MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

JUNE 30, 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 and the six months ended June 30, 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 August 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 spread 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 and trade policies;
- 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.

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights

(in thousands except for per share amounts) For the Periods Ended	Q2 2019	Q1 2019	Change (%)	Q2 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Income Statement Highlights								
Net investment income - corporate assets	$ 13,104	$ 18,747	(30%)	$ 15,063	(13%)	$ 31,851	$ 28,837	10%
Net investment income - securitization assets	$ 965	$ 1,052	(8%)	$ 1,317	(27%)	$ 2,017	$ 2,618	(23%)
Net income	$ 8,888	$ 14,305	(38%)	$ 11,125	(20%)	$ 23,193	$ 21,740	7%
Basic and diluted earnings per share	$ 0.37	$ 0.60	(38%)	$ 0.47	(21%)	$ 0.97	$ 0.92	5%
Dividends per share	$ 0.32	$ 0.32	-	$ 0.37	(14%)	$ 0.64	$ 0.74	(14%)
Next quarter's dividend per share	$ 0.32					$		
Return on average shareholders' equity [1]	11.27%	18.36%	(7.09%)	14.54%	(3.27%)	14.79%	14.32%	0.47%
Taxable income per share [1,2]	$ 0.28	$ 0.34	(18%)	$ 0.48	(42%)	$ 0.62	0.67	(7%)
Yields								
Spread of corporate mortgages over term deposits [1]	2.66%	2.73%	(0.07%)	3.17%	(0.51%)	2.70%	3.25%	(0.55%)
Spread of securitized mortgages over liabilities [1]	0.70%	0.69%	0.01%	0.76%	(0.06%)	0.70%	0.75%	(0.05%)
Average term to maturity (in months)								
Mortgages - corporate	11.6	11.9	(3%)	13.2	(12%)			
Term deposits	20.1	17.2	17%	20.5	(2%)			

As at	June 30 2019	March 31 2019	Change (%)	Dec 31 2018	Change (%)
Balance Sheet Highlights					
Total assets	$ 2,130,463	$ 2,166,709	(2%)	$ 2,141,072	(0%)
Mortgages - corporate	1,001,337	996,123	1%	922,390	9%
Mortgages - securitized	816,431	870,543	(6%)	887,252	(8%)
Shareholders' equity	$ 319,342	$ 316,769	1%	$ 306,694	4%
Capital Ratios [1]					
Income tax assets to capital ratio	4.71	4.69	0%	4.64	1%
CET 1, Tier 1 and Total Capital ratios	22.40%	22.09%	0.31%	21.66%	0.74%
Leverage ratio [3]	12.16%	12.05%	0.11%	11.79%	0.37%
Credit Quality					
Impaired mortgage ratio (corporate) [1,4]	0.27%	0.30%	(0.03%)	0.34%	(0.07%)
Impaired mortgage ratio (total) [1,4]	0.19%	0.24%	(0.05%)	0.27%	(0.08%)
Mortgage Arrears [1]					
Corporate	$ 11,334	$ 11,251	1%	$ 9,435	20%
Securitized	4,122	7,431	(45%)	6,527	(37%)
Total	$ 15,456	$ 18,682	(17%)	$ 15,962	(3%)
Common Share Information (end of period)					
Number of common shares outstanding	24,129	24,040	0%	23,798	1%
Book value per common share [1]	$ 13.23	$ 13.18	0%	$ 12.89	3%
Common share price - close	$ 15.95	$ 15.93	0%	$ 13.32	20%
Market capitalization [1]	$ 384,858	$ 382,957	0%	$ 316,989	21%

[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

Q2 2019

- Net income of $8.9 million in Q2 2019, a decrease of $2.2 million (20%) from $11.1 million in Q2 2018.
- Earnings per share totalled $0.37 per share in Q2 2019, a decrease of $0.10 (21%) from $0.47 per share in Q2 2018.
- Return on average shareholders' equity[1] of 11.27% in Q2 2019, a decrease of 3.27% from 14.54% in Q2 2018.
- Net corporate mortgage spread income decreased by $0.5 million from Q2 2018. The average corporate mortgage portfolio balance[1] increased to $1,003 million in Q2 2019 from $913 million in Q2 2018; this increase was more than offset by a reduction in net spread of corporate mortgages over term deposits[1] to 2.66% in Q2 2019 from 3.17% in Q2 2018.
- The decrease in net spread was largely due to an increase in the proportion of our corporate mortgage portfolio held in single family mortgages and an increase in the average term deposit interest rate during this period. Increases to the Bank of Canada overnight rate have led to a gradual increase in the interest rate on newly issued term deposits since mid-2018. These factors were partially offset by the increased yield on our primarily floating-rate construction loan portfolio as a result of the increases to the overnight rate.
- Equity income from MCAP Commercial LP ("MCAP") totalled $4.7 million in Q2 2019, an increase of $1.5 million (48%) from $3.2 million in Q2 2018, due to higher net interest income on securitized mortgages, servicing and administration revenue, mortgage origination fees and investment income earned.
- In Q2 2019, we recorded a $1.0 million net realized and unrealized loss on securities compared to a $3.3 million net realized and unrealized gain in Q2 2018. The Q2 2019 net realized and unrealized loss related primarily to our real estate investment trust ("REIT") portfolio, whereas Q2 2018 included net realized and unrealized gains of $2.0 million related to our investment in Crown Realty II Limited Partnership ("Crown LP") and $1.3 million related to our REIT portfolio. The net realized and unrealized loss in Q2 2019 negatively impacted earnings per share by $0.04, while the net realized and unrealized gain in Q2 2018 positively impacted earnings per share by $0.14.

Year to Date 2019

- Net income of $23.2 million for 2019 year to date, an increase of $1.5 million (7%) from $21.7 million in 2018.
- Earnings per share totalled $0.97 per share for 2019 year to date, an increase of $0.05 (5%) from $0.92 per share in 2018.
- Return on average shareholders' equity[1] of 14.79% for 2019 year to date, an increase of 0.47% from 14.32% in 2018.
- Net corporate mortgage spread income decreased by $0.7 million from 2018. The average corporate mortgage portfolio balance[1] increased to $987 million in 2019 from $881 million in 2018; this increase was offset by a reduction in net spread of corporate mortgages over term deposits[1] to 2.70% in 2019 from 3.25% in 2018 due to the reasons noted above for Q2 2019.
- In Q1 2018, we recognized a $1.7 million gain on the sale of a portion of our partnership units in MCAP.
- Net realized and unrealized gain on securities of $7.0 million for 2019 year to date, primarily driven by our REIT portfolio, compared to a net realized and unrealized gain of $3.3 million in 2018 which was comprised of the Q2 2018 items noted above. The 2019 year to date net realized and unrealized gain positively impacted earnings per share by $0.29 while the net realized and unrealized gain in 2018 positively impacted earnings per share by $0.14.

Business Activity

- Corporate assets totalled $1.26 billion at June 30, 2019, an increase of $3 million (0.2%) from March 31, 2019 and $40 million (3%) from December 31, 2018.
- Corporate mortgage portfolio totalled $1.0 billion at June 30, 2019, an increase of $5 million (1%) from March 31, 2019 and $79 million (9%) from December 31, 2018.
- Uninsured single family portfolio totalled $345 million at June 30, 2019, an increase of $37 million (12%) from March 31, 2019 and $89 million (35%) from December 31, 2018.
- Uninsured single family originations were $56 million in Q2 2019, a decrease of $8 million (12%) from Q1 2019 and an increase of $31 million (123%) from Q2 2018.

- Insured single family originations were $57 million in Q2 2019, an increase of $19 million (49%) from Q1 2019 and $31 million (116%) from Q2 2018.
- Insured single family securitization volumes of $75 million in Q2 2019, an increase of $47 million (168%) from Q1 2019 and $29 million (63%) from Q2 2018.
- Construction and commercial portfolios totalled $524 million at June 30, 2019, a decrease of $20 million (4%) from March 31, 2019 and $24 million (4%) from December 31, 2018.

Dividend

- The Board of Directors (the “Board”) declared a third quarter dividend of $0.32 per share on August 7, 2019 to be paid September 30, 2019 to shareholders of record as of September 13, 2019.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.27% at June 30, 2019 compared to 0.30% at March 31, 2019 and 0.34% at December 31, 2018[2].
- The impaired total mortgage ratio[1] was 0.19% at June 30, 2019 compared to 0.24% at March 31, 2019 and 0.27% at December 31, 2018[2].
- Total mortgage arrears[1] were $15 million at June 30, 2019 compared to $19 million at March 31, 2019 and $16 million at December 31, 2018.
- Net write-offs were $18,000 (less than 1 basis point) of the average corporate portfolio in Q2 2019 compared to $243,000 (11 basis points) in Q2 2018.
- Average loan to value ratio (“LTV”) of our uninsured single family portfolio based on an industry index of current real estate values was 65.6% at June 30, 2019 compared to 65.0% at March 31, 2019 and 63.8% at December 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 ratios[1] were 22.40% at June 30, 2019 compared to 22.09% at March 31, 2019 and 21.66% at December 31, 2018.
- The leverage ratio[1] was 12.16% at June 30, 2019 compared to 12.05% at March 31, 2019 and 11.79% at December 31, 2018.
- The income tax assets to capital ratio[1] was 4.71 at June 30, 2019 compared to 4.69 at March 31, 2019 and 4.64 at December 31, 2018.
- We issued 88,914 new common shares through the Dividend Reinvestment Program (“DRIP”) in Q2 2019 compared to 92,669 in Q2 2018. The DRIP participation rate was 18% for the 2019 second quarter dividend (2018 second quarter - 19%).

[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's most recent forecast for GDP growth for 2019 is 1.3%. Canadian job growth is steady and unemployment at June 30, 2019 was 5.5% after hitting a 44 year low in May 2019 at 5.4%. There are regional differences in jobs and unemployment, but the Canadian economy is currently substantially operating near capacity. The interest rate outlook is for no change for the second half of 2019, a significant reversal from prior forecasts of potentially three increases in 2019.

Housing market sales volumes appear to have stabilized after cooling in the first quarter of 2019 and there is speculation that markets might have plateaued. Regional differences in our markets show average price declines in Vancouver and Calgary and average price increases in Toronto. In most major markets, housing shortages will continue to drive demand for residential construction over the long term.

Canadian real estate markets continue to be impacted by the revised OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* ("OSFI Guideline B-20"), specifically the stress test. This is expected to continue even though the base rate used in the stress test, as published by the Bank of Canada, was reduced by 0.25% in July 2019. Legislation proposed by the Government of Canada in its March 2019 Federal Budget is not expected to have a significant impact on the broader housing market. The mortgage market continues to be extremely competitive as lenders adjust their strategies in conjunction with legislation. As a result, the spreads we expect to attain in the market will continue to be low by our historical standards.

Housing affordability also continues to contribute to market uncertainty as Canadian household indebtedness remains high. Positive developments in the labour market, population growth and continued demand for housing have moderated the impact of the factors restraining the housing market, to some extent, 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.

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 and business activities will continue to support growth in our uninsured originations during 2019, although at spreads lower than our historical levels. During the first half of 2019, we realized improved yields in our single family business, however, we expect that this improvement will have a marginal earnings impact in 2019. Currently, there is intense competition in the single family mortgage market that is placing downward pressure on yields, primarily in insured single family mortgages.

In our construction and commercial business, we expect spread compression as competition from other lenders increases. Notwithstanding, we expect this portfolio to grow in the second half of 2019.

We will continue to focus on increasing our originations and securitizations of insured single family and multi family mortgages leveraging our internal capabilities and our strategic partnerships. These activities provide incremental earnings to MCAN over the term of the securitized portfolio and at maturity.

We will focus on continuous improvement in our operating platform throughout the balance of the year and into 2020 to ensure that our business model meets all strategic, operational and regulatory objectives over the long term. We believe that our pragmatic and focused approach to lending, articulated risk appetite and expertise in loan management will allow us to effectively grow our business and optimize opportunities. We will continue to monitor market trends, adjust 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 continues to be in the range of 5-8%.

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 Periods Ended	Q2 2019	Q1 2019	Change (%)	Q2 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 13,639	$ 13,182	4%	$ 12,867	6%	$ 26,821	$ 24,867	8%
Equity income from MCAP Commercial LP	4,737	2,568	85%	3,194	48%	7,305	6,633	10%
Non-marketable securities	1,684	1,299	30%	1,288	31%	2,983	2,808	6%
Marketable securities	790	771	3%	867	(9%)	1,561	1,745	(11%)
Fees	739	194	281%	267	177%	933	630	48%
Interest on cash and other income	246	358	(31%)	241	2%	604	562	7%
Realized and unrealized gain (loss) on securities	(1,045)	8,028	(113%)	3,341	(131%)	6,983	3,285	113%
Gain on sale of investment in MCAP Commercial LP	-	-	-	-	-	-	1,701	(100%)
	20,790	**26,400**	**(21%)**	**22,065**	**(6%)**	**47,190**	**42,231**	**12%**
Term deposit interest and expenses	6,937	6,571	6%	5,643	23%	13,508	10,890	24%
Mortgage expenses	962	981	(2%)	1,024	(6%)	1,943	1,975	(2%)
Interest on loans payable	74	92	(20%)	96	(23%)	166	116	43%
Provision for (recovery of) credit losses	(287)	9	(3,289%)	239	(220%)	(278)	413	(167%)
	7,686	**7,653**	**0%**	**7,002**	**10%**	**15,339**	**13,394**	15%
	13,104	**18,747**	**(30%)**	**15,063**	**(13%)**	**31,851**	**28,837**	**10%**
Net Investment Income - Securitization Assets								
Mortgage interest	5,241	5,500	(5%)	6,375	(18%)	10,741	12,868	(17%)
Other securitization income	162	113	43%	23	604%	275	95	189%
	5,403	**5,613**	**(4%)**	**6,398**	**(16%)**	**11,016**	**12,963**	**(15%)**
Interest on financial liabilities from securitization	3,951	4,082	(3%)	4,558	(13%)	8,033	9,239	(13%)
Mortgage expenses	487	488	(0%)	534	(9%)	975	1,102	(12%)
Provision for (recovery of) credit losses	-	(9)	(100%)	(11)	(100%)	(9)	4	(325%)
	4,438	**4,561**	**(3%)**	**5,081**	**(13%)**	**8,999**	**10,345**	**(13%)**
	965	**1,052**	**(8%)**	**1,317**	**(27%)**	**2,017**	**2,618**	**(23%)**
Operating Expenses								
Salaries and benefits	3,494	3,567	(2%)	3,179	10%	7,061	6,124	15%
General and administrative	1,938	1,924	1%	1,963	(1%)	3,862	3,649	6%
	5,432	**5,491**	**(1%)**	**5,142**	**6%**	**10,923**	**9,773**	**12%**
Net income before income taxes	8,637	14,308	(40%)	11,238	(23%)	22,945	21,682	6%
Provision for (recovery of) income taxes	(251)	3	(8,467%)	113	(322%)	(248)	(58)	328%
Net Income	**$ 8,888**	**$ 14,305**	**(38%)**	**$ 11,125**	**(20%)**	**$ 23,193**	**$ 21,740**	**7%**
Basic and diluted earnings per share	$ 0.37	$ 0.60	(38%)	$ 0.47	(21%)	$ 0.97	$ 0.92	5%
Dividends per share	$ 0.32	$ 0.32	-	$ 0.37	(14%)	$ 0.64	$ 0.74	(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	June 30, 2019			March 31, 2019			June 30, 2018		
(in thousands except %)	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]
Single family									
- Insured	$ 130,772	$ 1,058	3.19%	$ 120,571	$ 957	3.14%	$ 94,847	$ 734	3.10%
- Uninsured	328,276	3,749	4.58%	283,371	3,137	4.46%	203,052	2,356	4.65%
- Uninsured - completed inventory	16,418	258	6.31%	12,497	191	6.20%	12,065	159	5.29%
Construction loans									
- Residential	420,115	6,881	6.58%	434,119	7,045	6.59%	440,870	7,076	6.44%
- Non residential	7,941	147	6.68%	9,847	190	7.78%	5,291	77	5.87%
Commercial loans									
- Multi family residential	45,119	624	5.57%	50,135	665	5.39%	74,034	1,014	5.43%
- Other commercial	54,557	922	6.82%	59,968	997	6.76%	82,753	1,451	7.05%
Mortgages - corporate portfolio	$ 1,003,198	$ 13,639	5.45%	$ 970,508	$ 13,182	5.49%	$ 912,912	$ 12,867	5.65%
Term deposits	941,860	6,937	2.79%	912,291	6,571	2.76%	856,680	5,643	2.48%
Net corporate mortgage spread income		$ 6,702			$ 6,611			$ 7,224	
Spread of mortgages over term deposits[2]			2.66%			2.73%			3.17%
Average term to maturity (months)									
Mortgages - corporate	11.6			11.9			13.2		
Term deposits	20.1			17.2			20.5		

Table 4: Net Interest Income and Average Rate by Mortgage Portfolio - Year to Date

For the Six Months Ended June 30	2019			2018		
(in thousands except %)	Average Balance [2]	Interest Income	Average Rate [1,2]	Average Balance [2]	Interest Income	Average Rate [1,2]
Single family						
- Insured	$ 125,699	$ 2,015	3.18%	$ 80,504	$ 1,269	3.16%
- Uninsured	305,948	6,887	4.52%	201,605	4,672	4.65%
- Uninsured - completed inventory	14,468	448	6.26%	14,675	404	5.55%
Construction loans						
- Residential	427,078	13,927	6.58%	417,628	13,218	6.38%
- Non residential	8,889	337	7.29%	4,698	137	5.89%
Commercial loans						
- Multi family residential	47,614	1,288	5.46%	73,638	1,953	5.35%
- Other commercial	57,247	1,919	6.80%	88,147	3,214	7.34%
Mortgages - corporate portfolio	$ 986,943	$ 26,821	5.47%	$ 880,895	$ 24,867	5.68%
Term deposits	927,157	13,508	2.77%	847,250	10,890	2.43%
Net corporate mortgage spread income		$ 13,313			$ 13,977	
Spread of mortgages over term deposits [2]			2.70%			3.25%

[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 June 30, 2019, March 31, 2019 and June 30, 2018 and the six months ended June 30, 2019 and June 30, 2018.*
[2] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*

Table 5: Mortgage Originations

(in thousands) For the Periods Ended	Q2 2019	Q1 2019	Change (%)	Q2 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Originations								
Single family - insured	$ 56,998	$ 38,302	49%	$ 26,417	116%	$ 95,300	$ 39,409	142%
Single family - uninsured	55,551	63,295	(12%)	24,963	123%	118,846	37,134	220%
	112,549	101,597	11%	51,380	119%	214,146	76,543	180%
Single family - uninsured completed inventory [1]	247	15,216	(98%)	8,979	(97%)	15,463	8,979	72%
Residential construction [1]	77,660	38,248	103%	100,568	(23%)	115,908	188,471	(39%)
Non-residential construction [1]	-	760	(100%)	469	(100%)	760	3,607	(79%)
Commercial [1]	337	488	(31%)	1,005	(66%)	825	47,246	(98%)
	$ 190,793	**$ 156,309**	**22%**	**$ 162,401**	**17%**	**$ 347,102**	**$ 324,846**	**7%**
Renewals of non-corporate mortgages [2]								
Single family - insured	$ 19,296	$ 5,677	240%	$ 20,121	(4%)	$ 24,973	$ 31,817	(22%)

[1] *Construction, commercial and completed inventory originations represent all advances on loans.*
[2] *Represents mortgages previously derecognized or held in securitized portfolio that have been renewed into the corporate mortgage portfolio*

Overview

The increase in the proportion of our corporate portfolio held in single family mortgages and increases in the average term deposit interest rate have led to a reduction in the spread of mortgages over term deposits in recent quarters.

Single family

During Q2 2019, we continued to balance our corporate mortgage portfolio through increasing the proportion of single family mortgages. As indicated above, Q2 2019 single family origination volumes have remained strong, contributing to an increase in the single family portfolio during the quarter. We have increased our internal sales and marketing capabilities, strengthened our relationships with the broker community and increased our underwriting capacity. 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 significant increase in insured single family originations in Q2 2019 led to a 168% increase in securitization volumes from $28 million in Q1 2019 to $75 million in Q2 2019.

Single family mortgages provide comparatively lower yields given the lower risk profile. Since mid-2018, we have observed reduced single family yields as a result of competitive pressures and the overall rate environment. During 2019, we have been able to originate single family mortgages at improved yields and we experienced an increase in the average interest rate in both the insured and uninsured single family portfolios from Q1 2019 to Q2 2019.

Construction and commercial

We continue to be active in the market for construction and commercial loans as we selectively review new lending opportunities that meet our targeted risk and return profiles. The outstanding combined portfolio balance decreased slightly during the quarter as we have slowed the volume of new originations since the second half of 2018.

The Bank of Canada increased the overnight rate twice subsequent to Q2 2018, providing a cumulative increase of 0.50%. However, the residential construction yield only increased by 0.14% from Q2 2018 as the cumulative increase in the overnight rate was offset by lower commitment fee income in Q2 2019.

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 right to renew these mortgages, which we believe will contribute to future income. As at June 30, 2019, we had the renewal rights to $1.1 billion of single family mortgages (March 31, 2019 - $1.0 billion; December 31, 2018 - $985 million).

Equity Income from MCAP

In Q2 2019, MCAP's origination volumes were $4.2 billion, unchanged from $4.2 billion in Q2 2018. As at May 31, 2019, MCAP had $75.7 billion of assets under administration compared to $73.8 billion at February 28, 2019 and $72.8 billion as at November 30, 2018. The $1.5 million increase in equity income from MCAP was due to higher net interest income on securitized mortgages, servicing and administration revenue, mortgage origination fees and investment income earned.

We recognize equity income from MCAP on a one-month lag such that our Q2 2019 equity income from MCAP is based on MCAP's net income for its quarter ended May 31, 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 $1.1 million from the KingSett High Yield Fund ("KSHYF") in Q2 2019 (Q2 2018 - $1.1 million) and $0.6 million from Crown LP in Q2 2019 (Q2 2018 - $0.2 million).

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 5.37% in Q2 2019 (Q2 2018 - 5.79%). The yield has been calculated based on the average portfolio carrying value.

Fees

The significant increase in fees from Q2 2018 was a result of higher letter of credit and loan amendment fee income. Fee income can vary between quarters given the fact that certain fees such as loan amendment and extension fees do not occur on a regular basis.

Realized and Unrealized Gain (Loss) on Securities

In Q2 2019, we recorded a $1.0 million net realized and unrealized loss on securities compared to a $3.3 million net realized and unrealized gain in Q2 2018. The Q2 2019 net realized and unrealized loss related primarily to our REIT portfolio, whereas Q2 2018 included net realized and unrealized gains of $2.0 million related to our investment in Crown LP and $1.3 million related to our REIT portfolio.

Term Deposit Interest and Expenses

The increase in the average term deposit interest rate since Q2 2018 is consistent with the 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 term deposit portfolio compared to the floating rate component of the corporate mortgage portfolio, which reprices immediately.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and CMB program. Our total new securitization volumes were $75 million in Q2 2019 (Q2 2018 - $46 million).

Table 6: Net Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	June 30, 2019			March 31, 2019			June 30, 2018		
(in thousands except %)	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]
Mortgages - securitized portfolio	$ 823,381	$ 5,241	2.55%	$ 869,466	$ 5,500	2.54%	$ 985,757	$ 6,375	2.59%
Financial liabilities from securitization	854,709	3,951	1.85%	880,659	4,082	1.85%	997,584	4,558	1.83%
Net securitized mortgage spread income		$ 1,290			$ 1,418			$ 1,817	
Spread of mortgages over liabilities[2]			0.70%			0.69%			0.76%

Table 7: Net Interest Income and Average Rate for Securitized Mortgage Portfolio - Year to Date

For the Six Months Ended June 30	2019			2018		
(in thousands except %)	Average Balance [2]	Interest Income	Average Rate [1,2]	Average Balance [2]	Interest Income	Average Rate [1,2]
Mortgages - securitized portfolio	$ 846,296	$ 10,741	2.55%	$ 1,000,459	$ 12,868	2.58%
Financial liabilities from securitization	867,612	8,033	1.85%	1,010,581	9,239	1.83%
Net securitized mortgage spread income		$ 2,708			$ 3,629	
Spread of mortgages over liabilities[2]			0.70%			0.75%

[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 June 30, 2019, March 31, 2019 and June 30, 2018 and the six months ended June 30, 2019 and June 30, 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 8: Provisions for Credit Losses and Write-offs

(in thousands except basis points) For the Periods Ended	Q2 2019	Q1 2019	Change (%)	Q2 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Provision (recovery) on impaired corporate mortgages								
Single family uninsured	$ 18	$ (3)	(700%)	$ 90	(80%)	$ 15	$ 154	(90%)
Construction - residential	-	(217)	(100%)	-	-	(217)	-	-
	18	(220)	(108%)	90	(80%)	(202)	154	(231%)
Provision (recovery) on performing corporate mortgages								
Single family insured	18	1	1,700%	11	64%	19	10	90%
Single family uninsured	10	(403)	(103%)	706	(99%)	(393)	738	(153%)
Single family uninsured - completed inventory	(29)	93	(131%)	8	(463%)	64	(344)	(119%)
Construction								
Residential	(268)	1,098	(124%)	(48)	458%	830	103	706%
Non-residential	(9)	(40)	(78%)	(4)	125%	(49)	(17)	188%
Commercial								
Multi family residential	(28)	(262)	(89%)	(79)	(65%)	(290)	58	(600%)
Other commercial	1	(251)	(100%)	(408)	(100%)	(250)	(237)	6%
	(305)	236	(229%)	186	(264%)	(69)	311	(122%)
Other provisions (recoveries)	-	(7)	(100%)	(37)	(100%)	(7)	(52)	(87%)
Total corporate provision for (recovery of) credit losses	(287)	9	(3,289%)	239	(220%)	(278)	413	(167%)
Provision (recovery) on performing securitized mortgages	-	(9)	(100%)	(11)	(100%)	(9)	4	(325%)
Total provisions for (recoveries of) credit losses	$ (287)	$ -	-	$ 228	(226%)	$ (287)	$ 417	(169%)
Corporate mortgage portfolio data:								
Provisions for (recoveries of) credit losses, net	$ (287)	$ 16	(1,894%)	$ 276	(204%)	$ (271)	$ 465	(158%)
Net write offs	$ 18	$ 23	(22%)	$ 243	(93%)	$ 41	$ 256	(84%)
Net write offs (basis points)	0.7	0.9	(22%)	10.6	(93%)	0.8	5.8	(86%)

Provisions on performing mortgages reflect changes in portfolio balances and characteristics of the mortgages held in the portfolio. In addition, we may incorporate management judgment, where appropriate, in the calculation of mortgage allowances. Accordingly, provisions on performing mortgages are expected to change between periods.

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

Operating Expenses

Table 9: Operating Expenses

(in thousands) For the Periods Ended	Q2 2019	Q1 2019	Change (%)	Q2 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Salaries and benefits	$ 3,494	$ 3,567	(2%)	$ 3,179	10%	$ 7,061	$ 6,124	15%
General and administrative	1,938	1,924	1%	1,963	(1%)	3,862	3,649	6%
	$ 5,432	**$ 5,491**	**(1%)**	**$ 5,142**	**6%**	**$ 10,923**	**$ 9,773**	**12%**

The increase in salaries and benefits from Q2 2018 and 2018 year to date is primarily due to an increased staff complement focused on internal infrastructure and systems initiatives. General and administrative expense has remained relatively consistent during these periods.

Taxable Income

The table below provides a reconciliation between consolidated 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 expect to pay out all of our taxable income over time 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 10: Taxable Income Reconciliation [1]

(in thousands) **For the Periods Ended**	**Q2 2019**	**Q2 2018**	**YTD 2019**	**YTD 2018**
Consolidated net income for accounting purposes	$ 8,888	$ 11,125	$ 23,193	$ 21,740
Adjustments to calculate taxable income:				
Deduct: Equity income from MCAP - accounting purposes	(4,737)	(3,194)	(7,305)	(6,633)
Add: MCAP taxable income (loss)	1,094	4,143	3,066	406
Reverse: Provision for (recovery of) credit losses [2]	(302)	167	(97)	312
Add: Amortization of upfront securitization program costs [3]	1,668	1,764	3,331	3,536
Deduct: Securitization program mortgage origination costs [3]	(1,908)	(698)	(2,868)	(1,017)
Reverse: Unrealized (gain) / loss on securities [4]	839	(1,304)	(6,921)	(729)
Reverse: Income/loss earned in subsidiaries [5]	816	(1,411)	2,100	(1,803)
Deduct: Accounting gain on partial sale of MCAP [6]	-	-	-	(1,701)
Add: Taxable gain on partial sale of MCAP [6]	-	-	-	1,425
Other items	378	679	366	206
Taxable Income	**$ 6,736**	**$ 11,271**	**$ 14,865**	**$ 15,742**

[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] Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.
[3] Securitization program mortgage origination costs 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] Excluded from the calculation of taxable income; only includes unrealized gains and losses recognized in the MIC entity.
[5] Represents the component of consolidated income that is earned outside of the MIC entity, therefore excluded in the calculation of taxable income.
[6] For tax purposes, the accounting gain is excluded and only 50% of the taxable gain is included.

The decrease in taxable income in Q2 2019 from Q2 2018 was a result of lower taxable income from MCAP and higher securitized mortgage origination costs, which are discussed below. The variance in taxable income from MCAP has primarily resulted from timing differences between accounting and taxable income relating to securitization transactions that MCAP executed. These timing differences are expected to reverse over the duration of the transactions.

In Q2 2019, MCAN incurred $1.9 million of origination costs on securitized mortgages (Q2 2018 - $0.7 million) that were originated by XMC. This increase was consistent with higher securitization volumes and wider spreads in Q2 2019. 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.

Cash Flows

Operating Activities

- Provided cash flows of $3.9 million for Q2 2019; provided $43 million for Q2 2018.
- Increased net inflows from mortgages were more than offset by decreased net inflows from term deposits in Q2 2019. Additionally, we had net outflows in non-marketable securities and financial liabilities from securitization.

Investing Activities

- Provided cash flows of $1.3 million for Q2 2019; provided $1.6 million for Q2 2018.
- The decrease related to slightly lower distributions from MCAP in Q2 2019 compared to Q2 2018.

Financing Activities

- Used cash flows of $6.5 million for Q2 2019; used $10 million for Q2 2018.
- The decrease was due to outflows of $3.0 million from loans payable in Q2 2018 compared to $nil in Q2 2019.

FINANCIAL POSITION

Table 11: Assets

(in thousands) As at	June 30 2019	March 31 2019	Change (%)	December 31 2018	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 52,522	$ 53,813	(2%)	$ 98,842	(47%)
Marketable securities	58,109	61,007	(5%)	53,247	9%
Mortgages	1,001,337	996,123	1%	922,390	9%
Non-marketable securities	72,171	72,460	-	71,813	-
Equity investment in MCAP Commercial LP	65,865	62,490	5%	61,593	7%
Deferred tax asset	125	3,090	(96%)	2,961	(96%)
Other assets	14,174	12,568	13%	13,493	5%
	1,264,303	**1,261,551**	**-**	**1,224,339**	**3%**
Securitization Assets					
Cash held in trust	46,331	31,272	48%	26,002	78%
Mortgages	816,431	870,543	(6%)	887,252	(8%)
Other assets	3,398	3,343	2%	3,479	(2%)
	866,160	**905,158**	**(4%)**	**916,733**	**(6%)**
	$ 2,130,463	**$ 2,166,709**	**(2%)**	**$ 2,141,072**	**-**

Our total asset portfolio has remained consistent in recent quarters, which has been a combination of steady growth in corporate assets, 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 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 June 30, 2019 the average outstanding construction loan balance was $7 million (March 31, 2019 - $7 million; December 31, 2018 - $6 million) with a maximum individual 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 or industrial buildings) and high ratio mortgage loans (e.g. loans that do not meet conventional 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 Q2 2019, we securitized $35 million of MBS through the market MBS program and sold the MBS to third parties; during Q2 2018 we securitized $46 million but retained the MBS on our balance sheet.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. As at June 30, 2019, we held $61 million of retained MBS on our balance sheet (March 31, 2019 - $63 million; December 31, 2018 - $68 million), which is included in the insured single family portfolio in corporate mortgages.

CMB Program

During Q2 2019, we securitized $40 million of insured single family mortgages through the CMB program (Q2 2018 - $nil).

Table 12: Mortgage Summary

(in thousands) As at	June 30 2019	March 31 2019	Change (%)	December 31 2018	Change (%)
Corporate portfolio:					
Single family mortgages					
- Insured	$ 121,084	$ 124,857	(3%)	$ 111,419	9%
- Uninsured	344,621	307,539	12%	255,545	35%
- Uninsured - completed inventory	11,879	19,884	(40%)	7,703	54%
Construction loans					
- Residential	425,400	428,037	(1%)	422,561	1%
- Non-residential	4,511	9,062	(50%)	11,018	(59%)
Commercial loans					
- Multi family residential	43,332	50,108	(14%)	50,133	(14%)
- Other commercial	50,510	56,636	(11%)	64,011	(21%)
	1,001,337	**996,123**	**1%**	**922,390**	**9%**
Securitized portfolio:					
Single family insured - Market MBS program	595,334	684,507	(13%)	722,726	(18%)
Single family insured - CMB program	221,097	186,036	19%	164,526	34%
	816,431	**870,543**	**(6%)**	**887,252**	**(8%)**
	$ 1,817,768	**$ 1,866,666**	**(3%)**	**$ 1,809,642**	**0%**

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

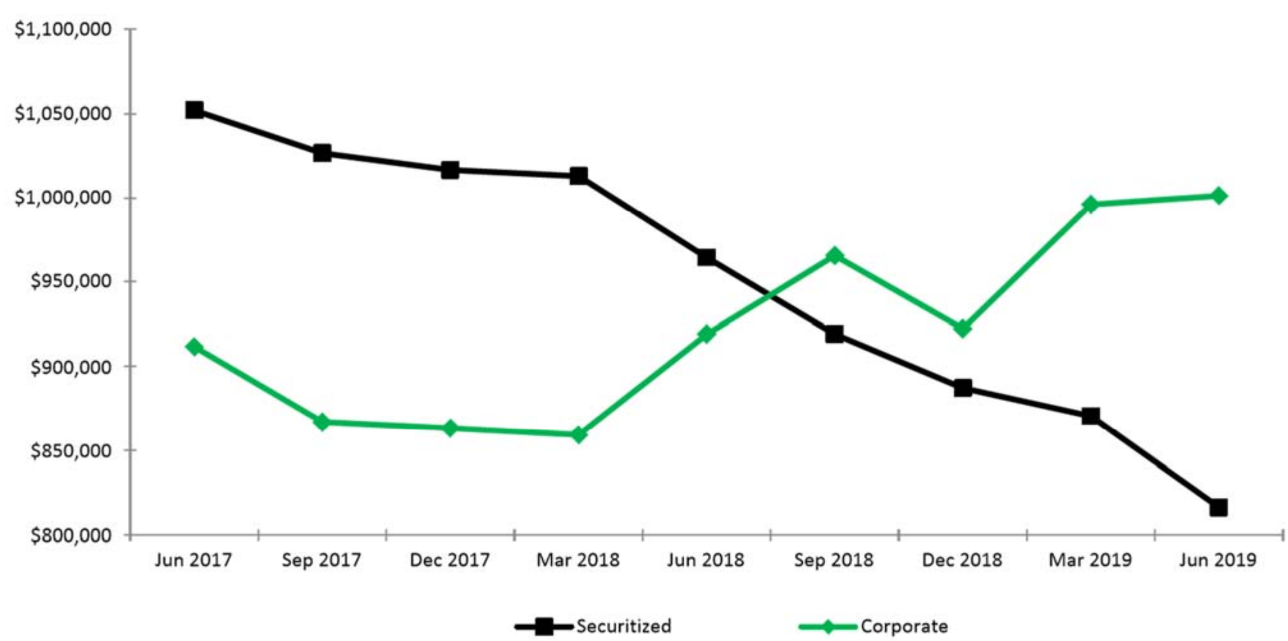
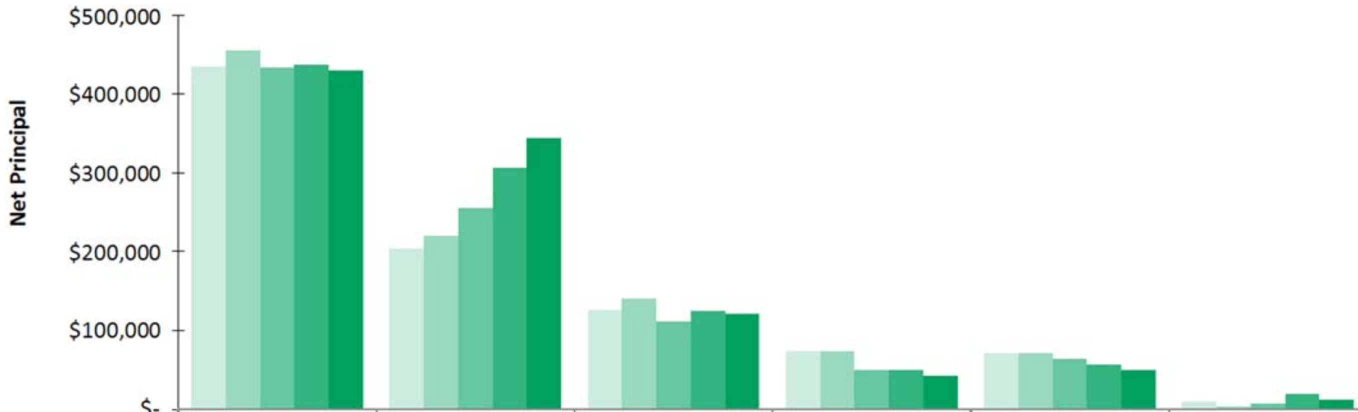


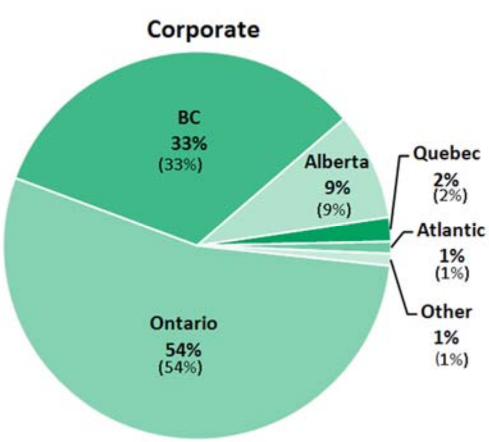
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)

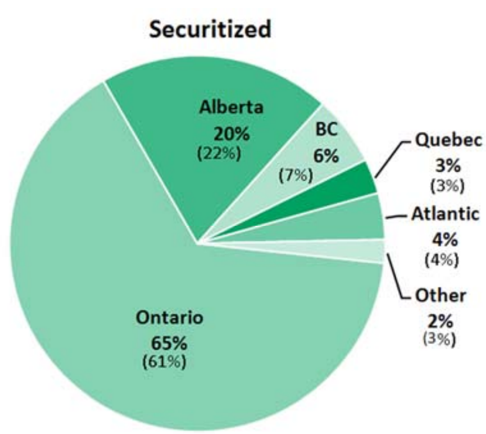


	Construction (residential and non-residential)	Single family uninsured	Single family insured	Commercial multi family residential	Commercial other	Single family uninsured (completed inventory loans)
Jun 30, 2018	$435,351 (47%)	$203,897 (22%)	$125,330 (14%)	$73,830 (8%)	$71,331 (8%)	$9,314 (1%)
Sep 30, 2018	$455,692 (47%)	$221,220 (23%)	$139,860 (15%)	$73,547 (8%)	$71,260 (7%)	$4,095 (0%)
Dec 31, 2018	$433,579 (47%)	$255,545 (28%)	$111,419 (12%)	$50,133 (5%)	$64,011 (7%)	$7,703 (1%)
Mar 31, 2019	$437,099 (44%)	$307,539 (31%)	$124,857 (13%)	$50,108 (5%)	$56,636 (6%)	$19,884 (2%)
Jun 30, 2019	$429,911 (43%)	$344,621 (34%)	$121,084 (12%)	$43,332 (4%)	$50,510 (5%)	$11,879 (1%)

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 June 30, 2019 (March 31, 2019)





Credit Quality

Table 13: Arrears and Impaired Mortgages

(in thousands except %) As at	June 30 2019	March 31 2019	Change (%)	December 31 2018	Change (%)
Impaired mortgages					
Corporate					
Single family - insured	$ 636	$ 1,096	(42%)	$ 1,004	(37%)
Single family - uninsured	2,047	1,845	11%	1,602	28%
Construction - residential	-	-	-	548	(100%)
	2,683	2,941	(9%)	3,154	(15%)
Securitized	810	1,458	(44%)	1,801	(55%)
Total impaired mortgages	$ 3,493	$ 4,399	(21%)	$ 4,955	(30%)
Impaired mortgage ratio (corporate) [1,2]	0.27%	0.30%	(0.03%)	0.34%	(0.07%)
Impaired mortgage ratio (total) [1,2]	0.19%	0.24%	(0.05%)	0.27%	(0.08%)
Mortgage arrears (past due) [3]					
Corporate					
Single family - insured	$ 3,159	$ 2,121	49%	$ 1,594	98%
Single family - uninsured	8,175	9,130	(11%)	7,293	12%
Construction - residential	-	-	-	548	(100%)
Total corporate mortgage arrears [1]	11,334	11,251	1%	9,435	20%
Total securitized mortgage arrears [1]	4,122	7,431	(45%)	6,527	(37%)
Total mortgage arrears [1]	$ 15,456	$ 18,682	(17%)	$ 15,962	(3%)
Staging analysis - corporate portfolio					
Stage 2					
Single family - insured	$ 12,760	$ 12,250	4%	$ 7,743	65%
Single family - uninsured	57,428	57,197	0%	49,493	16%
Construction - residential	53,976	38,673	40%	60,929	(11%)
Commercial - multi-family residential	1,498	1,515	(1%)	2,079	(28%)
Commercial - other	-	3,114	(100%)	3,535	(100%)
	125,662	112,749	12%	123,779	2%
Stage 3					
Single family - insured	636	1,096	(42%)	1,004	(37%)
Single family - uninsured	2,047	1,845	11%	1,602	28%
Construction - residential	-	-	-	548	(100%)
	2,683	2,941	(9%)	3,154	(15%)
Total stage 2 and 3 corporate mortgages	$ 128,345	$ 115,690	11%	$ 126,933	1%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 4,337	$ 4,660	(7%)	$ 4,424	(2%)
Allowance on impaired mortgages	205	187	10%	430	(52%)
	4,542	4,847	(6%)	4,854	(6%)
Securitized - allowance on performing mortgages	6	6	-	14	(57%)
Total allowance for credit losses	$ 4,548	$ 4,853	(6%)	$ 4,868	(7%)

[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.

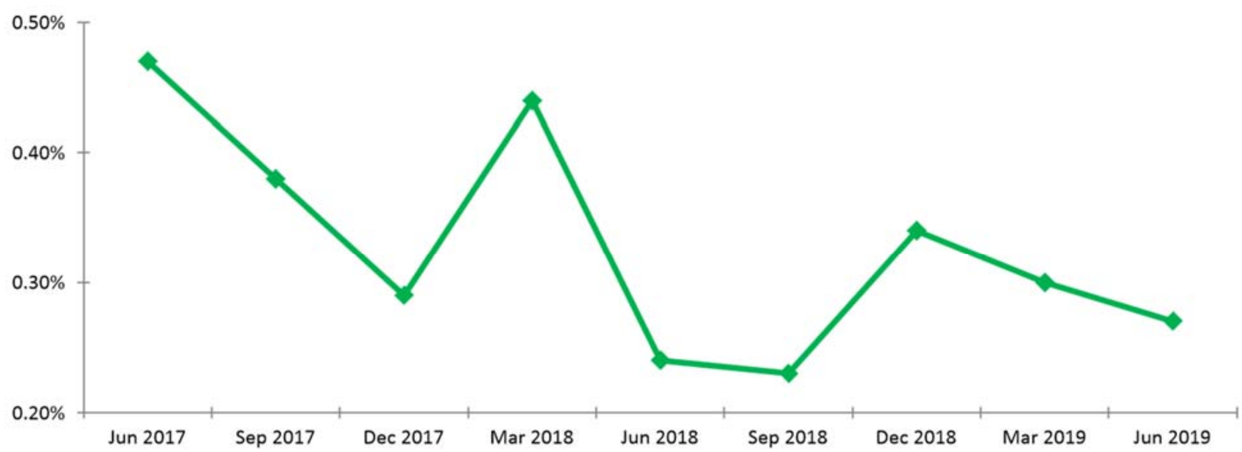
Arrears and Impaired Mortgage Summary

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 actively 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 are expected to vary between periods.

Figure 4: Impaired Corporate Mortgage Ratio



The impaired corporate 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 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 14: Single Family Mortgages by Province as at June 30, 2019

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 79,853	66.0%	$ 244,717	68.5%	$ 93	76.2%	$ 526,341	64.5%	$ 851,004	65.9%
Alberta	21,788	18.0%	35,571	10.0%	29	23.8%	163,208	20.0%	220,596	17.0%
British Columbia	4,539	3.8%	61,163	17.2%	-	-	47,509	5.8%	113,211	8.7%
Quebec	5,583	4.6%	3,476	1.0%	-	-	24,687	3.0%	33,746	2.6%
Atlantic Provinces	7,222	6.0%	5,328	1.5%	-	-	33,278	4.1%	45,828	3.5%
Other	1,977	1.6%	6,245	1.8%	-	-	21,408	2.6%	29,630	2.3%
Total	**$ 120,962**	**100.0%**	**$ 356,500**	**100.0%**	**$ 122**	**100.0%**	**$ 816,431**	**100.0%**	**$ 1,294,015**	**100.0%**

Table 15: Single Family Mortgages by Province as at March 31, 2019

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
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 16: Single Family Mortgages by Amortization Period as at June 30, 2019

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 71,500	$ 137,488	$ 252,250	$ 16,346	$ 477,584
	15.0%	28.8%	52.8%	3.4%	100.0%
Securitized	$ 179,672	$ 468,170	$ 147,635	$ 20,954	$ 816,431
	22.0%	57.3%	18.1%	2.6%	100.0%
Total	**$ 251,172**	**$ 605,658**	**$ 399,885**	**$ 37,300**	**$ 1,294,015**
	19.4%	**46.8%**	**30.9%**	**2.9%**	**100.0%**

Table 17: 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	$ 130,909	$ 235,158	$ 9,641	$ 452,280
	16.9%	28.9%	52.1%	2.1%	100.0%
Securitized	$ 194,049	$ 462,194	$ 178,931	$ 35,369	$ 870,543
	22.3%	53.1%	20.5%	4.1%	100.0%
Total	**$ 270,621**	**$ 593,103**	**$ 414,089**	**$ 45,010**	**$ 1,322,823**
	20.5%	**44.8%**	**31.3%**	**3.4%**	**100.0%**

Table 18: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) For the Periods Ended	Q2 2019	Average LTV	Q2 2018	Average LTV	YTD 2019	Average LTV	YTD 2018	Average LTV
Ontario	$ 45,618	71.9%	$ 17,990	69.6%	$ 99,333	71.4%	$ 25,632	68.8%
Alberta	104	65.0%	497	78.4%	374	54.5%	724	77.4%
British Columbia	9,455	74.1%	5,910	70.8%	18,765	72.0%	9,183	68.6%
Other	374	72.7%	566	68.7%	374	72.7%	1,595	70.8%
	$ 55,551	**72.2%**	**$ 24,963**	**70.1%**	**$ 118,846**	**71.4%**	**$ 37,134**	**69.0%**

Table 19: Average Mortgage Loan to Value (LTV) Ratios at Origination

As at	June 30 2019	March 31 2019	December 31 2018
Corporate portfolio:			
Single family mortgages			
- Insured	81.3%	80.7%	79.8%
- Uninsured [1]	67.2%	66.2%	64.8%
- Uninsured completed inventory [1]	56.6%	53.9%	59.6%
Construction loans			
- Residential	47.2%	49.3%	46.9%
- Non-residential	38.2%	50.1%	46.2%
Commercial loans			
- Multi family residential	60.5%	62.7%	62.8%
- Other commercial	59.3%	56.2%	51.0%
	59.4%	59.5%	57.0%
Securitized portfolio:			
Single family insured - Market MBS Program	84.6%	84.2%	84.3%
Single family insured - CMB Program	83.4%	83.0%	82.9%
	84.3%	83.9%	84.0%
	70.5%	70.9%	70.2%

[1] MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 66.8% as at June 30, 2019 (March 31, 2019 - 65.4%; December 31, 2018 - 64.8%). Based on an industry index that incorporates current real estate values, the ratios would be 65.6%, 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 June 30, 2019, our cash balance was $53 million (March 31, 2019 - $54 million; December 31, 2018 - $99 million).

Marketable Securities

Marketable securities, consisting primarily of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. As at June 30, 2019, the portfolio balance was $58 million (March 31, 2019 - $61 million; December 31, 2018 - $53 million). The decrease during Q2 2019 consisted of $2.1 million of REIT sales and a $0.8 million decrease in the fair value of the portfolio.

Non-Marketable Securities

We invest in the KSHYF, in which we have a 7.9% equity interest (March 31, 2019 - 7.9%; December 31, 2018 - 7.9%). At June 30, 2019, the carrying value of our investment was $42 million (March 31, 2019 - $43 million; December 31, 2018 - $42 million). The KSHYF invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages.

We invest in Crown LP, in which we have a 14.1% equity interest (March 31, 2019 - 14.1%; December 31, 2018 - 14.1%). At June 30, 2019, the carrying value of our investment was $30 million (March 31, 2019 - $30 million; December 31, 2018 - $30 million). Crown LP invests primarily in commercial office buildings.

Equity Investment in MCAP

We hold a 13.84% equity interest in MCAP (March 31, 2019 - 13.84%; December 31, 2018 - 13.71%), which represents 4.0 million units held by MCAN as at June 30, 2019 (March 31, 2019 - 4.0 million; December 31, 2018 - 4.0 million) of the 28.9 million total outstanding MCAP partnership units (March 31, 2019 - 28.9 million; December 31, 2018 - 29.2 million).

The investment had a net book value of $66 million as at June 30, 2019 (March 31, 2019 - $62 million; December 31, 2018 - $62 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 June 30, 2019 (March 31, 2019 - $36 million; December 31, 2018 - $36 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 Q2 2019, we received $1.4 million of unitholder distributions from MCAP (Q2 2018 - $1.6 million). As 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 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 20: Liabilities and Shareholders' Equity

(in thousands) As at	June 30 2019	March 31 2019	Change (%)	December 31 2018	Change (%)
Corporate Liabilities					
Term deposits	$ 953,045	$ 946,038	1%	$ 919,623	4%
Current taxes payable	-	366	(100%)	173	(100%)
Deferred tax liabilities	262	3,528	(93%)	3,478	(92%)
Other liabilities	11,588	11,069	5%	13,169	(12%)
	964,895	**961,001**	**-**	**936,443**	**3%**
Securitization Liabilities					
Financial liabilities from securitization	846,226	888,939	(5%)	897,935	(6%)
	846,226	**888,939**	**(5%)**	**897,935**	**(6%)**
	1,811,121	**1,849,940**	**(2%)**	**1,834,378**	**(1%)**
Shareholders' Equity					
Share capital	226,668	225,291	1%	221,869	2%
Contributed surplus	510	510	-	510	-
Retained earnings	92,164	90,968	1%	84,315	9%
	319,342	**316,769**	**1%**	**306,694**	**4%**
	$ 2,130,463	**$ 2,166,709**	**(2%)**	**$ 2,141,072**	**(0%)**

Term Deposits

To fund our corporate operations, we primarily issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We source term deposits through a broker distribution network across Canada consisting of third party deposit agents and financial advisors. Deposits cannot 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.

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 Q2 2019 reflects new common shares issued through the DRIP. The DRIP participation rate for the 2019 second quarter dividend was 18% (2019 first quarter - 26%; 2018 second quarter - 19%). For further information, refer to Note 15 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for Q2 2019 consists of net income of $8.9 million less dividends of $7.7 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except per share amounts and where indicated)	Q2/19 [5]	Q1/19 [5]	Q4/18 [5]	Q3/18 [5]	Q2/18 [5]	Q1/18 [5]	Q4/17	Q3/17
Income Statement Highlights								
Net investment income - corporate assets	$ 13,104	$ 18,747	$ 7,872	$ 13,430	$ 15,063	$ 13,774	$ 14,359	$ 12,918
Net investment income - securitization assets	965	1,052	1,082	1,276	1,317	1,301	1,416	1,532
Net income	$ 8,888	$ 14,305	$ 3,547	$ 11,006	$ 11,125	$ 10,615	$ 10,807	$ 9,918
Basic and diluted earnings per share	$ 0.37	$ 0.60	$ 0.15	$ 0.47	$ 0.47	$ 0.45	$ 0.47	$ 0.42
Dividends per share	$ 0.32	$ 0.32	$ 0.32	$ 0.37	$ 0.37	$ 0.37	$ 0.37	$ 0.32
Return on average shareholders' equity [1]	11.27%	18.36%	4.66%	14.29%	14.54%	14.10%	14.63%	13.63%
Taxable income per share [1, 2]	$ 0.28	$ 0.34	$ 0.49	$ 0.13	$ 0.48	$ 0.19	$ 0.34	$ 0.36
Yields								
Spread of corporate mortgages over term deposits [1]	2.66%	2.73%	2.93%	2.92%	3.17%	3.34%	3.27%	3.00%
Spread of securitized mortgages over liabilities [1]	0.70%	0.69%	0.70%	0.74%	0.76%	0.74%	0.76%	0.80%
Average term to maturity (in months)								
Mortgages - corporate	11.6	11.9	11.5	12.8	13.2	11.3	11.3	10.6
Term deposits	20.1	17.2	18.7	19.2	20.5	19.0	19.1	18.1
Balance Sheet Highlights ($ million)								
Total assets	$ 2,130	$ 2,167	$ 2,141	$ 2,189	$ 2,206	$ 2,154	$ 2,217	$ 2,196
Mortgages - corporate	1,001	996	922	966	919	859	863	867
Mortgages - securitized	816	871	887	919	965	1,013	1,017	1,027
Shareholders' equity	$ 319	$ 317	$ 307	$ 302	$ 306	$ 302	$ 297	$ 290
Capital Ratios								
Income tax assets to capital ratio [1]	4.71	4.69	4.64	4.90	4.60	4.33	4.60	4.50
CET 1, Tier 1 and Total Capital ratios [1]	22.40%	22.09%	21.66%	20.58%	21.47%	21.29%	21.26%	21.34%
Leverage ratio [3]	12.16%	12.05%	11.79%	11.35%	11.55%	11.74%	11.31%	11.31%
Credit Quality								
Impaired mortgage ratio (corporate) [1,4]	0.27%	0.30%	0.34%	0.23%	0.24%	0.44%	0.29%	0.38%
Impaired mortgage ratio (total) [1,4]	0.19%	0.24%	0.27%	0.24%	0.20%	0.26%	0.13%	0.18%
Mortgage Arrears								
Corporate [1]	$ 11,334	$ 11,251	$ 9,435	$ 8,398	$ 6,739	$ 9,204	$ 8,766	$ 11,317
Securitized [1]	4,122	7,431	6,527	8,472	13,979	9,554	8,803	7,782
Total [1]	$ 15,456	$ 18,682	$ 15,962	$ 16,870	$ 20,718	$ 18,758	$ 17,569	$ 19,099
Common Share Information (end of period)								
Number of common shares outstanding	24,129	24,040	23,798	23,746	23,652	23,559	23,378	23,378
Book value per common share [1]	$ 13.23	$ 13.18	$ 12.89	$ 12.74	$ 12.94	$ 12.82	$ 12.70	$ 12.42
Common share price - close	$ 15.95	$ 15.93	$ 13.32	$ 17.50	$ 17.90	$ 17.61	$ 17.84	$ 15.60
Market capitalization ($ million) [1]	$ 385	$ 383	$ 317	$ 416	$ 423	$ 415	$ 417	$ 365

[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 composition and balance, as well as changes in distributions and realized and unrealized gains and losses on marketable and non-marketable securities. Additionally, corporate net investment income is impacted by equity income from MCAP, which can vary materially from quarter to quarter.

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 realized and 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 our corporate portfolio was floating rate during that time Term deposit interest rates also increased through this period due to the increases in the Bank of Canada overnight rate. However, since mid-2018, a shift in the portfolio mix towards single family mortgages has contributed to the gradual decrease in the spread of corporate mortgages over term deposits.

A reduction in new securitization volumes and mortgage maturities have gradually decreased the securitized mortgage portfolio since 2017. The overall economics of securitization have been reduced by competitive and investor-driven pressures.

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 asset growth and economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. We expect to pay out all of our taxable income over time through 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 22: Income Tax Capital [1]

(in thousands except ratios) **As at**	**June 30 2019**	**March 31 2019**	**December 31 2018**
Income tax assets [1]			
Consolidated assets	$ 2,130,463	$ 2,166,709	$ 2,141,072
Adjustment for assets in subsidiaries	10,879	7,886	6,743
Non-consolidated assets in MIC entity	2,141,342	2,174,595	2,147,815
Add: corporate mortgage allowances	4,357	4,678	4,466
Less: securitization assets [2]	(855,712)	(898,472)	(908,367)
Adjustments to equity investments in MCAP and subsidiaries	(55,264)	(52,393)	(52,450)
Other adjustments	(11,567)	(12,906)	(4,328)
	$ 1,223,156	$ 1,215,502	$ 1,187,136
Income tax liabilities [1]			
Consolidated liabilities	$ 1,811,121	$ 1,849,940	$ 1,834,378
Adjustment for liabilities in subsidiaries	(2,930)	(6,009)	(6,194)
Non-consolidated liabilities in MIC entity	1,808,191	1,843,931	1,828,184
Less: securitization liabilities [2]	(844,970)	(887,645)	(896,641)
	$ 963,221	$ 956,286	$ 931,543
Income tax capital [1]	$ 259,935	$ 259,216	$ 255,593
Income tax capital ratios [1]			
Income tax assets to capital ratio	4.71	4.69	4.64
Income tax liabilities to capital ratio	3.71	3.69	3.64

[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" sub-section above.

Both OSFI and the Basel Committee on Banking Supervision 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 23: Regulatory Capital

(in thousands except %) As at	June 30 2019	March 31 2019	December 31 2018
Regulatory Ratios (OSFI)			
Share capital	$ 226,668	$ 225,291	$ 221,869
Contributed surplus	510	510	510
Retained earnings	92,164	90,968	84,315
Deduction for equity investment in MCAP [2]	(33,931)	(30,813)	(30,925)
Common Equity Tier 1, Tier 1 and Total Capital [1]	$ 285,411	$ 285,956	$ 275,769
Total Exposures/Regulatory Assets [1]			
Consolidated assets	$ 2,130,463	$ 2,166,709	$ 2,141,072
Less: Deduction for equity investment in MCAP [2]	(33,931)	(30,813)	(30,925)
Other adjustments [3]	4,422	2,101	1,295
Total On-Balance Sheet Exposures	2,100,954	2,137,997	2,111,442
Mortgage and investment funding commitments	458,795	433,823	410,020
Less: conversion to credit equivalent amount (50%)	(229,398)	(216,912)	(205,010)
Letters of credit	34,259	35,950	43,757
Less: conversion to credit equivalent amount (50%)	(17,130)	(17,975)	(21,879)
Total Off-Balance Sheet Items	246,526	234,886	226,888
Total Exposures/Regulatory Assets	$ 2,347,480	$ 2,372,883	$ 2,338,330
Leverage ratio [1]	12.16%	12.05%	11.79%
Risk weighted assets [1]	$ 1,273,898	$ 1,294,275	$ 1,273,205
Regulatory Capital Ratios [1]			
Common Equity Tier 1 capital to risk-weighted assets ratio	22.40%	22.09%	21.66%
Tier 1 capital to risk-weighted assets ratio	22.40%	22.09%	21.66%
Total capital to risk-weighted assets ratio	22.40%	22.09%	21.66%

[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 24: Regulatory Risk-Weighted Assets

(in thousands except %)	June 30, 2019			March 31, 2019		
As at	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 52,522	22%	$ 11,390	$ 53,813	21%	$ 11,184
Cash held in trust	46,331	20%	9,266	31,272	20%	6,254
Marketable securities	58,109	100%	58,109	61,007	100%	61,007
Mortgages - corporate	1,001,337	66%	661,127	996,123	68%	676,502
Mortgages - securitized	816,431	3%	28,190	870,543	3%	28,004
Non-marketable securities	72,171	209%	150,693	72,460	207%	149,947
Equity investment in MCAP Commercial LP	65,865	48%	31,934	62,490	51%	31,677
Deferred tax asset	125	100%	125	3,090	100%	3,090
Other assets	17,572	100%	17,572	15,911	100%	15,911
			968,406			983,576
Off-Balance Sheet Items						
Letters of credit	34,259	50%	17,130	35,950	50%	17,975
Commitments	458,795	40%	182,262	433,823	42%	184,286
			199,392			202,261
Charge for operational risk			106,100			108,438
Risk-Weighted Assets			**$ 1,273,898**			**$ 1,294,275**

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 and 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.

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 accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF details the daily, monthly and quarterly analyses that are performed by management, and includes a framework for daily funding requirements, gap analysis between assets and liabilities, deposit concentration levels, liquidity risk limits, and stress testing requirements, in alignment with both the standards set under the Trust Act and regulations or guidelines issued by OSFI. 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.

The Asset and Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, ALCO reviews the Company's liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). As at June 30, 2019, we are in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN's stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. As at June 30, 2019, we held sufficient liquidity and maintained the ability to fund obligations over the forecasted period under the stress test scenarios.

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 September 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.

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 June 30, 2019, we were in compliance with the LCR and NCCF metrics.

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 25: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	June 30 2019	March 31 2019
Sources of liquidity							
Cash and cash equivalents	$ 52,522	$ -	$ -	$ -	$ -	$ 52,522	$ 53,813
Marketable securities	58,080	-	-	29	-	58,109	61,007
Mortgages - corporate	226,351	482,496	218,705	56,310	17,475	1,001,337	996,123
Non-marketable securities	-	-	-	-	72,171	72,171	72,460
Other loans	847	586	536	-	-	1,969	2,331
	337,800	483,082	219,241	56,339	89,646	1,186,108	1,185,734
Uses of liquidity							
Term deposits	61,967	344,229	412,308	134,541	-	953,045	946,038
Other liabilities	4,787	518	1,476	1,624	3,183	11,588	11,069
	66,754	344,747	413,784	136,165	3,183	964,633	957,107
Net liquidity surplus (deficit)	**$ 271,046**	**$ 138,335**	**$ (194,543)**	**$ (79,826)**	**$ 86,463**	**$ 221,475**	**$ 228,627**
Off-balance sheet							
Unfunded mortgage commitments	$ 153,301	$ 129,519	$ 151,277	$ -	$ -	$ 434,097	$ 412,875
Commitment - KSHYF	-	-	-	-	24,698	24,698	20,948
	$ 153,301	$ 129,519	$ 151,277	$ -	$ 24,698	$ 458,795	$ 433,823

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 risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments. Credit policies include credit risk limits in alignment with the Risk Appetite Framework ("RAF"). These credit risk limits include, but are not limited to, concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis and approved by the Board to reflect changes in market conditions and risk appetite.

The Capital Commitments Committee ("CCC"), which is comprised of management, is accountable for decision-making on credit risk issues and provides oversight of proposed investments for the construction, commercial and marketable and non-marketable securities portfolios.

Credit and commitment exposure is closely monitored by the first and second line of defence. The Risk and Compliance Committee, which is comprised of management, monitors and challenges credit risk exposures and performance against credit risk limits on a monthly basis, and the ERM&CC reviews all material risks affecting the Company on a quarterly basis, which includes the identification, assessment, and monitoring of material credit risks.

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/arrears" 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 June 30, 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. Risk factors that MCAN regularly considers are credit spread, gap, basis and yield curve risks.

The Interest Rate Risk Management Framework ("IRRMF"), which is reviewed and approved periodically by the Board, details MCAN's interest rate risk measurement tools, including stress testing, roles and accountabilities, and monitoring and reporting requirements. Additionally, it establishes appropriate interest rate risk limits and articulates appetite for interest rate exposures.

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities including, both parallel and non-parallel changes in interest rates. By managing and 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 (economic value of equity and net interest income) 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 June 30, 2019 would have an estimated positive effect of $4.4 million (March 31, 2019 - $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 June 30, 2019 would have an estimated adverse effect of $3.6 million (March 31, 2019 - $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 June 30, 2019 and March 31, 2019 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 26: Interest Rate Sensitivity as at June 30, 2019

(in thousands except %) As at June 30, 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	$ 556,419	$ 79,195	$ 218,783	$ 129,134	$ 54,973	$ 59,852	$ 165,947	$ 1,264,303
Securitization	46,331	117,623	232,155	262,167	204,486	-	3,398	866,160
	602,750	196,818	450,938	391,301	259,459	59,852	169,345	2,130,463
Liabilities								
Corporate	-	61,967	344,229	412,308	134,541	-	11,850	964,895
Securitization	-	102,509	265,662	267,289	210,766	-	-	846,226
	-	164,476	609,891	679,597	345,307	-	11,850	1,811,121
Shareholders' Equity	-	-	-	-	-	-	319,342	319,342
GAP	**$ 602,750**	**$ 32,342**	**$ (158,953)**	**$ (288,296)**	**$ (85,848)**	**$ 59,852**	**$ (161,847)**	**$ -**
YIELD SPREAD	**5.22%**	**1.45%**	**1.39%**	**0.82%**	**0.54%**	**8.44%**		

Table 27: 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
	607,786	163,708	534,294	420,471	219,859	50,575	170,016	2,166,709
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
	-	234,482	539,904	808,074	252,517	-	14,963	1,849,940
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%**		

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Market risk includes 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 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 Operational Risk Management Framework ("ORMF") covers all components of MCAN's operational risk management including processes and control activities to ensure adherence with business and regulatory requirements. The ORMF sets out an integrated approach to identify, measure, monitor and report on known and emerging operational risks. Management and the Board review operational risk assessments on a quarterly basis.

Outsourcing Risk

Within operational risk, outsourcing risk is the risk of losses resulting from: a) inadequate levels of services provided by third parties; or b) suddenly unavailable services by third parties that are not readily replaceable. 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 by the Board, incorporates the relevant requirements of OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. We regularly 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.

Information Technology and Cybersecurity Risk

Within operational risk, information technology and cybersecurity risk is the risk of loss resulting from clients' private and confidential information being compromised, and unauthorized access to MCAN's systems, which would lead to disruption to business as usual practices.

We collect and store confidential and personal information to the extent needed for operational purposes. Risk factors include unauthorized access to the Company's computer systems which could result in the theft or publication of confidential information, the deletion or modification of records or could otherwise cause interruptions in the Company's operations.

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 the Company's network security is penetrated or its sensitive data is misappropriated, 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.

The IT Management Committee, which is comprised of management, is accountable for information technology and cybersecurity risk through oversight by management. The IT Management Committee reports information technology and cybersecurity risks to the Audit Committee. We also use 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 cybersecurity 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.

The Canadian mortgage industry periodically experiences falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed instances of this activity in our own underwriting processes. The implementation of significant changes to regulatory requirements reduces 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, and the failure of management to adjust its strategies, business model and business activities to adapt or respond appropriately.

Strategic risk is managed by the CEO and management. The Board approves the Company's strategies annually or more frequently as may be required, and reviews results against those strategies regularly. Strategies are designed to be consistent with the RAF, and regulatory and internal capital requirements.

Reputational Risk

Reputational risk is a risk of loss or adverse impacts resulting from damages to MCAN's reputation, regardless of whether the facts that underlie the event are true or not.

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 embedding successful processes and controls, along with the promotion of appropriate conduct, risk culture and risk management. Reputational risk is mitigated by management of the underlying risks in the business and monitored and reported to the Board on a quarterly basis.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At June 30, 2019, there were 24,129,298 common shares outstanding (March 31, 2019 - 24,040,384, December 31, 2018 - 23,798,464). As at August 7, 2019, there were 24,129,298 common shares outstanding.

During Q2 2019, we issued 88,914 new common shares under the DRIP (Q2 2018 - 92,669), which has historically provided 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% until further notice from MCAN.

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 the future cash requirements of the Company.

Table 28: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	June 30 2019	March 31 2019
Mortgage funding commitments	$ 282,820	$ 151,277	$ -	$ -	$ 434,097	$ 412,875
Commitment - KSHYF	-	-	-	24,698	24,698	20,948
	$ 282,820	**$ 151,277**	**$ -**	**$ 24,698**	**$ 458,795**	**$ 433,823**

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information on our securitization activities, refer to Note 13 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2018.

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.

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 August 7, 2019, the Board declared a quarterly dividend of $0.32 per share to be paid on September 30, 2019 to shareholders of record as at September 13, 2019.

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended June 30, 2019 and June 30, 2018 and related party balances as at June 30, 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 June 30, 2019, we had 95 employees (March 31, 2019 - 94; 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at June 30, 2019, the President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of MCAN, with the assistance of the Company's Disclosure Committee comprised of members of 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 during the interim period ended June 30, 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 23 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 as of that date.

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.