i>
CDIC	<i>Canada Deposit Insurance Corporation</i>	IAS	<i>International Accounting Standard</i>	NHA	<i>National Housing Act</i>
CET 1	<i>Common Equity Tier 1</i>	IASB	<i>International Accounting Standards Board</i>	OSFI	<i>Office of the Superintendent of Financial Institutions</i>
CHT	<i>Canada Housing Trust</i>	IFRIC	<i>IFRS Interpretations Committee</i>	PD	<i>Probability of Default</i>
CMB	<i>Canada Mortgage Bonds</i>	IFRS	<i>International Financial Reporting Standards</i>	RAF	<i>Risk Appetite Framework</i>
CMHC	<i>Canada Mortgage and Housing Corporation</i>	LAR	<i>Liquidity Adequacy Requirements</i>	SEDAR	<i>System for Electronic Document Analysis and Retrieval</i>
DRIP	<i>Dividend Reinvestment Plan</i>	LCR	<i>Liquidity Coverage Ratio</i>	SPPI	<i>Solely Payment of Principal and Interest</i>
EAD	<i>Exposure at Default</i>	LGD	<i>Loss Given Default</i>	TSX	<i>Toronto Stock Exchange</i>
ECL	<i>Expected Credit Losses</i>	LP ARA	<i>Limited Partner's At-Risk Amount</i>		
EIM	<i>Effective Interest Rate Method</i>	LTV	<i>Loan to Value (ratio)</i>		

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights

(in thousands except for per share amounts and %)					
As at and for the Quarters Ended	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	\$ 18,747	\$ 7,872	138%	\$ 13,774	36%
Net investment income - securitization assets	\$ 1,052	\$ 1,082	(3%)	\$ 1,301	(19%)
Net income	\$ 14,305	\$ 3,547	303%	\$ 10,615	35%
Basic and diluted earnings per share	\$ 0.60	\$ 0.15	300%	\$ 0.45	33%
Dividends per share	\$ 0.32	\$ 0.32	-	\$ 0.37	(14%)
Next quarter's dividend per share	\$ 0.32				
Return on average shareholders' equity ¹	18.36%	4.66%	13.70%	14.10%	4.26%
Taxable income per share ^{1,2}	\$ 0.34	\$ 0.49	(31%)	\$ 0.19	79%
Yields					
Spread of corporate mortgages over term deposits ¹	2.73%	2.93%	(0.20%)	3.34%	(0.61%)
Spread of securitized mortgages over liabilities ¹	0.69%	0.70%	(0.01%)	0.74%	(0.05%)
Average term to maturity (in months)					
Mortgages - corporate	11.9	11.5	3%	11.3	5%
Term deposits	17.2	18.7	(8%)	19.0	(9%)
Balance Sheet Highlights					
Total assets	\$ 2,166,709	\$ 2,141,072	1%	\$ 2,153,884	1%
Mortgages - corporate	996,123	922,390	8%	859,372	16%
Mortgages - securitized	870,543	887,252	(2%)	1,013,036	(14%)
Shareholders' equity	\$ 316,769	\$ 306,694	3%	\$ 302,046	5%
Capital Ratios ¹					
Income tax assets to capital ratio	4.69	4.64	1%	4.33	8%
CET 1, Tier 1 and Total Capital ratios	22.09%	21.66%	0.43%	21.29%	0.80%
Leverage ratio ³	12.05%	11.79%	0.26%	11.74%	0.31%
Credit Quality					
Impaired mortgage ratio (corporate) ^{1,4}	0.30%	0.34%	(0.04%)	0.44%	(0.14%)
Impaired mortgage ratio (total) ^{1,4}	0.24%	0.27%	(0.03%)	0.26%	(0.02%)
Mortgage Arrears					
Corporate	\$ 11,251	\$ 9,435	19%	\$ 9,204	22%
Securitized	7,431	6,527	14%	9,554	(22%)
Total	\$ 18,682	\$ 15,962	17%	\$ 18,758	(0%)
Common Share Information (end of period)					
Number of common shares outstanding	24,040	23,798	1%	23,559	2%
Book value per common share ¹	\$ 13.18	\$ 12.89	2%	\$ 12.82	3%
Common share price - close	\$ 15.93	\$ 13.32	20%	\$ 17.61	(10%)
Market capitalization ¹	\$ 382,957	\$ 316,989	21%	\$ 414,874	(8%)

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

² For further information refer to the "Taxable Income" section of this MD&A.

³ Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

⁴ Effective January 1, 2019 we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

HIGHLIGHTS

Financial Performance

- Net income of \$14.3 million in Q1 2019, an increase of \$3.7 million (35%) from \$10.6 million in Q1 2018.
- Earnings per share totalled \$0.60 per share in Q1 2019, an increase of \$0.15 (33%) from \$0.45 per share in Q1 2018.
- Return on average shareholders' equity¹ increased to 18.36% in Q1 2019 from 14.10% in Q1 2018.
- Unrealized gain on securities of \$8.0 million, consisting primarily of unrealized gains in the real estate investment trust ("REIT") component of our marketable securities portfolio, compared to an unrealized loss of \$0.1 million in Q1 2018. The Q1 2019 unrealized gain positively impacted earnings per share by \$0.34, while the small loss in Q1 2018 did not change our earnings per share.
- Equity income from MCAP Commercial LP ("MCAP") decreased by \$0.9 million (25%) from Q1 2018 due to hedging losses during Q1 2019.
- Net corporate mortgage spread income decreased by \$0.1 million from Q1 2018. The average corporate mortgage portfolio balance¹ increased to \$971 million in Q1 2019 from \$849 million in Q1 2018; this increase was offset by a reduction in net spread of corporate mortgages over term deposits¹ to 2.73% in Q1 2019 from 3.34% in Q1 2018. The decrease in net spread is due to the fact that single family mortgages comprised a higher proportion of the corporate mortgage portfolio in Q1 2019, compared to Q1 2018. Spreads are also tight due to a more competitive single family market.

Corporate Activity

- Corporate assets totalled \$1.26 billion at March 31, 2019, an increase of \$37 million (3%) from \$1.22 billion at December 31, 2018 and \$140 million (12%) from \$1.12 billion at March 31, 2018.
- Corporate mortgage portfolio totalled \$996 million at March 31, 2019, an increase of \$74 million (8%) from December 31, 2018 and \$137 million (16%) from March 31, 2018.
- Uninsured single family portfolio totalled \$308 million at March 31, 2019, an increase of \$52 million (20%) from December 31, 2018 and \$111 million (56%) from March 31, 2018.
- Uninsured single family originations were \$63 million in Q1 2019, an increase of 25% from Q4 2018 and 420% from Q1 2018.
- Insured single family originations were \$38 million in Q1 2019, an increase of 39% from Q4 2018 and 195% from Q1 2018.
- Growth in single family originations is primarily due to our investment in internal sales and marketing, which is consistent with our growth strategy.
- Construction and commercial portfolios decreased by \$4 million (1%) from December 31, 2018 and \$36 million (6%) from March 31, 2018, consistent with our current selective approach in these portfolios.

Dividend

- The Board of Directors (the "Board") declared a second quarter dividend of \$0.32 per share on May 7, 2019 to be paid June 28, 2019 to shareholders of record as of June 14, 2019.

Credit Quality

- The impaired corporate mortgage ratio¹ decreased to 0.30% at March 31, 2019 from 0.34% at December 31, 2018 and 0.44% at March 31, 2018.²
- The impaired total mortgage ratio¹ decreased to 0.24% at March 31, 2019 from 0.27% at December 31, 2018 and 0.26% at March 31, 2018.²
- Total mortgage arrears¹ were \$19 million at March 31, 2019 compared to \$16 million at December 31, 2018 and \$19 million at March 31, 2018.
- Net write-offs were \$23,000 or 0.9 basis points of the average corporate portfolio in Q1 2019 compared to \$13,000 or 0.6 basis points in Q1 2018.
- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 65.0% at March 31, 2019 compared to 63.8% at December 31, 2018 and 60.3% at March 31, 2018.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the "Tax Act") and the Office of the Superintendent of Financial Institutions ("OSFI").
- Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital to risk-weighted assets ratios¹ were 22.09% at March 31, 2019 compared to 21.66% at December 31, 2018 and 21.29% at March 31, 2018.
- The leverage ratio¹ was 12.05% at March 31, 2019 compared to 11.79% at December 31, 2018 and 11.74% at March 31, 2018.
- The income tax assets to capital ratio¹ was 4.69 at March 31, 2019 compared to 4.64 at December 31, 2018 and 4.33 at March 31, 2018.
- We issued 241,920 new common shares through the Dividend Reinvestment Program ("DRIP") in Q1 2019 compared to 181,360 in Q1 2018. The DRIP participation rate was 26% for the 2019 first quarter dividend compared to 18% for the 2018 fourth quarter dividend and 20% for the 2018 first quarter dividend.

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

² Effective January 1, 2019 we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

OUTLOOK

Market Outlook

The Bank of Canada now forecasts 2019 Gross Domestic Product to grow by 1.2%, down from the annual growth rate previously expected for 2019. Canadian job growth and unemployment continue to be steady, with some regions lower than the average. Stable employment and corporate earnings suggest that the slow growth trend will continue through the end of 2019. Canadian real estate markets continue to be challenged with the impacts of the revised OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* ("OSFI Guideline B-20"), specifically the stress test. The Canadian housing market appears to have cooled somewhat in all regional housing markets, except for Ottawa and Montreal. Home sales, both new and resale, are down, while home prices have been sustained thus far in 2019 in the face of mounting downward pressure. Housing shortages will continue to drive growth in residential construction over the long term. Forecasts at the start of the year generally included two or three potential interest rate increases, while the current outlook is for no increases or even a potential interest rate decrease. These changes in interest rate forecasts continue to provide for a mixed housing market outlook.

Housing affordability also continues to contribute to market uncertainty as Canadian household indebtedness remains high. Gains in the labour market, population growth in major markets and continued demand for housing at lower price points have all somewhat moderated the impact of the factors restraining the housing market, as discussed above. If an interruption is experienced in relation to current population growth trends, employment or actual economic conditions outside of current expectations, we would expect market conditions to deteriorate.

Although the 2019 Federal Budget released on March 9, 2019 included initiatives to support first-time homebuyers through increased support from the government in the form of Registered Retirement Savings Plan withdrawal limits, amongst other support, we do not feel that these initiatives will have a material impact on Canadian housing affordability.

Business Outlook

We will continue to ensure that our mortgage portfolio remains well positioned amidst a mixed market outlook. Profitable long-term success in growing our uninsured single family mortgage portfolio is driven by the continued development of our sales and marketing programs, strengthening our relationships with the mortgage broker community and improving our internal underwriting platform efficiency. Collectively, these initiatives will allow us to target originations toward our desired markets and borrowers, as defined by our risk appetite, and will further improve efficiencies and our ability to grow profitability. We believe that our current pipeline will continue to support growth in our uninsured originations during 2019, although at spreads lower than our historical levels. We are currently observing some positive signs of widening spreads in our single family pipeline; however, we expect that this will have a marginal earnings impact in 2019 if spreads compress again due to the Bank of Canada outlook and ongoing competitive pressures. We also expect some compression in our spreads on new originations in our construction and commercial portfolios as competition from other lenders increases.

We will continue to focus on increasing our originations and securitizations of insured single family mortgages. We also continue to seek alternatives to increase our participation in securitization markets, including commercial multi family loans.

Volatility in the REIT market has impacted portfolio values resulting in material unrealized gains and losses being recorded through net income in Q4 2018 and Q1 2019. We expect continuing volatility in the valuation of our marketable securities portfolio.

Our primary funding source, term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") insurance that are sourced through the deposit broker network, remains stable. Given our growth outlook, we believe that this funding source will be sufficient to meet our expected portfolio growth in 2019.

Continuous improvement in our operating platform will be implemented throughout 2019 to help ensure that our business model meets all strategic, operational and compliance objectives over the long term.

We believe that our pragmatic approach to lending, articulated risk appetite and expertise in loan management will allow us to effectively grow our business and optimize opportunities through varying market conditions. We will continue to manage and monitor market trends, make adjustments to the composition of our balance sheet and utilize our chosen business model as we adapt to changing market dynamics and execute our business plan. Our targeted annual growth in corporate assets over the long term is 10%, within our risk appetite. Our current 2019 corporate asset growth outlook is in the range of 5-8%, which has increased from 4-6% at Q4 2018.

This Outlook contains forward-looking statements. For further information, please refer to the "A Caution About Forward-Looking Information and Statements" section of this MD&A.

RESULTS OF OPERATIONS

Table 2: Net Income

(in thousands except for per share amounts)					
For the Quarters Ended	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
Net Investment Income - Corporate Assets					
Mortgage interest	\$ 13,182	\$ 13,649	(3%)	\$ 12,000	10%
Equity income from MCAP Commercial LP	2,568	3,292	(22%)	3,439	(25%)
Non-marketable securities	1,299	1,230	6%	1,520	(15%)
Marketable securities	771	898	(14%)	878	(12%)
Fees	194	397	(51%)	363	(47%)
Interest on cash and other income	358	353	1%	321	12%
Realized and unrealized gain (loss) on securities	8,028	(4,156)	(293%)	(56)	(14,436%)
Gain on sale of investment in MCAP Commercial LP	-	-	-	1,701	(100%)
	26,400	15,663	69%	20,166	31%
Term deposit interest and expenses	6,571	6,590	(0%)	5,247	25%
Mortgage expenses	981	1,048	(6%)	951	3%
Interest on loans payable	92	27	241%	20	360%
Provision for credit losses	9	126	(93%)	174	(95%)
	7,653	7,791	(2%)	6,392	20%
	18,747	7,872	138%	13,774	36%
Net Investment Income - Securitization Assets					
Mortgage interest	5,500	5,657	(3%)	6,493	(15%)
Other securitization income	113	154	(27%)	72	57%
	5,613	5,811	(3%)	6,565	(15%)
Interest on financial liabilities from securitization	4,082	4,208	(3%)	4,681	(13%)
Mortgage expenses	488	519	(6%)	568	(14%)
Provision for (recovery of) credit losses	(9)	2	(550%)	15	(160%)
	4,561	4,729	(4%)	5,264	(13%)
	1,052	1,082	(3%)	1,301	(19%)
Operating Expenses					
Salaries and benefits	3,567	2,700	32%	2,945	21%
General and administrative	1,924	2,812	(32%)	1,686	14%
	5,491	5,512	(0%)	4,631	19%
Net income before income taxes	14,308	3,442	316%	10,444	37%
Provision for (recovery of) income taxes	3	(105)	(103%)	(171)	(102%)
Net Income	\$ 14,305	\$ 3,547	303%	\$ 10,615	35%
Basic and diluted earnings per share	\$ 0.60	\$ 0.15	300%	\$ 0.45	33%
Dividends per share	\$ 0.32	\$ 0.32	-	\$ 0.37	(14%)

Net Investment Income - Corporate Assets

Mortgage interest income

Table 3: Net Interest Income and Average Rate by Mortgage Portfolio - Quarterly

For the Quarters Ended	March 31, 2019			December 31, 2018			March 31, 2018		
	Average Balance ²	Interest Income	Average Rate ^{1,2}	Average Balance ²	Interest Income	Average Rate ^{1,2}	Average Balance ²	Interest Income	Average Rate ^{1,2}
(in thousands except %)									
Single family									
- Insured	\$ 120,571	\$ 957	3.14%	\$ 126,367	\$ 977	3.17%	\$ 66,001	\$ 535	3.26%
- Uninsured	283,371	3,137	4.46%	245,177	2,772	4.52%	200,142	2,315	4.65%
- Uninsured - completed inventory	12,497	191	6.20%	4,400	69	6.19%	17,314	245	5.73%
Construction loans									
- Residential	434,119	7,045	6.59%	441,790	7,448	6.69%	394,128	6,140	6.32%
- Non residential	9,847	190	7.78%	10,589	191	7.15%	4,098	60	5.91%
Commercial loans									
- Multi family residential	50,135	665	5.39%	70,076	948	5.37%	73,238	951	5.27%
- Other commercial	59,968	997	6.76%	69,515	1,244	7.09%	93,602	1,754	7.61%
Mortgages - corporate portfolio	\$ 970,508	\$ 13,182	5.49%	\$ 967,914	\$ 13,649	5.62%	\$ 848,523	\$ 12,000	5.72%
Term deposits	912,291	6,571	2.76%	917,106	6,590	2.69%	837,715	5,247	2.38%
Net corporate mortgage spread income		\$ 6,611			\$ 7,059			\$ 6,753	
Spread of mortgages over term deposits ²			2.73%			2.93%			3.34%
Average term to maturity (months)									
Mortgages - corporate	11.9			11.5			11.3		
Term deposits	17.2			18.7			19.0		

¹ Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended March 31, 2019, December 31, 2018 and March 31, 2018.

² Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 4: Mortgage Originations and Renewals

For the Quarters Ended	March 31		Change (%)	March 31	
	2019	December 31 2018		2018	Change (%)
(in thousands)					
Single family - insured	\$ 38,302	\$ 27,631	39%	\$ 12,992	195%
Single family - uninsured	63,295	50,805	25%	12,171	420%
	101,597	78,436	30%	25,163	304%
Single family - uninsured completed inventory	12,781	3,800	236%	-	n/a
Residential construction	-	3,697	(100%)	37,977	(100%)
Non-residential construction	-	-	-	2,646	(100%)
Commercial	-	-	-	44,819	(100%)
	\$ 114,378	\$ 85,933	33%	\$ 110,605	3%
Renewals of non-corporate mortgages¹					
Single family - insured	\$ 5,677	\$ 12,065	(53%)	\$ 11,696	(51%)

¹ Represents mortgages previously derecognized or held in securitized portfolio that have been renewed into the corporate mortgage portfolio.

Single family

In Q1 2019, we continued to reposition our corporate mortgage portfolio towards a greater proportion of single family mortgages. As a result of the increased Q1 2019 origination volumes noted above, the combined uninsured and insured single family portfolio (excluding uninsured completed inventory) increased by \$65 million (18%) during the quarter with uninsured single family growth of \$52 million (20%). In recent quarters, we have increased our internal sales and marketing capabilities and we have strengthened our relationships with the broker community. Additionally, we continue to acquire uninsured single family mortgages from our strategic partners and third party originators.

We continue to grow our insured single family origination volumes to allow us to securitize opportunistically through the Canada Mortgage and Housing Corporation (“CMHC”) National Housing Act (“NHA”) MBS program.

The increase in the proportion of our corporate portfolio held in single family mortgages, in addition to the compression of spreads in the single family market, has led to a decrease in the overall corporate mortgage net spread in recent quarters. Single family mortgages provide comparatively lower yields in this portfolio given their lower risk profile. During 2018, we observed reduced single family spreads as a result of competitive pressures and the overall rate environment, however in Q1 2019 we were able to originate single family mortgages at improved yields.

Construction and commercial

We continue to selectively review new lending opportunities that meet our targeted risk and return profiles, while closely managing this portfolio given the potential for deteriorating market conditions. The outstanding combined portfolio balance was largely unchanged during the quarter due to further advances on and extensions of existing loan facilities.

The Bank of Canada increased the overnight rate twice subsequent to Q1 2018. This cumulative increase of 0.50% contributed to the increase in the construction yield from Q1 2018, although this was partially offset by lower commitment fee income in Q1 2019, given the reduction in new originations.

The continued decrease in the “commercial other” portfolio yield since Q1 2018 has been mostly due to a change in portfolio composition towards loans with a lower risk profile and therefore lower returns.

Construction, commercial and completed inventory originations represent first advances on newly originated loans.

Mortgage renewal rights

Through our XMC Mortgage Corporation (“XMC”) origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At maturity, we have the rights to renew these mortgages, which may contribute to future revenues. As at March 31, 2019, we had the renewal rights to \$1.0 billion of single family mortgages (December 31, 2018 - \$985 million; March 31, 2018 - \$923 million).

Equity income from MCAP

In Q1 2019, MCAP’s origination volumes were \$2.7 billion, down from \$3.1 billion in Q1 2018. As at February 28, 2019, MCAP had \$73.8 billion of assets under administration compared to \$72.8 billion as at November 30, 2018 and \$66.8 billion at February 28, 2018. The decrease in equity income from MCAP was due to hedging losses during Q1 2019.

We recognize equity income from MCAP on a one-month lag such that our Q1 2019 equity income from MCAP is based on MCAP’s net income for the quarter ended February 28, 2019. For further information on our equity investment in MCAP, refer to the “Equity investment in MCAP” sub-section of the “Financial Position” section of this MD&A.

Non-Marketable Securities

We received distribution income of \$1.2 million from the KingSett High Yield Fund (“KSHYF”) in Q1 2019 (Q1 2018 - \$1.3 million) and \$0.1 million from Crown Realty II Limited Partnership (“Crown LP”) in Q1 2019 (Q1 2018 - \$0.3 million).

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 5.32% in Q1 2019 (Q1 2018 - 5.70%). The yield has been calculated based on the average portfolio carrying value. The Q1 2019 unrealized gain on marketable securities discussed below contributed to the lower Q1 2019 yield by increasing the average portfolio balance.

Realized and Unrealized Gain (Loss) on Securities

In Q1 2019, we recorded a \$7.8 million unrealized gain on our marketable securities portfolio (consisting of REITs) compared to a \$0.6 million unrealized loss in Q1 2018. After a significant market-wide decrease in the value of Canadian publicly traded securities near the end of 2018, the market recovered in Q1 2019.

Gain on sale of investment in MCAP

In Q1 2018, we sold 200,000 partnership units in MCAP at a price of \$22.60 per unit (compared to a net book value of \$14.10 per unit), recognizing a gain on sale of \$1.7 million. This transaction reduced our ownership interest in MCAP from 14.41% to 13.83% at that time.

Term Deposit Interest

The increase in the average term deposit interest rate since Q1 2018 has been a result of the impact of the aforementioned increases in the Bank of Canada overnight rate on newly issued deposits. Market rate changes on new deposits have a more gradual impact on the average term deposit interest rate given the fixed-rate nature of the portfolio compared to the corporate mortgage portfolio, in which floating rate loans reprice immediately. The change in the average term deposit balance is generally comparable to that of the average corporate mortgage portfolio as we primarily use term deposits to fund our corporate mortgage assets.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and CMB program, which involve the securitization of insured mortgages through the CMHC NHA MBS program. Our total new securitization volumes were \$28 million in Q1 2019 (Q1 2018 - \$28 million).

Table 5: Net Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	March 31, 2019			December 31, 2018			March 31, 2018		
	Average Balance ²	Interest Income	Average Rate ^{1,2}	Average Balance ²	Interest Income	Average Rate ^{1,2}	Average Balance ²	Interest Income	Average Rate ^{1,2}
(in thousands except %)									
Mortgages - securitized portfolio	\$ 869,466	\$ 5,500	2.54%	\$ 891,876	\$ 5,657	2.53%	\$ 1,015,325	\$ 6,493	2.57%
Financial liabilities from securitization	880,659	4,082	1.85%	917,589	4,208	1.83%	1,023,721	4,681	1.83%
Net securitized mortgage spread income		\$ 1,418			\$ 1,449			\$ 1,812	
Spread of mortgages over liabilities ²			0.69%			0.70%			0.74%

¹ Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended March 31, 2019, December 31, 2018 and March 31, 2018.

² Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Provisions for Credit Losses

Table 6: Provisions for Credit Losses and Write-offs

(in thousands except basis points)					
For the Quarters Ended	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
Provision (recovery) on impaired corporate mortgages					
Single family uninsured	\$ (3)	\$ 162	(102%)	\$ 64	(105%)
Construction	(217)	217	(200%)	-	n/a
	(220)	379	(158%)	64	(444%)
Provision (recovery) on performing corporate mortgages					
Single family insured	1	(1)	(200%)	(1)	(200%)
Single family uninsured	(403)	241	(267%)	32	(1,359%)
Single family uninsured - completed inventory	93	20	365%	(352)	(126%)
Construction					
Residential	1,098	(156)	(804%)	151	627%
Non-residential	(40)	1	(4,100%)	(13)	208%
Commercial					
Multi family residential	(262)	(192)	37%	137	(291%)
Other commercial	(251)	(167)	50%	171	(247%)
	236	(254)	(193%)	125	89%
Other provisions (recoveries)	(7)	1	(800%)	(15)	(53%)
Total corporate provision for (recovery of) credit losses	9	126	(93%)	174	(95%)
Provision (recovery) on performing securitized mortgages	(9)	2	(550%)	15	(160%)
Total provisions for credit losses, net	\$ -	\$ 128	(100%)	\$ 189	(100%)
Corporate mortgage portfolio data:					
Provisions for credit losses, net	\$ 16	\$ 125	(87%)	\$ 189	(92%)
Net write offs	\$ 23	\$ -	n/a	\$ 13	77%
Net write offs (basis points)	0.9	-	n/a	0.6	55%

Provisions on performing mortgages are primarily based on changes in the individual portfolio balances, however we may incorporate management judgment as required in the calculation of mortgage allowances. Accordingly, provisions on performing mortgages may be volatile between periods.

All write-offs noted in the table above relate to the uninsured single family mortgage portfolio.

Operating Expenses

Table 7: Operating Expenses

(in thousands)					
For the Quarters Ended	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
Salaries and benefits	\$ 3,567	\$ 2,700	32%	\$ 2,945	21%
General and administrative	1,924	2,812	(32%)	1,686	14%
	\$ 5,491	\$ 5,512	(0%)	\$ 4,631	19%

The increase in salaries and benefits in Q1 2019 from Q4 2018 and Q1 2018 is primarily due to an increased staff complement focused on internal infrastructure and systems initiatives and severance costs incurred in Q1 2019.

The decrease in general and administrative expenses in Q1 2019 from Q4 2018 was a result of higher professional fees in Q4 2018. The increase from Q1 2018 is consistent with the aforementioned increase in staff complement and ongoing initiatives.

Taxable Income

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

As a Mortgage Investment Corporation ("MIC"), we typically pay out all of our taxable income to shareholders through dividends as our MIC status allows us to deduct dividends paid within 90 days of year end from taxable income. Dividends that are deducted in the calculation of taxable income are not included in the table below.

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

Table 8: Taxable Income Reconciliation¹

(in thousands)	March 31 2019	December 31 2018	March 31 2018
For the Quarters Ended			
Net income for accounting purposes	\$ 14,305	\$ 3,547	\$ 10,615
Adjustments:			
Deduct: Equity income from MCAP - accounting purposes	(2,568)	(3,292)	(3,439)
Add: MCAP taxable income (loss)	1,972	6,896	(3,737)
Provision for (recovery of) credit losses ⁵	205	(211)	145
Amortization of upfront securitization program costs ³	1,663	1,941	1,772
Securitization program mortgage origination costs ³	(960)	(1,042)	(319)
Other securitization program cash outflows ³	182	(571)	(269)
Unrealized (gain) / loss on securities ²	(7,760)	4,162	575
Equity income from subsidiaries ²	1,284	562	(392)
Deduct: Accounting gain on partial sale of MCAP ⁴	-	-	(1,701)
Add: Taxable gain on partial sale of MCAP ⁴	-	-	1,425
Other items	(194)	(295)	(204)
Taxable Income	\$ 8,129	\$ 11,697	\$ 4,471

¹ Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.

² Excluded from the calculation of taxable income.

³ Securitization program mortgage origination costs and other upfront securitization program cash flows are deductible in full for tax purposes as mortgages are securitized but are capitalized and amortized for accounting purposes. Therefore, amortization is added back in the calculation of taxable income.

⁴ For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.

⁵ Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.

The increase in taxable income in Q1 2019 from Q1 2018 has primarily resulted from timing differences between accounting and taxable income relating to securitization transactions that MCAP executed. This timing difference is expected to reverse over the duration of the transactions.

In Q1 2019, MCAN incurred \$1.0 million of origination costs on securitized mortgages (Q1 2018 - \$0.3 million) that were originated by XMC. These costs are deductible for income tax purposes in the period that the mortgages are securitized, while for accounting purposes they are capitalized and amortized over the term of the associated mortgages. The increase in origination costs in Q1 2019 was a result of an increase in spreads on new MBS issuances compared to Q1 2018.

Cash Flows

Operating Activities

- Used cash flows of \$35 million for Q1 2019; used cash flows of \$52 million for Q1 2018.
- Variances are primarily due to optimizing liquidity by reducing term deposit balances partially offset by an increase in our mortgage origination volumes compared to Q1 2018.

Investing Activities

- Provided cash flows of \$2 million for Q1 2019; provided \$8 million for Q1 2018.
- Q1 2019 includes lower net inflows relating to distributions from MCAP. In addition, Q1 2018 includes proceeds from a partial sale of our equity investment in MCAP.

Financing Activities

- Used cash flows of \$12 million for Q1 2019; used \$11 million for Q1 2018.
- In Q1 2019, there were lower outflows from dividends paid. Q1 2018 includes inflows from loans payable.

FINANCIAL POSITION**Table 9: Assets**

(in thousands)	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
As at					
Corporate Assets					
Cash and cash equivalents	\$ 53,813	\$ 98,842	(46%)	\$ 62,463	(14%)
Marketable securities	61,007	53,247	15%	61,429	(1%)
Mortgages	996,123	922,390	8%	859,372	16%
Non-marketable securities	72,460	71,813	1%	73,446	(1%)
Other loans	2,331	2,640	(12%)	2,655	(12%)
Equity investment in MCAP Commercial LP	62,490	61,593	1%	56,398	11%
Deferred tax asset	3,090	2,961	4%	2,874	8%
Other assets	10,237	10,853	(6%)	3,169	223%
	1,261,551	1,224,339	3%	1,121,806	12%
Securitization Assets					
Cash held in trust	31,272	26,002	20%	15,073	107%
Mortgages	870,543	887,252	(2%)	1,013,036	(14%)
Other assets	3,343	3,479	(4%)	3,969	(16%)
	905,158	916,733	(1%)	1,032,078	(12%)
	\$ 2,166,709	\$ 2,141,072	1%	\$ 2,153,884	1%

Our combined asset portfolio has remained consistent in recent quarters, which has been a combination of steady growth in the corporate asset portfolio offset by increased mortgage maturities in the securitized mortgage portfolio.

Mortgages - Corporate & Securitized**Corporate Mortgages****Single family mortgages**

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

Uninsured - Completed inventory loans

Uninsured - completed inventory loans are extended to developers to provide interim mortgage financing on residential units (condominium or freehold) that are close to completion. Qualification criteria for the completed inventory classification include no substantial remaining construction risk, commencement of occupancy permits, potential sale and closing with a purchaser within 3-4 months or units being at least at a drywall stage with completion of plumbing and electrical. We invest in this product type opportunistically and given the nature of unit closings, originations and repayments can be volatile.

Construction loans

Residential construction loans are made to developers to finance residential construction projects. These loans generally have a floating interest rate and loan terms of 24 months or less with extensions requiring additional underwriting and approval. Non-

residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move-up buyers characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration. This approach mitigates the impact of price volatility and tightened sales activity in the event of market corrections. We only invest in markets where we have experience and local expertise, consisting primarily of major urban markets and their surrounding areas with a preference for proximity to mass transit. We target experienced developers with a successful track record of project completion and loan repayment and smaller multi-phased projects requiring evidence of strong pre-sales prior to loan funding. As at March 31, 2019 the average outstanding construction loan size was \$7 million (December 31, 2018 - \$6 million) with a maximum loan commitment of \$30 million. We utilize our relationships with strategic partners for loan participation, servicing and workout expertise.

Commercial loans

Commercial loans include multi family residential loans (e.g. loans secured by apartment buildings), and other commercial loans, which consist of term mortgages (e.g. loans secured by retail/industrial buildings) and high ratio mortgage loans (e.g. loans that do not meet standard residential construction loan parameters).

Securitized Mortgages

Securitization assets consist primarily of single family insured mortgages securitized through the NHA MBS program. We issue MBS through our internal market MBS program and the Canada Housing Trust (“CHT”) CMB program.

Market MBS Program

During Q1 2019, we securitized \$4 million of MBS through the market MBS program (Q1 2018 - \$28 million) and sold the MBS to third parties.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes instead of selling it to a third party. As at March 31, 2019, we held \$63 million of retained MBS on our balance sheet (December 31, 2018 - \$68 million; March 31, 2018 - \$28 million), which is included in the insured single family classification within corporate mortgages.

CMB Program

During Q1 2019, we securitized \$24 million of insured single family mortgages through the CMB program (Q1 2018 - \$nil).

Table 10: Mortgage Summary

(in thousands)	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
As at					
Corporate portfolio:					
Single family mortgages					
- Insured	\$ 124,857	\$ 111,419	12%	\$ 75,698	65%
- Uninsured	307,539	255,545	20%	196,624	56%
- Uninsured - completed inventory	19,884	7,703	158%	7,410	168%
Construction loans					
- Residential	428,037	422,561	1%	404,987	6%
- Non-residential	9,062	11,018	(18%)	5,014	81%
Commercial loans					
- Multi family residential	50,108	50,133	(0%)	73,026	(31%)
- Other commercial	56,636	64,011	(12%)	96,613	(41%)
	996,123	922,390	8%	859,372	16%
Securitized portfolio:					
Single family insured - Market MBS program	684,507	722,726	(5%)	867,149	(21%)
Single family insured - CMB program	186,036	164,526	13%	145,887	28%
	870,543	887,252	(2%)	1,013,036	(14%)
	\$ 1,866,666	\$ 1,809,642	3%	\$ 1,872,408	(0%)

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

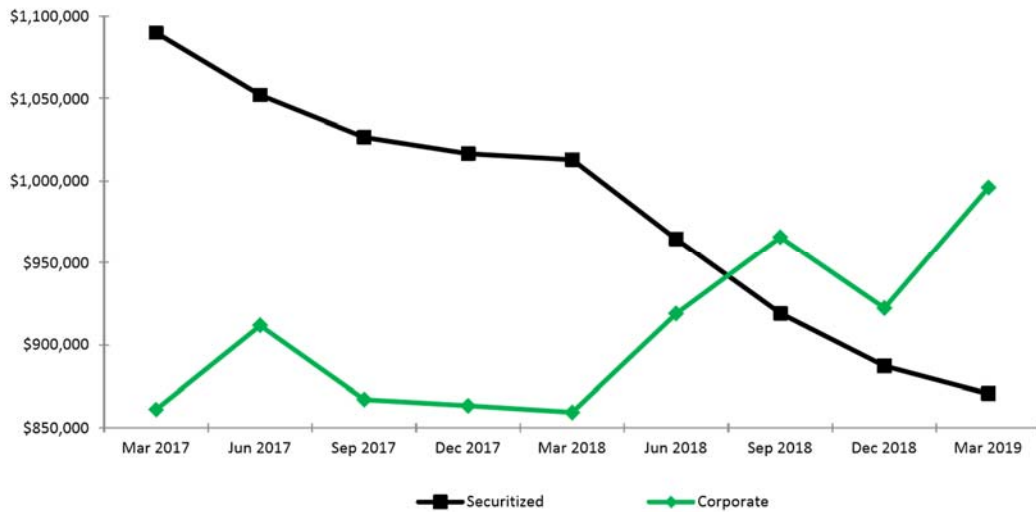
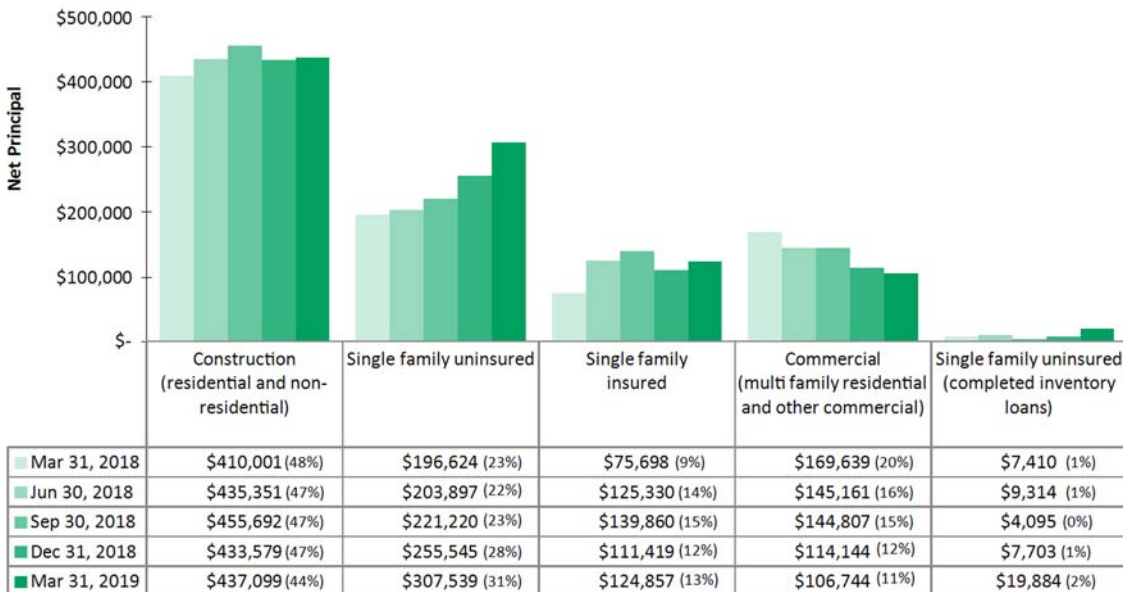
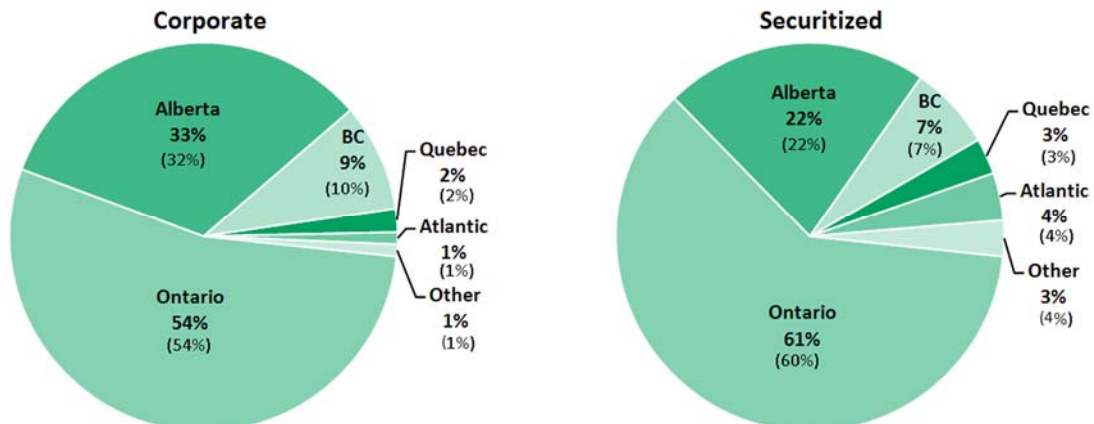


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



Note: Amounts in parentheses represent the percentage of the corporate portfolio represented by the individual product type.

Figure 3: Mortgage Portfolio Geographic Distribution as at March 31, 2019 (December 31, 2018)



Credit Quality

Table 11: Arrears and Impaired Mortgages

(in thousands except %)					
As at	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
Impaired mortgages					
Corporate					
Single family - insured	\$ 1,096	\$ 1,004	9%	\$ 1,945	(44%)
Single family - uninsured	1,845	1,602	15%	1,873	(2%)
Construction - residential	-	548	(100%)	-	n/a
	2,941	3,154	(7%)	3,818	(23%)
Securitized	1,458	1,801	(19%)	966	51%
Total impaired mortgages	\$ 4,399	\$ 4,955	(11%)	\$ 4,784	(8%)
Impaired mortgage ratio (corporate) ^{1,2}	0.30%	0.34%	(0.04%)	0.44%	(0.14%)
Impaired mortgage ratio (total) ^{1,2}	0.24%	0.27%	(0.03%)	0.26%	(0.02%)
Mortgage arrears (past due) ³					
Corporate					
Single family - insured	\$ 2,121	\$ 1,594	33%	\$ 2,226	(5%)
Single family - uninsured	9,130	7,293	25%	6,978	31%
Construction - residential	-	548	(100%)	-	n/a
Total corporate mortgage arrears ¹	11,251	9,435	19%	9,204	22%
Total securitized mortgage arrears ¹	7,431	6,527	14%	9,554	(22%)
Total mortgage arrears ¹	\$ 18,682	\$ 15,962	17%	\$ 18,758	(0%)
Staging analysis - corporate portfolio					
Stage 2					
Single family - insured	\$ 12,250	7,743	58%	\$ 5,182	136%
Single family - uninsured	57,197	49,493	16%	34,408	66%
Construction - residential	38,673	60,929	(37%)	45,629	(15%)
Commercial - multi-family residential	1,515	2,079	(27%)	2,626	(42%)
Commercial - other	3,114	3,535	(12%)	27,147	(89%)
	112,749	123,779	(9%)	114,992	(2%)
Stage 3					
Single family - insured	1,096	1,004	9%	1,945	(44%)
Single family - uninsured	1,845	1,602	15%	1,873	(2%)
Construction - residential	-	548	(100%)	-	n/a
	2,941	3,154	(7%)	3,818	(23%)
Total stage 2 and 3 corporate mortgages	\$ 115,690	126,933	(9%)	\$ 118,810	(3%)
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	\$ 4,660	\$ 4,424	5%	\$ 4,865	(4%)
Allowance on impaired mortgages	187	430	(57%)	173	8%
	4,847	4,854	(0%)	5,038	(4%)
Securitized - allowance on performing mortgages	6	14	(57%)	32	(81%)
Total allowance for credit losses	\$ 4,853	\$ 4,868	(0%)	\$ 5,070	(4%)

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

² Effective January 1, 2019 we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

³ Mortgage arrears consists of mortgages that are at least one day past due, and includes impaired mortgages.

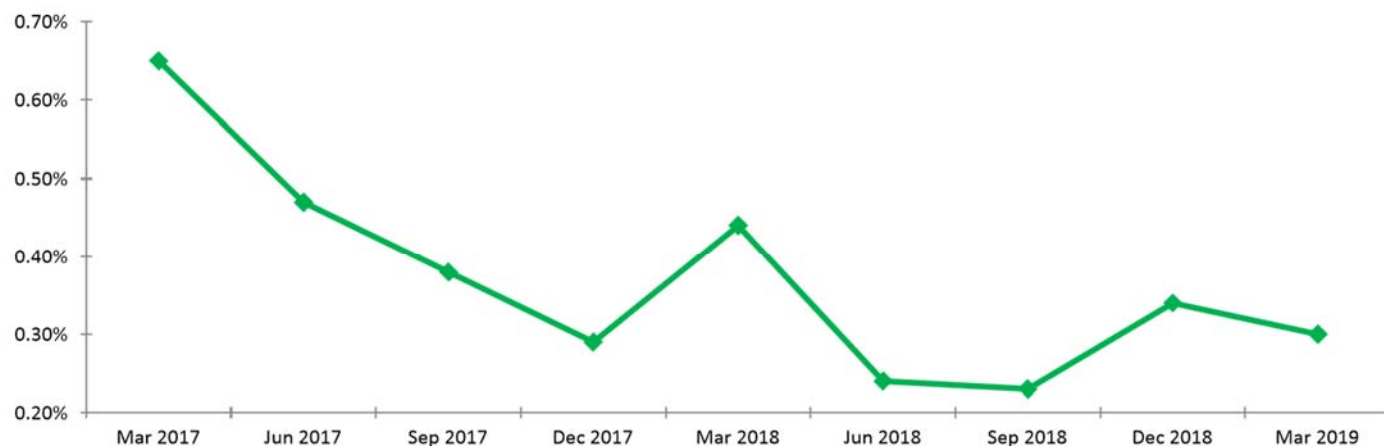
Arrears and Impaired Mortgage Summary

The majority of single family and securitized arrears activity occurs in the 1-30 day category, in which the bulk of arrears are resolved and do not migrate to arrears categories over 30 days. We closely monitor and manage these arrears.

We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types.

The classification of mortgages into Stage 2 and Stage 3 involves consideration of additional criteria such as credit score and internal risk rating. Accordingly, Stage 2 and Stage 3 balances may be volatile between periods.

Figure 4: Impaired Corporate Mortgage Ratio



The ratio as presented above incorporates impaired (stage 3) mortgages under IFRS 9 for data presented after January 1, 2018, while the data prior to this time incorporates impaired mortgages under IAS 39. The adoption of IFRS 9 did not materially impact the impaired mortgage ratios. The impaired mortgage ratios are considered to be “Non-IFRS Measures”. For further details, refer to the “Non-IFRS Measures” section of this MD&A.

For further information regarding corporate mortgages by risk rating, refer to Note 7 to the consolidated financial statements.

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

In accordance with OSFI Guideline B-20, additional information is provided on the composition of MCAN’s single family mortgage portfolio by insurance status and province, as well as amortization periods and LTV by province. LTV is calculated as the ratio of the outstanding loan balance on an amortized cost basis to the value of the underlying collateral at the time of origination.

Insured mortgages include individual mortgages that are insured by CMHC or other approved mortgage insurers at origination and mortgages included in groups of mortgages that are portfolio-insured after origination.

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

Table 12: Single Family Mortgages by Province as at March 31, 2019

(in thousands except %)											
	Corporate						Securitized		Total		%
	Insured	%	Uninsured	%	HELOCs	%	Insured	%			
Ontario	\$ 84,112	67.6%	\$ 212,225	64.8%	\$ 134	82.2%	\$ 530,991	61.0%	\$ 827,462	62.7%	
Alberta	21,972	17.6%	36,879	11.3%	29	17.8%	189,004	21.7%	247,884	18.7%	
British Columbia	3,927	3.1%	63,021	19.2%	-	-	61,573	7.1%	128,521	9.7%	
Quebec	5,299	4.2%	3,503	1.1%	-	-	28,595	3.3%	37,397	2.8%	
Atlantic Provinces	6,990	5.6%	5,452	1.7%	-	-	36,965	4.2%	49,407	3.7%	
Other	2,394	1.9%	6,343	1.9%	-	-	23,415	2.7%	32,152	2.4%	
Total	\$ 124,694	100.0%	\$ 327,423	100.0%	\$ 163	100.0%	\$ 870,543	100.0%	\$ 1,322,823	100.0%	

Table 13: Single Family Mortgages by Province as at December 31, 2018

(in thousands except %)											
	Corporate						Securitized		Total		%
	Insured	%	Uninsured	%	HELOCs	%	Insured	%			
Ontario	\$ 71,381	64.1%	\$ 167,998	63.8%	\$ 136	81.9%	\$ 532,817	60.1%	\$ 772,332	61.1%	
Alberta	21,599	19.4%	37,616	14.3%	30	18.1%	195,414	22.0%	254,659	20.2%	
British Columbia	3,872	3.5%	41,829	15.9%	-	-	65,229	7.4%	110,930	8.8%	
Quebec	5,331	4.8%	3,657	1.4%	-	-	29,952	3.4%	38,940	3.1%	
Atlantic Provinces	7,523	6.8%	5,471	2.1%	-	-	38,287	4.3%	51,281	4.1%	
Other	1,547	1.4%	6,677	2.5%	-	-	25,553	2.8%	33,777	2.7%	
Total	\$ 111,253	100.0%	\$ 263,248	100.0%	\$ 166	100.0%	\$ 887,252	100.0%	\$ 1,261,919	100.0%	

Table 14: Single Family Mortgages by Amortization Period as at March 31, 2019

(in thousands except %)						
	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total	
Corporate	\$ 76,572 16.9%	\$ 130,909 28.9%	\$ 235,158 52.1%	\$ 9,641 2.1%	\$ 452,280	100.0%
Securitized	\$ 194,049 22.3%	\$ 462,194 53.1%	\$ 178,931 20.5%	\$ 35,369 4.1%	\$ 870,543	100.0%
Total	\$ 270,621 20.5%	\$ 593,103 44.8%	\$ 414,089 31.3%	\$ 45,010 3.4%	\$ 1,322,823	100.0%

Table 15: Single Family Mortgages by Amortization Period as at December 31, 2018

(in thousands except %)						
	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total	
Corporate	\$ 56,025 15.0%	\$ 109,615 29.2%	\$ 203,510 54.3%	\$ 5,517 1.5%	\$ 374,667	100.0%
Securitized	\$ 196,325 22.1%	\$ 461,363 52.1%	\$ 192,786 21.7%	\$ 36,778 4.1%	\$ 887,252	100.0%
Total	\$ 252,350 20.0%	\$ 570,978 45.2%	\$ 396,296 31.4%	\$ 42,295 3.4%	\$ 1,261,919	100.0%

Table 16: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except for %)				
For the Quarters Ended March 31	Average		Average	
	2019	LTV	2018	LTV
Ontario	\$ 53,716	71.0%	\$ 7,641	67.0%
Alberta	270	50.5%	227	75.0%
British Columbia	22,090	58.8%	3,273	64.6%
Other	-	-	1,030	72.0%
	\$ 76,076	67.3%	\$ 12,171	66.9%

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

As at	March 31 2019	December 31 2018	March 31 2018
Corporate portfolio:			
Single family mortgages			
- Insured	80.9%	80.3%	79.6%
- Uninsured ¹	66.2%	64.9%	67.6%
- Uninsured completed inventory ¹	53.9%	59.6%	57.6%
Construction loans			
- Residential	56.1%	56.9%	60.0%
- Non-residential	58.4%	53.0%	51.2%
Commercial loans			
- Multi family residential	65.4%	65.2%	68.8%
- Other commercial	62.4%	63.9%	62.8%
	63.1%	62.8%	64.4%
Securitized portfolio:			
Single family insured - Market MBS Program	84.6%	84.8%	85.4%
Single family insured - CMB Program	83.0%	82.9%	82.1%
	84.3%	84.5%	85.0%
	72.9%	73.4%	75.5%

¹ MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 65.4% as at March 31, 2019 (December 31, 2018 - 64.8%). Based on an industry index that incorporates current real estate values, the ratios would be 65.0% and 63.8%, respectively.

Based on experience and relative to the specifics of the then prevailing economic conditions, we would expect to observe an increase in overall mortgage default and arrears rates in the event of an economic downturn as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This would also result in a corresponding increase in our allowance for credit losses. An economic downturn could include, for example, changes to employment and unemployment rates, income levels and consumer spending which we would expect to increase single family defaults and arrears, as noted above. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages.

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposit and new mortgage funding commitments. We actively manage our cash and cash equivalents by being prudent in our liquidity and cash management practices. As at March 31, 2019, our cash balance was \$54 million (December 31, 2018 - \$99 million; March 31, 2018 - \$62 million).

Marketable securities

Marketable securities, consisting primarily of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. As at March 31, 2019, the portfolio balance was \$61 million (December 31, 2018 - \$53 million; March 31, 2018 - \$61 million). This increase was a result of a significant increase in the fair value of the portfolio.

Non-Marketable Securities

We hold an investment in the KSHYF, in which we have a 7.9% equity interest (December 31, 2018 - 7.9%). At March 31, 2019, the carrying value of our investment was \$43 million (December 31, 2018 - \$42 million; March 31, 2018 - \$41 million). The KSHYF invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages.

We hold an investment in Crown LP, in which we have a 14.1% equity interest (December 31, 2018 - 14.1%). At March 31, 2019, the carrying value of our investment was \$30 million (December 31, 2018 - \$30 million; March 31, 2018 - \$32 million). Crown LP invests primarily in commercial office buildings. Its fair value is based on building rental rates and current market capitalization rates.

Equity investment in MCAP

We hold a 13.84% equity interest in MCAP (December 31, 2018 - 13.71%; March 31, 2018 - 13.83%), which represents 4.0 million units held by MCAN as at March 31, 2019 (December 31, 2018 - 4.0 million; March 31, 2018 - 4.0 million) of the 28.9 million total outstanding MCAP partnership units (December 31, 2018 - 29.2 million; March 31, 2018 - 28.9 million).

The investment had a net book value of \$62 million as at March 31, 2019 (December 31, 2018 - \$62 million; March 31, 2018 - \$56 million). The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was \$36 million as at March 31, 2019 (December 31, 2018 - \$36 million; March 31, 2018 - \$33 million). The difference between the net book value and the LP ARA reflects an unrealized gain that, if realized, would be recognized as a capital gain and applied against MCAN's tax loss carry forward. LP ARA is considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

During Q1 2019, we received \$1.7 million of unitholder distributions from MCAP (Q1 2018 - \$3.4 million). Since we account for this investment on the equity basis, the receipt of distributions reduces the carrying value of the investment in MCAP.

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 at "fair market value", which would be determined by an independent valuator agreed upon by both parties.

Other assets

Other assets include a right of use asset relating to our premises lease of \$6.4 million. On January 1, 2019, we adopted IFRS 16, *Leases* and recorded this right of use asset, which will be amortized over its useful life. For further details on the adoption of IFRS 16, refer to Note 4 to the consolidated financial statements.

Other Securitization Assets

Other securitization assets include cash held in trust, which represents securitized mortgage principal and interest collections from borrowers that are payable to MBS holders.

Liabilities and Shareholders' Equity

Table 18: Liabilities and Shareholders' Equity

(in thousands)					
As at	March 31 2019	December 31 2018	Change (%)	March 31 2018	Change (%)
Corporate Liabilities					
Term deposits	\$ 946,038	\$ 919,623	3%	\$ 823,604	15%
Loans payable	-	-	n/a	3,020	(100%)
Current taxes payable	366	173	112%	-	n/a
Deferred tax liabilities	3,528	3,478	1%	3,603	(2%)
Other liabilities	11,069	13,169	(16%)	6,315	75%
	961,001	936,443	3%	836,542	15%
Securitization Liabilities					
Financial liabilities from securitization	888,939	897,935	(1%)	1,015,296	(12%)
	888,939	897,935	(1%)	1,015,296	(12%)
	1,849,940	1,834,378	1%	1,851,838	(0%)
Shareholders' Equity					
Share capital	225,291	221,869	2%	217,817	3%
Contributed surplus	510	510	-	510	-
Retained earnings	90,968	84,315	8%	83,719	9%
	316,769	306,694	3%	302,046	5%
	\$ 2,166,709	\$ 2,141,072	1%	\$ 2,153,884	1%

Term deposits

To fund our corporate operations, we primarily issue term deposits that are eligible for CDIC deposit insurance. We source term deposits through a broker distribution network across Canada consisting of third party deposit agents and financial advisors. We do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor. We believe that our term deposits provide a reliable low-cost funding source that can be matched against the corporate mortgage portfolio. The role of term deposits in managing liquidity and funding risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Other liabilities

Other liabilities include our obligation relating to our premises lease of \$7.1 million. On January 1, 2019, we adopted IFRS 16, *Leases* and at that time we increased the liability for our future lease obligation by \$6.6 million. For further details on the adoption of IFRS 16, refer to Note 4 to the consolidated financial statements.

Financial liabilities from securitization

Financial liabilities from securitization relate to our participation in the market MBS program and CMB program, where we have sold MBS to third parties but have not derecognized the related mortgages from our balance sheet.

Share capital

Share capital activity for Q1 2019 reflects new common shares issued through the DRIP. The DRIP participation rate for the 2019 first quarter dividend was 26% (2018 fourth quarter - 18%; 2018 first quarter - 20%). For further information, refer to Note 15 to the consolidated financial statements.

Retained earnings

Retained earnings activity for Q1 2019 consists of net income of \$14.3 million less dividends of \$7.7 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 19: Selected Quarterly Financial Data

(in thousands except per share amounts and where indicated)	Q1/19 ⁵	Q4/18 ⁵	Q3/18 ⁵	Q2/18 ⁵	Q1/18 ⁵	Q4/17	Q3/17	Q2/17
Income Statement Highlights								
Net investment income - corporate assets	\$ 18,747	\$ 7,872	\$ 13,430	\$ 15,063	\$ 13,774	\$ 14,359	\$ 12,918	\$ 12,179
Net investment income - securitization assets	1,052	1,082	1,276	1,317	1,301	1,416	1,532	1,374
Net income	\$ 14,305	\$ 3,547	\$ 11,006	\$ 11,125	\$ 10,615	\$ 10,807	\$ 9,918	\$ 8,938
Basic and diluted earnings per share	\$ 0.60	\$ 0.15	\$ 0.47	\$ 0.47	\$ 0.45	\$ 0.47	\$ 0.42	\$ 0.39
Dividends per share	\$ 0.32	\$ 0.32	\$ 0.37	\$ 0.37	\$ 0.37	\$ 0.37	\$ 0.32	\$ 0.32
Return on average shareholders' equity ¹	18.36%	4.66%	14.29%	14.54%	14.10%	14.63%	13.63%	12.37%
Taxable income per share ^{1,2}	\$ 0.34	\$ 0.49	\$ 0.13	\$ 0.48	\$ 0.19	\$ 0.34	\$ 0.36	\$ 0.43
Yields								
Spread of corporate mortgages over term deposits	2.73%	2.93%	2.92%	3.17%	3.34%	3.27%	3.00%	3.07%
Spread of securitized mortgages over liabilities ¹	0.69%	0.70%	0.74%	0.76%	0.74%	0.76%	0.80%	0.74%
Average term to maturity (in months)								
Mortgages - corporate	11.9	11.5	12.8	13.2	11.3	11.3	10.6	10.6
Term deposits	17.2	18.7	19.2	20.5	19.0	19.1	18.1	18.8
Balance Sheet Highlights (\$ million)								
Total assets	\$ 2,167	\$ 2,141	\$ 2,189	\$ 2,206	\$ 2,154	\$ 2,217	\$ 2,196	\$ 2,277
Mortgages - corporate	996	922	966	919	859	863	867	912
Mortgages - securitized	871	887	919	965	1,013	1,017	1,027	1,052
Shareholders' equity	\$ 317	\$ 307	\$ 302	\$ 306	\$ 302	\$ 297	\$ 290	\$ 288
Capital Ratios								
Income tax assets to capital ratio ¹	4.69	4.64	4.90	4.60	4.33	4.60	4.50	4.77
CET 1, Tier 1 and Total Capital ratios ¹	22.09%	21.66%	20.58%	21.47%	21.29%	21.26%	21.34%	21.47%
Leverage ratio ³	12.05%	11.79%	11.35%	11.55%	11.74%	11.31%	11.31%	10.82%
Credit Quality								
Impaired mortgage ratio (corporate) ^{1,4}	0.30%	0.34%	0.23%	0.24%	0.44%	0.29%	0.38%	0.47%
Impaired mortgage ratio (total) ^{1,4}	0.24%	0.27%	0.24%	0.20%	0.26%	0.13%	0.18%	0.22%
Mortgage Arrears								
Corporate ¹	\$ 11,251	\$ 9,435	\$ 8,398	\$ 6,739	\$ 9,204	\$ 8,766	\$ 11,317	\$ 11,267
Securitized ¹	7,431	6,527	8,472	13,979	9,554	8,803	7,782	10,414
Total ¹	\$ 18,682	\$ 15,962	\$ 16,870	\$ 20,718	\$ 18,758	\$ 17,569	\$ 19,099	\$ 21,681
Common Share Information (end of period)								
Number of common shares outstanding	24,040	23,798	23,746	23,652	23,559	23,378	23,378	23,303
Book value per common share ¹	\$ 13.18	\$ 12.89	\$ 12.74	\$ 12.94	\$ 12.82	\$ 12.70	\$ 12.42	\$ 12.37
Common share price - close	\$ 15.93	\$ 13.32	\$ 17.50	\$ 17.90	\$ 17.61	\$ 17.84	\$ 15.60	\$ 14.90
Market capitalization (\$ million) ¹	\$ 383	\$ 317	\$ 416	\$ 423	\$ 415	\$ 417	\$ 365	\$ 347

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

² For further information refer to the "Taxable Income" section of this MD&A.

³ Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

⁴ Effective January 1, 2019 we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.

⁵ Provisions for credit losses are included in net investment income from both corporate and securitization assets. Effective Q1 2018, we prospectively adopted IFRS 9 and did not restate prior period information. Under IFRS 9, the methodology for the calculation of mortgage allowances and provisions has changed from IAS 39, therefore provisions under IFRS 9 are not directly comparable to prior periods. Additionally, under IFRS 9 fair value changes in certain reclassified financial assets are presented in the income statement and are therefore not directly comparable to prior periods. Under IAS 39, these fair value changes were recorded through other comprehensive income.

Corporate net investment income has been driven by changes in the corporate mortgage portfolio balance, as well as changes in distributions and realized/unrealized gains and losses on marketable and non-marketable securities. Additionally, corporate net investment income was impacted by significant equity income from MCAP in Q2 2017 and Q4 2017.

Since the adoption of IFRS 9 effective January 1, 2018, we have experienced increased volatility in net income as a result of the recognition of unrealized gains and losses on certain securities through net income. This volatility was especially prominent in Q2 2018, Q4 2018 and Q1 2019. Prior to the adoption of IFRS 9, unrealized gains and losses were recognized through accumulated other comprehensive income.

Corporate mortgage interest yields generally increased throughout 2017 and early 2018 as a result of increases to the overnight rate by the Bank of Canada given that over half of the corporate portfolio is floating rate. However, since early 2018 a shift in the portfolio mix towards single family mortgages has contributed to the gradual decrease in the overall portfolio yield.

The securitized mortgage portfolio has gradually decreased since 2017 as a result of a reduction in securitization volumes and regular maturities in the securitized portfolio. The securitization net spread has decreased slightly during this time as we have experienced lower overall economics on recent securitizations.

Our operating expenses fluctuate as we experience changes in our staffing levels and incur professional fees.

Capital ratios have remained steady across the last eight quarters as the gradual increase in corporate assets has generally been matched by a growing capital base. Capacity tightened in Q3 2018 as a result of the accrual of the fourth quarter dividend during this period.

Total arrears and impaired ratios, while low by historical standards, have been volatile on a quarterly basis given the nature of the 1-30 day arrears classification.

CAPITAL MANAGEMENT

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

Income Tax Capital

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

We manage our income tax assets to a maximum level of 5.75 times income tax capital on a non-consolidated tax basis to provide a prudent cushion between the maximum permitted assets and total actual assets.

Table 20: Income Tax Capital ¹

(in thousands except ratios)			
As at	March 31 2019	December 31 2018	March 31 2018
Income tax assets ¹			
Consolidated assets	\$ 2,166,709	\$ 2,141,072	\$ 2,153,884
Adjustment for assets in subsidiaries	7,886	6,743	6,403
Non-consolidated assets in MIC entity	2,174,595	2,147,815	2,160,287
Add: corporate mortgage allowances	4,678	4,466	4,883
Less: securitization assets ²	(898,472)	(908,367)	(1,028,356)
Less: equity investments in MCAP and subsidiaries	(52,393)	(52,450)	(48,061)
Other adjustments	(12,906)	(4,328)	(7,286)
	<u>\$ 1,215,502</u>	<u>\$ 1,187,136</u>	<u>\$ 1,081,467</u>
Income tax liabilities ¹			
Consolidated liabilities	\$ 1,849,940	\$ 1,834,378	\$ 1,851,838
Adjustment for liabilities in subsidiaries	(6,009)	(6,194)	(6,488)
Non-consolidated liabilities in MIC entity	1,843,931	1,828,184	1,845,350
Less: securitization liabilities ²	(887,645)	(896,641)	(1,013,854)
	<u>\$ 956,286</u>	<u>\$ 931,543</u>	<u>\$ 831,496</u>
Income tax capital ¹	<u>\$ 259,216</u>	<u>\$ 255,593</u>	<u>\$ 249,971</u>
Income tax capital ratios ¹			
Income tax assets to capital ratio	4.69	4.64	4.33
Income tax liabilities to capital ratio	3.69	3.64	3.33

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

² The majority of securitization assets and liabilities on the balance sheet are excluded from income tax assets, liabilities and capital as they are derecognized for income tax purposes.

Regulatory Capital

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

Both OSFI and the Basel Committee on Banking Supervision ("BCBS") promote a resilient banking sector and strong global capital standards. Key components of Basel III impact MCAN through the Capital Adequacy Requirements ("CAR") and Leverage Requirements Guidelines.

Our Common Equity Tier 1 ("CET 1") capital consists of share capital, contributed surplus and retained earnings. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% CET 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital. We do not hold any additional Tier 1 or Tier 2 capital instruments, therefore our CET 1 capital is equal to our Tier 1 and Total Capital.

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

Table 21: Regulatory Capital

(in thousands except %)	March 31 2019	December 31 2018	March 31 2018
As at			
Regulatory Ratios (OSFI)			
Share capital	\$ 225,291	\$ 221,869	\$ 217,817
Contributed surplus	510	510	510
Retained earnings	90,968	84,315	83,719
Deduction for equity investment in MCAP ²	(30,813)	(30,925)	(26,193)
Common Equity Tier 1, Tier 1 and Total Capital ¹	\$ 285,956	\$ 275,769	\$ 275,853
Total Exposures/Regulatory Assets ¹			
Consolidated assets	\$ 2,166,709	\$ 2,141,072	\$ 2,153,884
Less: Deduction for equity investment in MCAP ²	(30,813)	(30,925)	(26,193)
Other adjustments ³	2,101	1,295	1,530
Total On-Balance Sheet Exposures	2,137,997	2,111,442	2,129,221
Mortgage and investment funding commitments	433,823	410,020	397,790
Less: conversion to credit equivalent amount (50%)	(216,912)	(205,010)	(198,895)
Letters of credit	35,950	43,757	44,178
Less: conversion to credit equivalent amount (50%)	(17,975)	(21,879)	(22,089)
Total Off-Balance Sheet Items	234,886	226,888	220,984
Total Exposures/Regulatory Assets	\$ 2,372,883	\$ 2,338,330	\$ 2,350,205
Leverage ratio ¹	12.05%	11.79%	11.74%
Risk weighted assets ¹	\$ 1,294,275	\$ 1,273,205	\$ 1,295,953
Regulatory Capital Ratios ¹			
Common Equity Tier 1 capital to risk-weighted assets ratio	22.09%	21.66%	21.29%
Tier 1 capital to risk-weighted assets ratio	22.09%	21.66%	21.29%
Total capital to risk-weighted assets ratio	22.09%	21.66%	21.29%

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

² The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity.

³ Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

Table 22: Regulatory Risk-Weighted Assets

(in thousands except %)	March 31, 2019			December 31, 2018		
	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
As at						
On-Balance Sheet Assets						
Cash and cash equivalents	\$ 53,813	21%	\$ 11,184	\$ 98,842	20%	\$ 20,028
Cash held in trust	31,272	20%	6,254	26,002	20%	5,200
Marketable securities	61,007	100%	61,007	53,247	100%	53,247
Mortgages - corporate	996,123	68%	676,502	922,390	70%	648,833
Mortgages - securitized	870,543	3%	28,004	887,252	3%	28,368
Non-marketable securities	72,460	207%	149,947	71,813	214%	153,692
Other loans	2,331	100%	2,331	2,640	100%	2,640
Equity investment in MCAP Commercial LP	62,490	51%	31,677	61,593	50%	30,669
Deferred tax asset	3,090	100%	3,090	2,961	100%	2,961
Other assets	13,580	100%	13,580	14,332	100%	14,332
			<u>983,576</u>			<u>959,970</u>
Off-Balance Sheet Items						
Letters of credit	35,950	50%	17,975	43,757	50%	21,878
Commitments	433,823	42%	184,286	410,020	45%	182,744
			<u>202,261</u>			<u>204,622</u>
Charge for operational risk			<u>108,438</u>			<u>108,613</u>
Risk-Weighted Assets			\$ 1,294,275			\$ 1,273,205

RISK GOVERNANCE AND MANAGEMENT

Effective risk management and an established risk management framework support a strong risk culture and help the Company achieve sustainable performance and stable growth while maintaining an appropriate balance between risk and return. The Enterprise Risk Management Framework (“ERMF”) adopted by MCAN outlines MCAN’s approach to risk management, which includes identifying, assessing, monitoring, reporting on and mitigating enterprise-wide exposures.

Material Risk Types

MCAN’s material risk types include Liquidity & Funding, Credit, Interest Rate, Market, Operational, Strategic and Reputational risk. Incidents related to these risks can adversely affect our ability to achieve our business objectives or execute our business strategies, and may result in a loss of earnings, capital and/or damage to our reputation. The ERMF addresses how we mitigate these risks by establishing effective policies, limits, and internal controls to monitor and mitigate these risks.

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

For a complete discussion of risks to which the Company is exposed, refer to the “Risk Governance and Management” section of the 2018 Annual MD&A.

Liquidity and Funding Risk

Liquidity and funding risk is the risk that cash inflows including the ability to raise deposits and access to other sources of funding, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on and off-balance sheet) as they come due. The failure of borrowers to make regular mortgage payments increases the uncertainties associated with liquidity management, notwithstanding that we may eventually collect the amounts outstanding, and may result in a loss of earnings or capital, or have an otherwise adverse effect on our financial condition and results of operations.

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held (including insured single family mortgages, which are readily marketable within a time frame of one to three months), together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and other financial obligations. The Board is responsible for the approval of liquidity policies. The Asset and Liability Committee (“ALCO”), which is comprised of management, is responsible for liquidity management oversight. We have an internal target of a standard level of liquid

investments. This internal target includes assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. As at March 31, 2019 and December 31, 2018, we met this internal target.

We have access to liquidity through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed.

We maintain an overdraft facility to meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility has been temporarily increased from \$75 million to \$125 million until June 30, 2019.

We also have an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility provides liquidity and allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, we 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. We will execute these repurchase agreements to provide alternative sources of liquidity when it is efficient and effective to do so.

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

We believe that our liquidity position, our access to term deposits eligible for CDIC insurance and our banking facility support our ability to meet current and future commitments as they come due.

Management has developed a Liquidity Risk Management Framework (“LRMF”) that is reviewed and approved periodically by the Board. This framework details the daily, monthly and quarterly analyses that are performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also performs multi scenario stress testing that is reviewed monthly by ALCO and quarterly by the Enterprise Risk Management and Compliance Committee (“ERM&CC”). Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis. Further to the LRMF, we maintain a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair our access to funding and liquidity.

OSFI’s Liquidity Adequacy Requirements (“LAR”) guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio (“LCR”) and Net Cumulative Cash Flow (“NCCF”) metrics. As at March 31, 2019, we were in compliance with the LCR and NCCF metrics.

OSFI finalized its amended LAR Guideline in April 2019 with a proposed implementation date of January 1, 2020. This amendment includes a Net Stable Funding Ratio (“NSFR”) implementation date for Domestic Systemically Important Banks (“D-SIBs”), while an implementation date for non D-SIBs, including MCAN Mortgage Corporation, has not been scheduled. We expect that we will be able to comply with the proposed amendments.

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above. For further information on our off-balance sheet commitment associated with our investment in the KSHYF, refer to the “Off-Balance Sheet Arrangements” section of this MD&A.

Table 23: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	March 31 2019	December 31 2018
Sources of liquidity							
Cash and cash equivalents	\$ 53,813	\$ -	\$ -	\$ -	\$ -	\$ 53,813	\$ 98,842
Marketable securities	60,977	-	-	30	-	61,007	53,247
Mortgages - corporate	176,070	543,236	200,623	68,037	8,157	996,123	922,390
Non-marketable securities	-	-	-	-	72,460	72,460	71,813
Other loans	1,633	-	698	-	-	2,331	2,640
	292,493	543,236	201,321	68,067	80,617	1,185,734	1,148,932
Uses of liquidity							
Term deposits	156,597	220,058	470,978	98,405	-	946,038	919,623
Other liabilities	4,108	503	1,458	1,605	3,395	11,069	13,169
	160,705	220,561	472,436	100,010	3,395	957,107	932,792
Net liquidity surplus (deficit)	\$ 131,788	\$ 322,675	\$ (271,115)	\$ (31,943)	\$ 77,222	\$ 228,627	\$ 216,140
Off-Balance Sheet							
Unfunded mortgage commitments	\$ 118,310	\$ 128,346	\$ 166,219	\$ -	\$ -	\$ 412,875	\$ 389,072
Commitment - KSHYF	-	-	-	-	20,948	20,948	20,948
	\$ 118,310	\$ 128,346	\$ 166,219	\$ -	\$ 20,948	\$ 433,823	\$ 410,020

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

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings.

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving ALCO and a formal quarterly review involving the ERM&CC and the Board. A Chief Risk Officer ("CRO") Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the ERM&CC on a quarterly basis. Monitoring also takes place through our Capital Commitments Committee and Executive Committee, which are both comprised of senior management.

Our exposure to credit risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments. Credit limits, based on our risk appetite which is periodically approved by the Board, include but are not limited to concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis to reflect changes in market conditions and our risk appetite. All members of management are subject to limits on their ability to commit the Company to credit risk.

We identify potential risks in our mortgage portfolio by way of regular review of market and portfolio metrics, which are a key component of quarterly market reports provided to the Board by management. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, post funding monitoring and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over our exposure to credit risk. In the current economic environment, we have increased our monitoring of real estate market values for single family mortgages, with independent assessments of value obtained on individual mortgages.

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concerns. The "monitored/watchlist" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which risks have increased. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, as at March 31, 2019 we have not observed anything specific across the portfolio that we believe would cause a loss of principal in excess of the allowances

for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 4 to the 2018 annual consolidated financial statements.

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, where maximum credit exposure also includes outstanding commitments for future mortgage fundings and our investment in the KSHYF, where maximum credit exposure includes our total remaining commitment.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing and maturity dates. Changes in interest rates where we have mismatched repricing and maturity dates may have an adverse effect on our financial condition and results of operations.

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities. By managing and strategically matching the terms of corporate assets and term deposits, we seek to reduce the risks associated with interest rate changes, and in conjunction with liquidity management policies and procedures, we also manage cash flow mismatches. ALCO reviews our interest rate exposure on a monthly basis using an interest rate spread and gap analysis as well as an interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Board each quarter.

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments as at March 31, 2019 would have an estimated positive effect of \$4.3 million (December 31, 2018 - \$4.8 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates as at March 31, 2019 would have an estimated adverse effect of \$3.6 million (December 31, 2018 - \$4.4 million) to net income over the following twelve month period. We estimate that this sensitivity would be moderated by the inclusion of other financial instruments such as marketable securities and non-marketable securities.

The following tables present the assets and liabilities of the Company by interest rate sensitivity as at March 31, 2019 and December 31, 2018 and do not incorporate mortgage and loan prepayments. This 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 changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 24: Interest Rate Sensitivity as at March 31, 2019

(in thousands except %)								
As at March 31, 2019	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	\$ 576,514	\$ 63,859	\$ 220,727	\$ 116,511	\$ 66,692	\$ 50,575	\$ 166,673	\$ 1,261,551
Securitization	31,272	99,849	313,567	303,960	153,167	-	3,343	905,158
	<u>607,786</u>	<u>163,708</u>	<u>534,294</u>	<u>420,471</u>	<u>219,859</u>	<u>50,575</u>	<u>170,016</u>	<u>2,166,709</u>
Liabilities								
Corporate	-	156,597	220,058	470,978	98,405	-	14,963	961,001
Securitization	-	77,885	319,846	337,096	154,112	-	-	888,939
	<u>-</u>	<u>234,482</u>	<u>539,904</u>	<u>808,074</u>	<u>252,517</u>	<u>-</u>	<u>14,963</u>	<u>1,849,940</u>
Shareholders' Equity	-	-	-	-	-	-	316,769	316,769
GAP	\$ 607,786	\$ (70,774)	\$ (5,610)	\$ (387,603)	\$ (32,658)	\$ 50,575	\$ (161,716)	\$ -
YIELD SPREAD	5.25%	1.29%	1.45%	0.68%	0.44%	9.94%		

Table 25: Interest Rate Sensitivity as at December 31, 2018

(in thousands except %)								
As at December 31, 2018	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	\$ 604,741	\$ 43,522	\$ 203,181	\$ 117,245	\$ 50,588	\$ 46,826	\$ 158,236	\$ 1,224,339
Securitization	26,002	23,040	309,887	401,423	152,902	-	3,479	916,733
	<u>630,743</u>	<u>66,562</u>	<u>513,068</u>	<u>518,668</u>	<u>203,490</u>	<u>46,826</u>	<u>161,715</u>	<u>2,141,072</u>
Liabilities								
Corporate	-	41,664	317,006	472,342	88,611	-	16,820	936,443
Securitization	-	8,373	315,263	409,435	164,864	-	-	897,935
	<u>-</u>	<u>50,037</u>	<u>632,269</u>	<u>881,777</u>	<u>253,475</u>	<u>-</u>	<u>16,820</u>	<u>1,834,378</u>
Shareholders' Equity	-	-	-	-	-	-	306,694	306,694
GAP	\$ 630,743	\$ 16,525	\$ (119,201)	\$ (363,109)	\$ (49,985)	\$ 46,826	\$ (161,799)	\$ -
YIELD SPREAD	5.12%	2.31%	1.32%	0.76%	0.36%	10.57%		

Market Risk

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

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

Operational Risk

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

We manage operational risk through various committees and processes. Senior management reviews operational measures on a recurring and regular basis. We also provide monthly updates to the Board on operations and other key factors and issues that arise.

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

Outsourcing Risk

Within operational risk, outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource the majority of our mortgage and loan origination, servicing and collections to MCAP and other third parties. Accordingly, there is a risk that the services provided by third parties will fail to adequately meet our standards.

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

Cyber Risk

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

We manage cyber risk through oversight by management, including an IT Management Committee, as well as the use of external third party advisors and service providers to provide technical expertise. We undertake a cyber security assessment on a periodic basis. We employ the use of external security experts to assist and continuously monitor our information technology infrastructure for cybersecurity risks. We have also undertaken external vulnerability tests performed by an independent external party. Additionally, we maintain an incident response plan and have designated officers responsible for the oversight over cybersecurity risks. We also maintain cyber security insurance coverage for both direct and third party coverage in the event of a cyber security incident that would result in a loss.

Risk of Accuracy and Completeness of Borrower Information

Within operational risk, in the single family mortgage underwriting process, we rely on information provided by potential borrowers and other third parties, including mortgage brokers. We may also rely on the representations of potential borrowers and third parties as to the accuracy and completeness of that information. Our financial position and performance may be negatively impacted if this information is intentionally misleading or does not fairly represent the financial condition of the potential borrower and is not detected by our internal controls.

We frequently review and enhance our underwriting procedures and control processes to strengthen our ability to detect such inaccurate and misleading information and to manage this risk. These enhancements include improvements to underwriting staff training, independent income verification procedures, and other quality control and quality assurance processes.

In recent years, the Canadian mortgage industry has experienced falsification of supporting documents provided to lenders in the mortgage underwriting process, and during this time we have observed instances of this activity in our own underwriting processes. The implementation of significant changes to OSFI Guideline B-20 effective January 1, 2018 has reduced the number of borrowers that qualify for new mortgages, which increases the risk of document falsification.

To date, this document falsification has not had a material impact on MCAN or its financial position or performance. We do not expect to experience any material impact to our financial position or performance in the future relating to such document falsification.

Strategic Risk

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

Strategic risk is managed by the CEO and senior management. The Board approves the Company's strategies annually or more frequently as may be required, and reviews results against those strategies at least quarterly.

Reputational Risk

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

reduced market capitalization, loss of client loyalty, reduced access to deposit funding and the inability to achieve our strategic objectives.

We believe that the most effective way for the Company to safeguard its public reputation is through the successful management of the underlying risks in the business. Reputational risk is primarily measured through a qualitative assessment on a quarterly basis whereby the CRO determines whether MCAN is operating within appetite based on monitoring of a reputational risk dashboard.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At March 31, 2019, there were 24,040,384 common shares outstanding (December 31, 2018 - 23,798,464). As at May 7, 2019, there were 24,040,384 common shares outstanding.

During Q1 2019, we issued 241,920 new common shares under the DRIP (Q1 2018 - 181,360), which provides MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%.

For additional information related to share capital, refer to Note 15 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to outstanding commitments for future fundings of corporate mortgages and our investment in the KSHYF. Only a portion of the mortgage commitments that we issue are expected to fund. Accordingly, these amounts do not necessarily represent our future cash requirements.

Table 26: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	March 31 2019	December 31 2018
Mortgage funding commitments	\$ 246,656	\$ 166,219	\$ -	\$ -	\$ 412,875	\$ 389,072
Commitment - KSHYF	-	-	-	20,948	20,948	20,948
Premises lease	-	-	-	-	-	8,500
	\$ 246,656	\$ 166,219	\$ -	\$ 20,948	\$ 433,823	\$ 418,520

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information, refer to Note 11 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 21 to the consolidated financial statements.

Upon the adoption of IFRS 16 effective January 1, 2019, we began to recognize a liability for our premises lease obligation. Prior to this time, we disclosed the obligation as an off-balance sheet arrangement.

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 million. MCAP was awarded a judgment for approximately \$500,000 against the same plaintiff in related proceedings. We 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, we do not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly have not recorded a provision.

DIVIDENDS

On May 7, 2019, the Board declared a second quarter dividend of \$0.32 per share to be paid on June 28, 2019 to shareholders of record as at June 14, 2019.

As a MIC, we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of non-capital gains dividends that we pay to shareholders. Such dividends are 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. Dividends paid to foreign investors may be subject to withholding taxes.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended March 31, 2019 and March 31, 2018 and related party balances as at March 31, 2019 and December 31, 2018 are discussed in Notes 10 and 20 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, cash held in trust, marketable securities, mortgages, non-marketable securities, other loans, financial liabilities from securitization, term deposits and loans payable, which are discussed throughout this MD&A.

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

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

PEOPLE

As at March 31, 2019, we had 94 employees (December 31, 2018 - 89).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

For a detailed discussion of critical accounting estimates and judgments, refer to the “Critical Accounting Estimates and Judgments” section of the 2018 Annual MD&A.

CURRENT PERIOD CHANGES IN ACCOUNTING POLICY

On January 1, 2019, the Company adopted IFRS 16, *Leases* and IFRS Interpretations Committee (“IFRIC”) 23, *Uncertainty over Income Tax Treatments*. For further information on these standards, refer to Note 4 to the consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at March 31, 2019, the Interim Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of MCAN, along with the assistance of the Company’s Disclosure Committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our ICFR that occurred during the interim period ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our control framework.

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future

periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

Notice required under National Instrument 51-102, “Continuous Disclosure Obligations,” Part 4.3 (3) (a).

The accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

The Company is in compliance with the interim Management’s Discussion and Analysis of Operations requirements set out by National Instrument 51-102.

NON IFRS MEASURES

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

Return on Average Shareholders’ Equity

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

Taxable Income Measures

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

Average Interest Rate

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

Impaired Mortgage Ratios

The impaired mortgage ratios represent the ratio of impaired mortgages to mortgage principal for both the corporate and total (corporate and securitized) portfolios.

Mortgage Arrears

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

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk Weighted Asset Ratios

These measures are calculated in accordance with guidelines issued by OSFI and are located on Table 21 of this MD&A and Note 22 to the consolidated financial statements.

Income Tax Capital Measures

Income tax assets, income tax liabilities and income tax capital represent assets, liabilities and capital as calculated on a non-consolidated basis using the provisions of the Tax Act applicable to a MIC. The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts.

Market Capitalization

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

Book Value per Common Share

Book value per common share is calculated as total shareholders’ equity divided by the number of common shares outstanding.

Limited Partner’s At-Risk Amount

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