MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

SEPTEMBER 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 nine months ended September 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 November 8, 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;
- international trade uncertainties and the impact on the Canadian economy;
- 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 the Office of the Superintendent of Financial Institutions Canada ("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	Q3 2019	Q2 2019	Change (%)	Q3 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Income Statement Highlights								
Net investment income - corporate assets	$ 18,557	$ 13,104	42%	$ 13,430	38%	$ 50,408	$ 42,267	19%
Net investment income - securitization assets	$ 962	$ 965	—%	$ 1,276	(25%)	$ 2,979	$ 3,894	(23%)
Net income	$ 14,551	$ 8,888	64%	$ 11,006	32%	$ 37,744	$ 32,746	15%
Basic and diluted earnings per share	$ 0.60	$ 0.37	62%	$ 0.47	28%	$ 1.57	$ 1.39	13%
Dividends per share	$ 0.32	$ 0.32	—%	$ 0.37	(14%)	$ 0.96	$ 1.11	(14%)
Next quarter's dividend per share	$ 0.32							
Return on average shareholders' equity [1]	18.05%	11.27%	6.78%	14.29%	3.76%	15.90%	14.31%	1.59%
Taxable income per share [1,2]	$ 0.28	$ 0.28	—%	$ 0.13	115%	$ 0.90	$ 0.80	13%
Yields								
Spread of corporate mortgages over term deposit interest [1]	2.48%	2.66%	(0.18%)	2.92%	(0.44%)	2.62%	3.14%	(0.52%)
Spread of securitized mortgages over liabilities [1]	0.72%	0.70%	0.02%	0.74%	(0.02%)	0.70%	0.75%	(0.05%)
Average term to maturity (in months)								
Mortgages - corporate	11.3	11.6	(3%)	12.8	(12%)			
Term deposits	19.1	20.1	(5%)	19.2	(1%)			

As at	Sept 30 2019	Jun 30 2019	Change (%)	Dec 31 2018	Change (%)
Balance Sheet Highlights					
Total assets	$ 2,199,561	$ 2,130,463	3%	$ 2,141,072	3%
Mortgages - corporate	1,096,719	1,001,337	10%	922,390	19%
Mortgages - securitized	770,728	816,431	(6%)	887,252	(13%)
Shareholders' equity	327,511	319,342	3%	306,694	7%
Capital Ratios [1]					
Income tax assets to capital ratio	5.13	4.71	9%	4.64	11%
CET 1, Tier 1 and Total Capital ratios	21.77%	22.40%	(0.63%)	21.66%	0.11%
Leverage ratio [3]	12.28%	12.16%	0.12%	11.79%	0.49%
Credit Quality					
Impaired mortgage ratio (corporate) [1,4]	0.27%	0.27%	—%	0.34%	(0.07%)
Impaired mortgage ratio (total) [1,4]	0.18%	0.19%	(0.01%)	0.27%	(0.09%)
Mortgage Arrears [1]					
Corporate	$ 13,014	$ 11,334	15%	$ 9,435	38%
Securitized	3,367	4,122	(18%)	6,527	(48%)
Total	$ 16,381	$ 15,456	6%	$ 15,962	3%
Common Share Information (end of period)					
Number of common shares outstanding	24,215	24,129	—%	23,798	2%
Book value per common share [1]	$ 13.53	$ 13.23	2%	$ 12.89	5%
Common share price - close	$ 15.95	$ 15.95	—%	$ 13.32	20%
Market capitalization [1]	$ 386,229	$ 384,858	—%	$ 316,989	22%

[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

Q3 2019

- Net income of $14.6 million in Q3 2019, an increase of $3.6 million (32%) from $11.0 million in Q3 2018.

- Earnings per share totalled $0.60 in Q3 2019, an increase of $0.13 (28%) from $0.47 per share in Q3 2018.

- Return on average shareholders' equity[1] of 18.05% in Q3 2019, an increase of 3.76% from 14.29% in Q3 2018.

- Net corporate mortgage spread income[1] was consistent with Q3 2018. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,094 million in Q3 2019 from $942 million in Q3 2018. This was offset by a decrease in the spread of corporate mortgages over term deposit interest[1] to 2.48% in Q3 2019 from 2.92% in Q3 2018. The decrease in the spread of corporate mortgages over term deposit interest[1] is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to expenses and the Bank of Canada overnight rate in 2018 offset by the yield on our primarily floating-rate construction loan portfolio.

- Equity income from MCAP Commercial LP ("MCAP") totalled $4.4 million in Q3 2019, an increase of $1.1 million (36%) from $3.3 million in Q3 2018, driven by higher net investment revenue and whole loan sale income net of hedge losses.

- In Q3 2019, we recorded a $5.0 million net gain on securities compared to a $0.4 million net gain on securities in Q3 2018. The Q3 2019 net gain related primarily to our real estate investment trust ("REIT") portfolio, whereas the Q3 2018 net gain included fair value changes related to our REIT portfolio and our investment in Crown Realty II Limited Partnership ("Crown LP"). The net gain in Q3 2019 positively impacted earnings per share by $0.21, while the net gain in Q3 2018 positively impacted earnings per share by $0.02.

Year to Date 2019

- Net income of $37.7 million for 2019 year to date, an increase of $5.0 million (15%) from $32.7 million in 2018.

- Earnings per share totalled $1.57 for 2019 year to date, an increase of $0.18 (13%) from $1.39 per share in 2018.

- Return on average shareholders' equity[1] of 15.90% for 2019 year to date, an increase of 1.59% from 14.31% in 2018.

- Net corporate mortgage spread income[1] decreased by $0.7 million from 2018. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,023 million in 2019 from $902 million in 2018. This was offset by a decrease in the spread of corporate mortgages over term deposit interest[1] to 2.62% in 2019 from 3.14% in 2018. The decrease in the spread of corporate mortgages over term deposit interest[1] is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to expenses and the Bank of Canada overnight rate in 2018 offset by the yield on our primarily floating-rate construction loan portfolio.

- Equity income from MCAP totalled $11.7 million for 2019 year to date, an increase of $1.8 million (19%) from $9.9 million in 2018. For 2019 year to date, MCAP has earned higher net investment revenue, mortgage origination fees and whole loan sale income net of hedge losses. During 2019, we recognized $nil gain on sale of our partnership units in MCAP (2018 - $1.7 million).

- Year to date net gain on securities of $11.9 million for 2019 was primarily driven by our REIT portfolio compared to a year to date net gain on securities of $3.6 million for 2018, which was driven by our REIT portfolio and our investment in Crown LP. In 2019, proceeds from sales in our REIT portfolio have totalled $2.2 million, resulting in $0.3 million in realized gains. The 2019 year to date net gain positively impacted earnings per share by $0.50 while the net gain in 2018 positively impacted earnings per share by $0.15.

- Operating expenses totalled $15.9 million for 2019 year to date, an increase of $2.5 million (18%) from $13.4 million in 2018 primarily due to an increased staff complement focused on sales and marketing, internal infrastructure and systems initiatives and related expenses.

Business Activity

- Corporate assets totalled $1.37 billion at September 30, 2019, an increase of $106 million (8%) from June 30, 2019 and $146 million (12%) from December 31, 2018.

- Corporate mortgage portfolio totalled $1.1 billion at September 30, 2019, an increase of $95 million (10%) from June 30, 2019 and $174 million (19%) from December 31, 2018.

- Uninsured single family portfolio totalled $364 million at September 30, 2019, an increase of $19 million (6%) from June 30, 2019 and $108 million (42%) from December 31, 2018.

- Uninsured single family originations were $46 million in Q3 2019, a decrease of $9 million (17%) from Q2 2019 and an increase of $13 million (39%) from Q3 2018.

- Insured single family originations were $77 million in Q3 2019, an increase of $20 million (35%) from Q2 2019 and an increase of $42 million (119%) from Q3 2018.

- Securitization volumes were $115 million in Q3 2019, an increase of $40 million (53%) from Q2 2019 and an increase of $83 million (262%) from Q3 2018. Securitization volumes in Q3 2019 consisted of $101 million insured single family mortgages (Q2 2019 - $75 million; Q3 2018 - $32 million) and $14 million insured multi family mortgages (Q2 2019 - $nil; Q3 2018 - $nil).

- Construction and commercial portfolios totalled $555 million at September 30, 2019, an increase of $31 million (6%) from June 30, 2019 and $7 million (1%) from December 31, 2018.

Dividend

- The Board of Directors (the "Board") declared a fourth quarter dividend of $0.32 per share on November 8, 2019 to be paid January 2, 2020 to shareholders of record as of December 13, 2019.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.27% at September 30, 2019 compared to 0.27% at June 30, 2019 and 0.34% at December 31, 2018[2].

- The impaired total mortgage ratio[1] was 0.18% at September 30, 2019 compared to 0.19% at June 30, 2019 and 0.27% at December 31, 2018[2].

- Total mortgage arrears[1] were $16 million at September 30, 2019 compared to $15 million at June 30, 2019 and $16 million at December 31, 2018.

- We did not incur any write-offs in Q3 2019 or Q3 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 OSFI.

- Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital to risk-weighted assets ratios[1] were 21.77% at September 30, 2019 compared to 22.40% at June 30, 2019 and 21.66% at December 31, 2018.

- The leverage ratio[1] was 12.28% at September 30, 2019 compared to 12.16% at June 30, 2019 and 11.79% at December 31, 2018.

- The income tax assets to capital ratio[1] was 5.13 at September 30, 2019 compared to 4.71 at June 30, 2019 and 4.64 at December 31, 2018.

- We issued 86,085 new common shares through the Dividend Reinvestment Program ("DRIP") in Q3 2019 compared to 93,913 in Q3 2018. The DRIP participation rate was 17% for the 2019 third quarter dividend (2018 third 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

While Canada's economy gained some traction in mid-2019, trade conflicts and the associated uncertainty are expected to keep Gross Domestic Product growth close to 1.5% for the year due to Canada's relatively large exposure to the involved economies. The outlook for 2020 and 2021 in terms of growth was revised downwards as a result of a weaker business investment profile offset by the expectation of lower mortgage rates and larger working age population. Growth in housing starts is expected to remain modest into 2020, supported by immigration household formation resulting in a balanced overall housing market. We expect to continue to see challenges in affordable housing in major urban markets in the near future driven by supply and demand fundamentals. The Canadian housing market has shown signs of stabilization in both housing starts and price in most provinces; however, market conditions continue to be mixed across regions. We expect these regional disparities to continue into 2020.

Canadian household indebtedness remains high. 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 are a diversified lender primarily focused on residential Canadian real estate and believe that our systematic approach to lending, as defined by our risk appetite and expertise in balance sheet management, will allow us to effectively grow our business and optimize opportunities.

Our portfolio composition continues to provide a balanced risk profile as we position ourselves for potential economic uncertainty. Increased competition from other lenders in the market is placing downward pressure on yields in our single family, construction and commercial portfolios. We continue to focus on our desired markets with our chosen borrowers and strategic partnerships as well as internal efficiencies to earn appropriate risk adjusted returns. Our targeted annual growth in corporate assets over the long term is 10%, within our risk appetite. We have had a strong third quarter in terms of corporate asset growth on an annualized basis of 16%, which is partially due to the seasonality of our construction and commercial portfolio. Our current 2019 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	Q3 2019	Q2 2019	Change (%)	Q3 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 14,604	$ 13,639	7%	$ 13,094	12%	$ 41,425	$ 37,961	9%
Equity income from MCAP Commercial LP	4,422	4,737	(7%)	3,263	36%	11,727	9,896	19%
Non-marketable securities	1,631	1,684	(3%)	1,316	24%	4,614	4,127	12%
Marketable securities	786	790	(1%)	821	(4%)	2,347	2,566	(9%)
Fees	687	739	(7%)	882	(22%)	1,620	1,512	7%
Interest on cash and other income	250	246	2%	372	(33%)	854	931	(8%)
Net gain (loss) on securities	4,958	(1,045)	(574%)	359	1,281%	11,941	3,644	228%
Gain on sale of investment in MCAP Commercial LP	—	—	—%	—	—%	—	1,701	(100%)
Gain on dilution of investment in MCAP Commercial LP	187	—	n/a	314	(40%)	187	314	(40%)
	27,525	**20,790**	**32%**	**20,421**	**35%**	**74,715**	**62,652**	**19%**
Term deposit interest and expenses	7,853	6,937	13%	6,334	24%	21,361	17,224	24%
Mortgage expenses	1,036	962	8%	1,008	3%	2,979	2,983	—%
Interest on loans payable	395	74	434%	—	n/a	561	116	384%
Provision for (recovery of) credit losses	(316)	(287)	10%	(351)	(10%)	(594)	62	(1,058%)
	8,968	**7,686**	**17%**	**6,991**	**28%**	**24,307**	**20,385**	**19%**
	18,557	**13,104**	**42%**	**13,430**	**38%**	**50,408**	**42,267**	**19%**
Net Investment Income - Securitization Assets								
Mortgage interest	4,800	5,241	(8%)	6,015	(20%)	15,541	18,883	(18%)
Other securitization income	309	162	91%	111	178%	584	206	183%
	5,109	**5,403**	**(5%)**	**6,126**	**(17%)**	**16,125**	**19,089**	**(16%)**
Interest on financial liabilities from securitization	3,662	3,951	(7%)	4,346	(16%)	11,695	13,585	(14%)
Mortgage expenses	485	487	—%	512	(5%)	1,460	1,614	(10%)
Provision for (recovery of) credit losses	—	—	n/a	(8)	(100%)	(9)	(4)	125%
	4,147	**4,438**	**(7%)**	**4,850**	**(14%)**	**13,146**	**15,195**	**(13%)**
	962	**965**	**—%**	**1,276**	**(25%)**	**2,979**	**3,894**	**(23%)**
Operating Expenses								
Salaries and benefits	2,943	3,494	(16%)	2,294	28%	10,004	8,418	19%
General and administrative	2,021	1,938	4%	1,343	50%	5,883	4,992	18%
	4,964	**5,432**	**(9%)**	**3,637**	**36%**	**15,887**	**13,410**	**18%**
Net income before income taxes	14,555	8,637	69%	11,069	31%	37,500	32,751	15%
Provision for (recovery of) income taxes	4	(251)	(102%)	63	(94%)	(244)	5	(4,980%)
Net Income	**$ 14,551**	**$ 8,888**	**64%**	**$ 11,006**	**32%**	**$ 37,744**	**$ 32,746**	**15%**
Basic and diluted earnings per share	$ 0.60	$ 0.37	62%	$ 0.47	28%	$ 1.57	$ 1.39	13%
Dividends per share	$ 0.32	$ 0.32	—%	$ 0.37	(14%)	$ 0.96	$ 1.11	(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	September 30, 2019			June 30, 2019			September 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	$ 165,970	$ 1,304	3.10%	$ 130,772	$ 1,058	3.19%	$ 128,440	$ 983	3.06%
Uninsured	355,895	4,096	4.59%	328,276	3,749	4.58%	217,645	2,499	4.59%
Uninsured - completed inventory	21,532	411	6.71%	16,418	258	6.31%	5,111	85	6.59%
Construction loans									
Residential	452,837	7,256	6.36%	420,115	6,881	6.58%	436,632	7,116	6.47%
Non residential	4,500	94	8.27%	7,941	147	6.68%	6,927	110	6.30%
Commercial loans									
Multi family residential	42,731	616	5.72%	45,119	624	5.57%	74,185	993	5.25%
Other commercial	50,383	827	6.46%	54,557	922	6.82%	73,116	1,308	7.12%
Mortgages - corporate portfolio	$1,093,848	$ 14,604	5.28%	$1,003,198	$ 13,639	5.45%	$ 942,056	$ 13,094	5.53%
Term deposit interest and expenses	1,001,159	7,853	2.80%	941,860	6,937	2.79%	903,136	6,334	2.61%
Net corporate mortgage spread income[2]		$ 6,751			$ 6,702			$ 6,760	
Spread of mortgages over term deposit interest [2]			2.48%			2.66%			2.92%
Average term to maturity (months)									
Mortgages - corporate	11.3			11.6			12.8		
Term deposits	19.1			20.1			19.2		

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

For the Nine Months Ended September 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	$ 139,270	$ 3,322	3.15%	$ 96,658	$ 2,254	3.11%
Uninsured	322,780	10,992	4.54%	207,011	7,175	4.62%
Uninsured - completed inventory	16,849	860	6.45%	11,452	489	5.71%
Construction loans						
Residential	435,759	21,164	6.51%	424,032	20,343	6.41%
Non residential	7,410	431	7.50%	5,449	247	6.06%
Commercial loans						
Multi family residential	45,968	1,906	5.54%	73,822	2,936	5.32%
Other commercial	54,934	2,750	6.69%	83,082	4,517	7.27%
Mortgages - corporate portfolio	$ 1,022,970	$ 41,425	5.40%	$ 901,506	$ 37,961	5.63%
Term deposit interest and expenses	952,096	21,361	2.78%	866,083	17,224	2.49%
Net corporate mortgage spread income[2]		$ 20,064			$ 20,737	
Spread of mortgages over term deposit interest [2]			2.62%			3.14%

[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 September 30, 2019, June 30, 2019 and September 30, 2018 and the nine months ended September 30, 2019 and September 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	Q3 2019	Q2 2019	Change (%)	Q3 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Originations								
Single family - insured	$ 76,970	$ 56,998	35%	$ 35,173	119%	$ 172,270	$ 74,582	131%
Single family - uninsured	46,179	55,551	(17%)	33,111	39%	165,025	70,245	135%
Single family - uninsured completed inventory [1]	32,030	247	12,868%	67	47,706%	47,493	9,046	425%
Residential construction [1]	74,611	77,660	(4%)	53,104	40%	190,519	241,575	(21%)
Non-residential construction [1]	—	—	n/a	4,876	(100%)	760	8,483	(91%)
Commercial [1]	212	337	(37%)	3,507	(94%)	1,037	50,753	(98%)
	$ 230,002	**$ 190,793**	**21%**	**$ 129,838**	**77%**	**$ 577,104**	**$ 454,684**	**27%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 30,606	$ 19,296	59%	$ 15,806	94%	$ 55,579	$ 47,623	17%

[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, continued market competition and an increase in term deposit interest have led to a reduction in the spread of mortgages over term deposit interest[1] in 2019.

Single family

During Q3 2019, we continued to focus on single family originations in our corporate mortgage portfolio. This has been a result of our internal sales and marketing capabilities, strengthened relationships with the broker community and an increased 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 Q3 2019 led to a 35% increase in securitization volumes from $75 million in Q2 2019 to $101 million in Q3 2019. Our continued insured single family originations will support our increased participation in the securitization market.

Single family mortgages provide comparatively lower yields given the lower risk profile. Since mid-2018, we have observed reduced uninsured single family yields as a result of competitive pressures and the overall rate environment. We continue to focus on our target markets and risk profile in the single family market.

Construction and commercial

Mortgage originations in our construction and commercial portfolio were consistent with levels in the prior quarter, with focus on residential construction product.

The Bank of Canada increased the overnight rate by 0.25% subsequent to Q3 2018. However, the residential construction yield has decreased by 0.11% from Q3 2018 as the impact of this increase in the overnight rate was more than offset by lower commitment fee income due to lower new originations thus far in 2019.

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

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 September 30, 2019, we had the renewal rights to $1.1 billion of single family mortgages (June 30, 2019 - $1.1 billion; December 31, 2018 - $985 million).

Equity Income from MCAP

In Q3 2019, MCAP's origination volumes were $5.2 billion, an increase from $4.7 billion in Q3 2018. As at August 31, 2019, MCAP had $78.1 billion of assets under administration compared to $75.7 billion at May 31, 2019 and $72.8 billion as at November 30, 2018. The $1.1 million increase in equity income from MCAP was driven by higher net investment revenue and whole loan sale income net of hedge losses.

We recognize equity income from MCAP on a one-month lag such that our Q3 2019 equity income from MCAP is based on MCAP's net income for its quarter ended August 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 $1.3 million from the KingSett High Yield Fund ("KSHYF") in Q3 2019 (Q3 2018 - $1.2 million) and $0.3 million from Crown LP in Q3 2019 (Q3 2018 - $0.1 million).

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 5.27% in Q3 2019 (Q3 2018 - 5.59%). The yield has been calculated based on the average portfolio carrying value.

Fees

Fee income can vary between quarters given the fact that certain fees such as loan amendment and extension fees do not occur on a routine basis.

Net Gain (Loss) on Securities

In Q3 2019, we recorded a $5.0 million net gain on securities compared to a $0.4 million net gain on securities in Q3 2018. The Q3 2019 net gain related primarily to our REIT portfolio, whereas the Q3 2018 net gain included fair value changes related to our REIT portfolio and our investment in Crown LP.

Gain on Dilution of Investment in MCAP

In Q3 2019 and Q3 2018, MCAP issued additional class B units to other partners of MCAP which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $0.2 million (Q3 2018 - $0.3 million).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses since Q3 2018 is primarily due to the increase in expenses and 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. Term deposit expenses include costs related to insurance, infrastructure and administration.

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 $115 million in Q3 2019 (Q3 2018 - $32 million), of which $14 million were insured multi-family loans that were derecognized from the consolidated balance sheet at the time of securitization (Q3 2018 - $nil).

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

For the Quarters Ended	September 30, 2019			June 30, 2019			September 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	$ 747,566	$ 4,800	2.58%	$ 823,381	$ 5,241	2.55%	$ 934,759	$ 6,015	2.57%
Financial liabilities from securitization	784,259	3,662	1.86%	854,709	3,951	1.85%	951,222	4,346	1.83%
Net securitized mortgage spread income [2]		$ 1,138			$ 1,290			$ 1,669	
Spread of mortgages over liabilities [2]			0.72%			0.70%			0.74%

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

For the Nine Months Ended September 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	$ 813,024	$ 15,541	2.56%	$ 978,319	$ 18,883	2.58%
Financial liabilities from securitization	839,523	11,695	1.86%	990,577	13,585	1.83%
Net securitized mortgage spread income [2]		$ 3,846			$ 5,298	
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 September 30, 2019, June 30, 2019 and September 30, 2018 and the nine months ended September 30, 2019 and September 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	Q3 2019	Q2 2019	Change (%)	Q3 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Provision (recovery) on impaired corporate mortgages								
Single family uninsured	$ 41	$ 18	128%	$ 20	105%	$ 56	$ 174	(68%)
Construction - residential	—	—	n/a	—	n/a	(217)	—	n/a
	41	18	128%	20	105%	(161)	174	(193%)
Provision (recovery) on performing corporate mortgages								
Single family insured	—	18	(100%)	—	n/a	19	10	90%
Single family uninsured	28	10	180%	(312)	(109%)	(365)	426	(186%)
Single family uninsured - completed inventory	49	(29)	(269%)	(32)	(253%)	113	(376)	(130%)
Construction								
Residential	(346)	(268)	29%	1	(34,700%)	484	104	365%
Non-residential	10	(9)	(211%)	28	(64%)	(39)	11	(455%)
Commercial								
Multi family residential	(52)	(28)	86%	7	(843%)	(342)	65	(626%)
Other commercial	(42)	1	(4,300%)	(54)	(22%)	(292)	(291)	—%
	(353)	(305)	16%	(362)	(2%)	(422)	(51)	727%
Other provisions (recoveries)	(4)	—	n/a	(9)	(56%)	(11)	(61)	(82%)
Total corporate provision for (recovery of) credit losses	(316)	(287)	10%	(351)	(10%)	(594)	62	(1,058%)
Provision (recovery) on performing securitized mortgages	—	—	n/a	(8)	(100%)	(9)	(4)	125%
Total provisions for (recoveries of) credit losses	$ (316)	$ (287)	10%	$ (359)	(12%)	$ (603)	$ 58	(1,140%)
Corporate mortgage portfolio data:								
Provisions for (recoveries of) credit losses, net	$ (312)	$ (287)	9%	$ (342)	(9%)	(583)	$ 123	(574%)
Net write offs	$ —	$ 18	(100%)	$ —	n/a	41	$ 256	(84%)
Net write offs (basis points)	—	0.7	(100%)	—	n/a	0.5	3.8	(87%)

Provisions on performing mortgages reflect changes in portfolio balances, macroeconomic conditions and characteristics of the mortgages held in the portfolio. Additionally, 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**	Q3 2019	Q2 2019	Change (%)	Q3 2018	Change (%)	YTD 2019	YTD 2018	Change (%)
Salaries and benefits	$ 2,943	$ 3,494	(16%)	$ 2,294	28%	$ 10,004	$ 8,418	19%
General and administrative	2,021	1,938	4%	1,343	50%	5,883	4,992	18%
	$ 4,964	**$ 5,432**	**(9%)**	**$ 3,637**	**36%**	**$ 15,887**	**$ 13,410**	**18%**

The increase in salaries and benefits from Q3 2018 and 2018 year to date is primarily due to an increased staff complement focused on sales and marketing, internal infrastructure and systems initiatives.

The increase in general and administrative expenses in Q3 2019 and year to date 2019 is primarily due to a non-recurring $0.6 million reimbursement of legal expenses in Q3 2018.

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**	**Q3 2019**	**Q3 2018**	**YTD 2019**	**YTD 2018**
Consolidated net income for accounting purposes	$ 14,551	$ 11,006	$ 37,744	$ 32,746
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(4,422)	(3,263)	(11,727)	(9,896)
Add: MCAP taxable income (loss)	2,348	(3,682)	5,414	(3,276)
Reverse: Provision for (recovery of) credit losses [2]	(351)	(390)	(448)	(78)
Add: Amortization of upfront securitization program costs [3]	1,524	1,777	4,855	5,313
Deduct: Securitization program mortgage origination costs [3]	(3,453)	(696)	(6,321)	(1,713)
Reverse: Net (gain)/loss on securities [4]	(4,495)	88	(11,416)	(641)
Reverse: Income/(loss) earned in subsidiaries [5]	350	(782)	2,450	(2,585)
Deduct: Gain on dilution of MCAP [7]	(187)	(314)	(187)	(314)
Deduct: Accounting gain on partial sale of MCAP [6]	—	—	—	(1,701)
Add: Taxable gain on partial sale of MCAP [6]	—	—	—	1,425
Other items	873	(714)	1,239	(508)
Taxable Income	**$ 6,738**	**$ 3,030**	**$ 21,603**	**$ 18,772**

[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 net 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.*
[7] *Not recognizable in the calculation of taxable income.*

The increase in taxable income in Q3 2019 from Q3 2018 was a result of higher taxable income from MCAP offset by higher securitized mortgage origination costs, which are discussed below. The variances in taxable income from MCAP have 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 Q3 2019, MCAN incurred $3.5 million of origination costs on securitized mortgages (Q3 2018 - $0.7 million) originated by XMC and third parties. This increase was consistent with the higher securitization volumes in Q3 2019 compared to Q3 2018. 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.

FINANCIAL POSITION

Table 11: Assets

(in thousands) As at	September 30 2019	June 30 2019	Change (%)	December 31 2018	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 58,778	$ 52,522	12%	$ 98,842	(41%)
Marketable securities	62,490	58,109	8%	53,247	17%
Mortgages	1,096,719	1,001,337	10%	922,390	19%
Non-marketable securities	72,982	72,171	1%	71,813	2%
Equity investment in MCAP Commercial LP	68,076	65,865	3%	61,593	11%
Deferred tax asset	129	125	3%	2,961	(96%)
Other assets	11,530	14,174	(19%)	13,493	(15%)
	1,370,704	**1,264,303**	**8%**	**1,224,339**	**12%**
Securitization Assets					
Cash held in trust	53,202	46,331	15%	26,002	105%
Mortgages	770,728	816,431	(6%)	887,252	(13%)
Other assets	4,927	3,398	45%	3,479	42%
	828,857	**866,160**	**(4%)**	**916,733**	**(10%)**
	$ 2,199,561	**$ 2,130,463**	**3%**	**$ 2,141,072**	**3%**

Our corporate asset portfolio increased significantly in Q3 2019 and 2019 year to date as a result of strong origination volumes in the single family and construction portfolios. This increase was offset by mortgage maturities in the securitized mortgage portfolio which exceeded the impact of new securitization issuances.

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 near completion. We invest in this product type opportunistically and given the nature of unit closings, originations and repayments can be unpredictable.

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 September 30, 2019, the average outstanding construction loan balance was $8 million (June 30, 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 Q3 2019, we did not securitize through the market MBS program (Q3 2018 - $32 million).

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 September 30, 2019, we held $56 million of MBS on our balance sheet (June 30, 2019 - $61 million; December 31, 2018 - $68 million), which is included in the insured single family portfolio within corporate mortgages.

CMB Program

During Q3 2019, we securitized $101 million of insured single family mortgages (Q3 2018 - $nil) and $14 million of insured multi family mortgages through the CMB program (Q3 2018 - $nil).

Table 12: Mortgage Summary

(in thousands) As at	September 30 2019	June 30 2019	Change (%)	December 31 2018	Change (%)
Corporate portfolio:					
Single family mortgages					
Insured	$ 128,637	$ 121,084	6%	$ 111,419	15%
Uninsured	363,949	344,621	6%	255,545	42%
Uninsured - completed inventory	48,958	11,879	312%	7,703	536%
Construction loans					
Residential	495,794	425,400	17%	422,561	17%
Non-residential	4,501	4,511	0%	11,018	(59%)
Commercial loans					
Multi family residential	18,281	43,332	(58%)	50,133	(64%)
Other commercial	36,599	50,510	(28%)	64,011	(43%)
	1,096,719	**1,001,337**	**10%**	**922,390**	**19%**
Securitized portfolio					
Single family insured - Market MBS program	454,088	595,334	(24%)	722,726	(37%)
Single family insured - CMB program	316,640	221,097	43%	164,526	92%
	770,728	**816,431**	**(6%)**	**887,252**	**(13%)**
	$ 1,867,447	**$ 1,817,768**	**3%**	**$ 1,809,642**	**3%**

The decrease in the commercial loan portfolio during Q3 2019 is primarily due to the movement of certain loans to the construction and uninsured completed inventory portfolios.

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

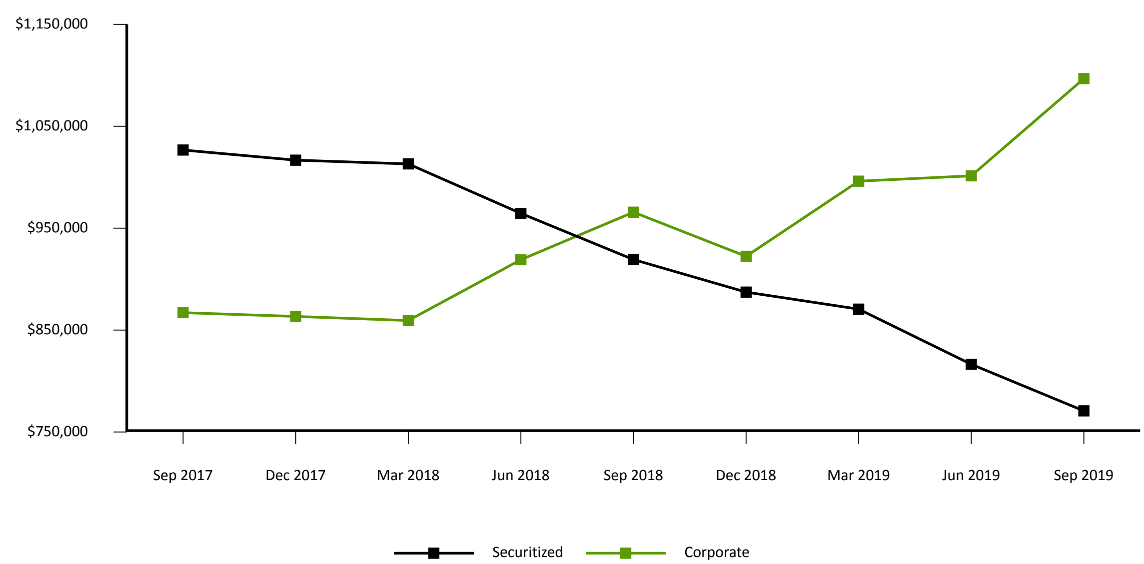
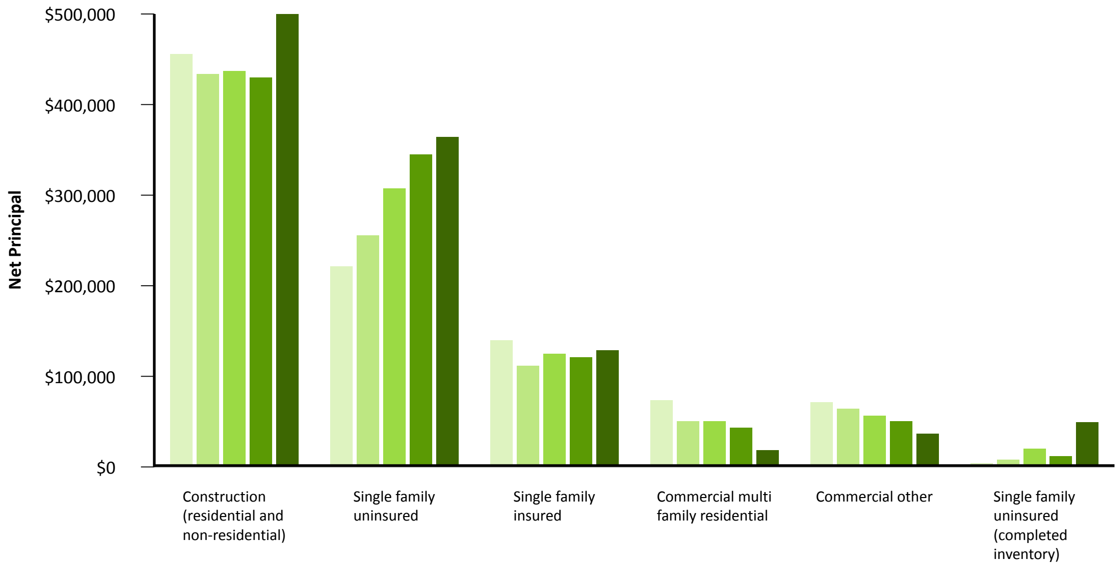


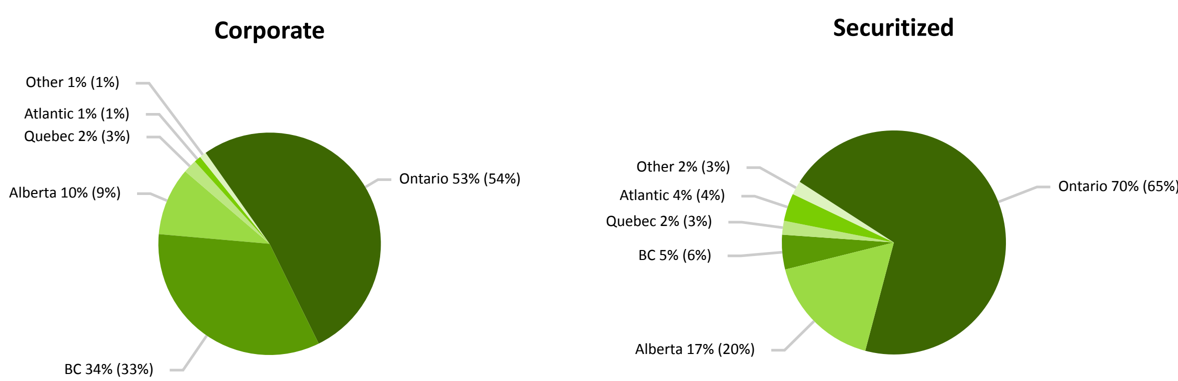
Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction (residential and non-residential)	Single family uninsured	Single family insured	Commercial multi family residential	Commercial other	Single family uninsured (completed inventory)
Sept 30, 2018	$455,692 (47%)	$221,220 (23%)	$139,860 (14%)	$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%)
Sept 30, 2019	$500,295 (46%)	$363,949 (33%)	$128,637 (12%)	$18,281 (2%)	$36,599 (3%)	$48,958 (4%)

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 September 30, 2019 (June 30, 2019)



Credit Quality

Table 13: Arrears and Impaired Mortgages

(in thousands except %) As at	September 30 2019	June 30 2019	Change (%)	December 31 2018	Change (%)
Impaired mortgages					
Corporate					
Single family - insured	$ 923	$ 636	45%	$ 1,004	(8%)
Single family - uninsured	2,086	2,047	2%	1,602	30%
Construction - residential	—	—	n/a	548	(100%)
	3,009	2,683	12%	3,154	(5%)
Securitized	378	810	(53%)	1,801	(79%)
Total impaired mortgages	$ 3,387	$ 3,493	(3%)	$ 4,955	(32%)
Impaired mortgage ratio (corporate) [1,2]	0.27%	0.27%	—%	0.34%	(0.07%)
Impaired mortgage ratio (total) [1,2]	0.18%	0.19%	(0.01%)	0.27%	(0.09%)
Mortgage arrears (past due) [3]					
Corporate					
Single family - insured	$ 2,417	$ 3,159	(23%)	$ 1,594	52%
Single family - uninsured	10,597	8,175	30%	7,293	45%
Construction - residential	—	—	n/a	548	(100%)
Total corporate mortgage arrears [1]	13,014	11,334	15%	9,435	38%
Total securitized mortgage arrears [1]	3,367	4,122	(18%)	6,527	(48%)
Total mortgage arrears [1]	$ 16,381	$ 15,456	6%	$ 15,962	3%
Staging analysis - corporate portfolio					
Stage 2					
Single family - insured	$ 12,769	$ 12,760	—%	$ 7,743	65%
Single family - uninsured	60,843	57,428	6%	49,493	23%
Construction - residential	44,678	53,976	(17%)	60,929	(27%)
Construction - non-residential	4,501	—	n/a	—	n/a
Commercial - multi-family residential	987	1,498	(34%)	2,079	(53%)
Commercial - other	—	—	n/a	3,535	(100%)
	123,778	125,662	(1%)	123,779	—%
Stage 3					
Single family - insured	923	636	45%	1,004	(8%)
Single family - uninsured	2,086	2,047	2%	1,602	30%
Construction - residential	—	—	n/a	548	(100%)
	3,009	2,683	12%	3,154	(5%)
Total stage 2 and 3 corporate mortgages	$ 126,787	$ 128,345	(1%)	$ 126,933	—%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 3,984	$ 4,337	(8%)	$ 4,424	(10%)
Allowance on impaired mortgages	246	205	20%	430	(43%)
	4,230	4,542	(7%)	4,854	(13%)
Securitized - allowance on performing mortgages	5	6	(17%)	14	(64%)
Total allowance for credit losses	$ 4,235	$ 4,548	(7%)	$ 4,868	(13%)

[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 impaired mortgages.*

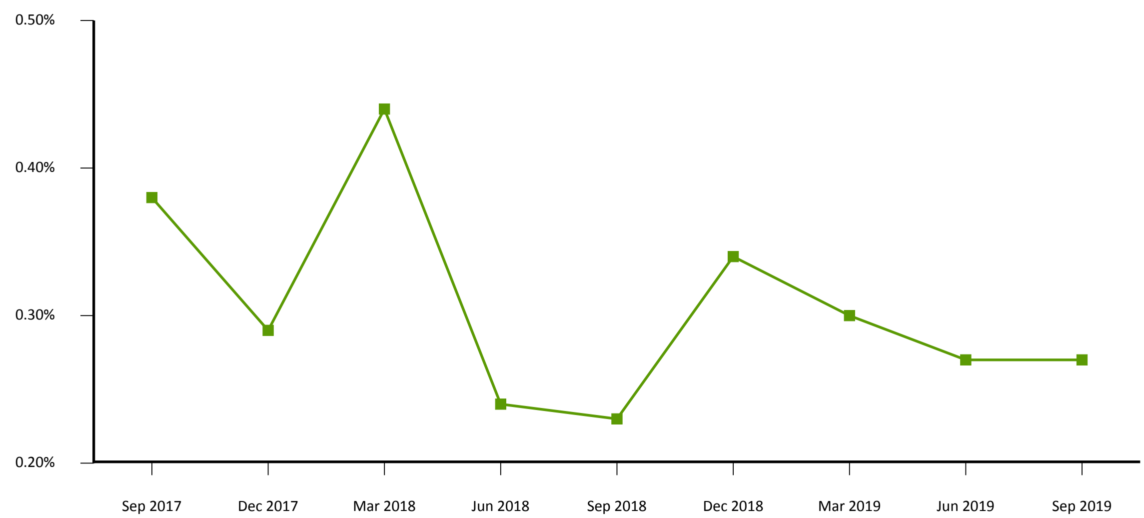
Arrears and Impaired Mortgage Summary

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 interim 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 September 30, 2019

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 85,521	66.6%	$ 271,029	65.7%	$ 91	76.5%	$ 537,748	69.8%	$ 894,389	68.2%
Alberta	23,834	18.5%	51,362	12.4%	28	23.5%	130,981	17.0%	206,205	15.7%
British Columbia	3,503	2.7%	75,855	18.4%	—	—%	37,268	4.8%	116,626	8.9%
Quebec	5,445	4.2%	3,450	0.8%	—	—%	18,634	2.4%	27,529	2.1%
Atlantic Provinces	8,857	6.9%	5,004	1.2%	—	—%	28,563	3.7%	42,424	3.2%
Other	1,358	1.1%	6,207	1.5%	—	—%	17,534	2.3%	25,099	1.9%
Total	**$ 128,518**	**100.0%**	**$ 412,907**	**100.0%**	**$ 119**	**100.0%**	**$ 770,728**	**100.0%**	**$ 1,312,272**	**100.0%**

Table 15: 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 16: Single Family Mortgages by Amortization Period as at September 30, 2019

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 109,689	$ 155,318	$ 253,129	$ 23,408	$ 541,544
	20.3%	28.7%	46.7%	4.3%	100.0%
Securitized	$ 159,470	$ 487,345	$ 115,135	$ 8,778	$ 770,728
	20.7%	63.3%	14.9%	1.1%	100.0%
Total	**$ 269,159**	**$ 642,663**	**$ 368,264**	**$ 32,186**	**$ 1,312,272**
	20.5%	**48.9%**	**28.1%**	**2.5%**	**100.0%**

Table 17: 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 18: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) **For the Periods Ended**	**Q3 2019**	**Average LTV**	**Q3 2018**	**Average LTV**	**YTD 2019**	**Average LTV**	**YTD 2018**	**Average LTV**
Ontario	$ 47,899	69.6%	$ 23,495	69.1%	$147,232	70.8%	$ 49,124	69.0%
Alberta	20,550	61.1%	286	75.4%	21,061	60.9%	7,744	62.9%
British Columbia	9,606	66.3%	9,167	62.8%	43,697	63.2%	20,598	64.4%
Other	154	70.0%	230	75.8%	528	71.9%	1,825	71.5%
	$ 78,209	**66.9%**	**$ 33,178**	**67.5%**	**$212,518**	**68.2%**	**$ 79,291**	**67.2%**

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

As at	**September 30 2019**	**June 30 2019**	**December 31 2018**
Corporate portfolio:			
Single family mortgages			
Insured	80.2%	81.3%	79.8%
Uninsured	67.8%	67.2%	64.8%
Uninsured - completed inventory	62.2%	56.6%	59.6%
Construction loans			
Residential	46.2%	47.2%	46.9%
Non-residential	38.2%	38.2%	46.2%
Commercial loans			
Multi family residential	48.2%	60.5%	62.8%
Other commercial	53.7%	59.3%	51.0%
	58.3%	59.4%	57.0%
Securitized portfolio			
Single family insured - Market MBS Program	84.1%	84.6%	84.3%
Single family insured - CMB Program	83.6%	83.4%	82.9%
	83.9%	84.3%	84.0%
	68.8%	70.5%	70.2%

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 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

As at September 30, 2019, our cash balance was $59 million (June 30, 2019 - $53 million; December 31, 2018 - $99 million). The increase was due to actions taken by the Company to better align its liquidity position to its liquidity and funding requirements. 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.

Marketable Securities

Marketable securities, consisting primarily of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. As at September 30, 2019, the portfolio balance was $62 million (June 30, 2019 - $58 million; December 31, 2018 - $53 million). The increase during Q3 2019 consisted primarily of a $4.5 million increase in the fair value of the portfolio.

Non-Marketable Securities

We invest in the KSHYF, in which we have a 7.8% equity interest as at September 30, 2019 (June 30, 2019 - 7.9%; December 31, 2018 - 7.9%). At September 30, 2019, the carrying value of our investment was $43 million (June 30, 2019 - $42 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 as at September 30, 2019 (June 30, 2019 - 14.1%; December 31, 2018 - 14.1%). At September 30, 2019, the carrying value of our investment was $30 million (June 30, 2019 - $30 million; December 31, 2018 - $30 million). Crown LP invests primarily in commercial office buildings.

Equity Investment in MCAP

We hold a 13.78% equity interest in MCAP (June 30, 2019 - 13.84%; December 31, 2018 - 13.71%), which represents 4.0 million units held by MCAN as at September 30, 2019 (June 30, 2019 - 4.0 million; December 31, 2018 - 4.0 million) of the 29.0 million total outstanding MCAP partnership units (June 30, 2019 - 28.9 million; December 31, 2018 - 29.2 million). During Q3 2019 and Q3 2018, MCAP issued new class B units at a price in excess of MCAN's carrying value per unit, resulting in a dilution gain of $0.2 million (Q3 2018 - $0.3 million).

The investment had a net book value of $68 million as at September 30, 2019 (June 30, 2019 - $66 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 $37 million as at September 30, 2019 (June 30, 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 Q3 2019, we received $2.4 million of unitholder distributions from MCAP (Q3 2018 - $1.6 million). As we account for this investment using the equity method, 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	September 30 2019	June 30 2019	Change (%)	December 31 2018	Change (%)
Corporate Liabilities					
Term deposits	$ 1,065,087	$ 953,045	12%	$ 919,623	16%
Current taxes payable	—	—	n/a	173	(100%)
Deferred tax liabilities	272	262	4%	3,478	(92%)
Other liabilities	11,018	11,588	(5%)	13,169	(16%)
	1,076,377	**964,895**	**12%**	**936,443**	**15%**
Securitization Liabilities					
Financial liabilities from securitization	795,673	846,226	(6%)	897,935	(11%)
	795,673	**846,226**	**(6%)**	**897,935**	**(11%)**
	1,872,050	**1,811,121**	**3%**	**1,834,378**	**2%**
Shareholders' Equity					
Share capital	228,008	226,668	1%	221,869	3%
Contributed surplus	510	510	—%	510	—%
Retained earnings	98,993	92,164	7%	84,315	17%
	327,511	**319,342**	**3%**	**306,694**	**7%**
	$ 2,199,561	**$ 2,130,463**	**3%**	**$ 2,141,072**	**3%**

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 Q3 2019 reflects new common shares issued through the DRIP. The DRIP participation rate for the 2019 third quarter dividend was 17% (2019 second quarter - 18%; 2018 third quarter - 19%). For further information, refer to Note 15 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q3 2019 consists of net income of $14.6 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)	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17 [5]
Income Statement Highlights								
Net investment income - corporate assets	$ 18,557	$ 13,104	$ 18,747	$ 7,872	$ 13,430	$ 15,063	$ 13,774	$ 14,359
Net investment income - securitization assets	962	965	1,052	1,082	1,276	1,317	1,301	1,416
Net income	14,551	8,888	14,305	3,547	11,006	11,125	10,615	10,807
Basic and diluted earnings per share	$ 0.60	$ 0.37	$ 0.60	$ 0.15	$ 0.47	$ 0.47	$ 0.45	$ 0.47
Dividends per share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.37	$ 0.37	$ 0.37	$ 0.37
Return on average shareholders' equity [1]	18.05%	11.27%	18.36%	4.66%	14.29%	14.54%	14.10%	14.63%
Taxable income per share [1,2]	$ 0.28	$ 0.28	$ 0.34	$ 0.49	$ 0.13	$ 0.48	$ 0.19	$ 0.34
Yields								
Spread of corporate mortgages over term deposit interest [1]	2.48%	2.66%	2.73%	2.93%	2.92%	3.17%	3.34%	3.27%
Spread of securitized mortgages over liabilities [1]	0.72%	0.70%	0.69%	0.70%	0.74%	0.76%	0.74%	0.76%
Average term to maturity (in months)								
Mortgages - corporate	11.3	11.6	11.9	11.5	12.8	13.2	11.3	11.3
Term deposits	19.1	20.1	17.2	18.7	19.2	20.5	19.0	19.1
Balance Sheet Highlights ($ million)								
Total assets	$ 2,200	$ 2,130	$ 2,167	$ 2,141	$ 2,189	$ 2,206	$ 2,154	$ 2,217
Mortgages - corporate	1,097	1,001	996	922	966	919	859	863
Mortgages - securitized	771	816	871	887	919	965	1,013	1,017
Shareholders' equity	328	319	317	307	302	306	302	297
Capital Ratios								
Income tax assets to capital ratio [1]	5.13	4.71	4.69	4.64	4.90	4.60	4.33	4.60
CET 1, Tier 1 and Total Capital ratios [1]	21.77%	22.40%	22.09%	21.66%	20.58%	21.47%	21.29%	21.26%
Leverage ratio [3]	12.28%	12.16%	12.05%	11.79%	11.35%	11.55%	11.74%	11.31%
Credit Quality								
Impaired mortgage ratio (corporate) [1, 4]	0.27%	0.27%	0.30%	0.34%	0.23%	0.24%	0.44%	0.29%
Impaired mortgage ratio (total) [1, 4]	0.18%	0.19%	0.24%	0.27%	0.24%	0.20%	0.26%	0.13%
Mortgage Arrears								
Corporate [1]	$ 13,014	$ 11,334	$ 11,251	$ 9,435	$ 8,398	$ 6,739	$ 9,204	$ 8,766
Securitized [1]	3,367	4,122	7,431	6,527	8,472	13,979	9,554	8,803
Total [1]	$ 16,381	$ 15,456	$ 18,682	$ 15,962	$ 16,870	$ 20,718	$ 18,758	$ 17,569
Common Share Information (end of period)								
Number of common shares outstanding	24,215	24,129	24,040	23,798	23,746	23,652	23,559	23,378
Book value of common share [1]	$ 13.53	$ 13.23	$ 13.18	$ 12.89	$ 12.74	$ 12.94	$ 12.82	$ 12.70
Common share price - close	$ 15.95	$ 15.95	$ 15.93	$ 13.32	$ 17.50	$ 17.90	$ 17.61	$ 17.84
Market capitalization ($ million) [1]	$ 386	$ 385	$ 383	$ 317	$ 416	$ 423	$ 415	$ 417

[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 net gains and losses on marketable and non-marketable securities. Additionally, corporate net investment income is impacted by equity income from MCAP, which can vary significantly 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 net gains and losses on certain securities through net income. This volatility was especially prominent in Q2 2018, Q4 2018, Q1 2019 and Q3 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 a large portion of 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 and the competitive market has contributed to the gradual decrease in the spread of corporate mortgages over term deposit interest[1].

Since 2017, a reduction in new securitization volumes and expected mortgage maturities have gradually decreased the size of the securitized mortgage portfolio. The overall economics of securitization have been slightly reduced by competitive and market 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 varied on a quarterly basis given the nature of the 1-30 day arrears classification and seasonality in our portfolios.

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

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	September 30 2019	June 30 2019	December 31 2018
Income tax assets [1]			
Consolidated assets	$ 2,199,561	$ 2,130,463	$ 2,141,072
Adjustment for assets in subsidiaries	13,423	10,879	6,743
Non-consolidated assets in MIC entity	2,212,984	2,141,342	2,147,815
Add: corporate mortgage allowances	4,005	4,357	4,466
Less: securitization assets [2]	(806,236)	(855,712)	(908,367)
Adjustments to equity investments in MCAP and subsidiaries	(57,151)	(55,264)	(52,450)
Other adjustments	(16,141)	(11,567)	(4,328)
	$ 1,337,461	$ 1,223,156	$ 1,187,136
Income tax liabilities [1]			
Consolidated liabilities	$ 1,872,050	$ 1,811,121	$ 1,834,378
Adjustment for liabilities in subsidiaries	(1,049)	(2,930)	(6,194)
Non-consolidated liabilities in MIC entity	1,871,001	1,808,191	1,828,184
Less: securitization liabilities [2]	(794,476)	(844,970)	(896,641)
	$ 1,076,525	$ 963,221	$ 931,543
Income tax capital [1]	$ 260,936	$ 259,935	$ 255,593
Income tax capital ratios [1]			
Income tax assets to capital ratio	5.13	4.71	4.64
Income tax liabilities to capital ratio	4.13	3.71	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	September 30 2019	June 30 2019	December 31 2018
Regulatory Ratios (OSFI)			
Share capital	$ 228,008	$ 226,668	$ 221,869
Contributed surplus	510	510	510
Retained earnings	98,993	92,164	84,315
Deduction from equity investment in MCAP [2]	(35,325)	(33,931)	(30,925)
Common Equity Tier 1, Tier 1 and Total Capital [1]	$ 292,186	$ 285,411	$ 275,769
Total Exposure/Regulatory Assets [1]			
Consolidated assets	$ 2,199,561	$ 2,130,463	$ 2,141,072
Less: deduction for equity investment in MCAP [2]	(35,325)	(33,931)	(30,925)
Other adjustments [3]	1,402	4,422	1,295
Total On-Balance Sheet Exposures	2,165,638	2,100,954	2,111,442
Mortgage and investment funding commitments	398,083	458,795	410,020
Less: conversion to credit equivalent amount (50%)	(199,042)	(229,398)	(205,010)
Letters of credit	30,736	34,259	43,757
Less: conversion to credit equivalent amount (50%)	(15,368)	(17,130)	(21,879)
Total Off-Balance Sheet Items	214,409	246,526	226,888
Total Exposure/Regulatory Assets	$ 2,380,047	$ 2,347,480	$ 2,338,330
Leverage ratio [1]	12.28%	12.16%	11.79%
Risk-weighted assets [1]	$ 1,342,254	$ 1,273,898	$ 1,273,205
Regulatory Capital Ratios [1]			
Common Equity Tier 1 capital to risk-weighted assets ratio	21.77%	22.40%	21.66%
Tier 1 capital to risk-weighted assets ratio	21.77%	22.40%	21.66%
Total capital to risk-weighted assets ratio	21.77%	22.40%	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 %)	September 30, 2019			June 30, 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	$ 58,778	20%	$ 12,037	$ 52,522	22%	$ 11,390
Cash held in trust	53,202	20%	10,640	46,331	20%	9,266
Marketable securities	62,490	100%	62,490	58,109	100%	58,109
Mortgages - corporate	1,096,719	67%	736,897	1,001,337	66%	661,127
Mortgages - securitized	770,728	4%	29,673	816,431	3%	28,190
Non-marketable securities	72,982	204%	148,793	72,171	209%	150,693
Equity investment in MCAP Commercial LP	68,076	48%	32,751	65,865	48%	31,934
Deferred tax asset	129	100%	129	125	100%	125
Other assets	16,457	100%	16,457	17,572	100%	17,572
			1,049,867			968,406
Off-Balance Sheet Items						
Letters of credit	30,736	50%	15,368	34,259	50%	17,130
Commitments	398,083	43%	170,069	458,795	40%	182,262
			185,437			199,392
Charge for operational risk			106,950			106,100
Risk-Weighted Assets			**$ 1,342,254**			**$ 1,273,898**

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 interim 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 September 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 September 30, 2019, we held sufficient liquidity and maintained the ability to fund obligations over the forecast 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 a demand loan revolver facility to meet our short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. As at September 30, 2019, the total facility is $120 million.

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 September 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	September 30 2019	June 30 2019
Sources of liquidity							
Cash and cash equivalents	$ 58,778	$ —	$ —	$ —	$ —	$ 58,778	$ 52,522
Marketable securities	62,460	—	—	30	—	62,490	58,109
Mortgages - corporate	284,882	501,226	228,683	67,312	14,616	1,096,719	1,001,337
Non-marketable securities	—	—	—	—	72,982	72,982	72,171
Other loans	735	512	375	—	—	1,622	1,969
	406,855	501,738	229,058	67,342	87,598	1,292,591	1,186,108
Uses of liquidity							
Term deposits	104,742	352,949	462,691	144,705	—	1,065,087	953,045
Other liabilities	4,386	525	1,494	1,644	2,969	11,018	11,588
	109,128	353,474	464,185	146,349	2,969	1,076,105	964,633
Net liquidity surplus (deficit)	**$ 297,727**	**$ 148,264**	**$ (235,127)**	**$ (79,007)**	**$ 84,629**	**$ 216,486**	**$ 221,475**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 124,041	$ 132,515	$ 116,952	$ —	$ —	$ 373,508	$ 434,097
Commitment - KSHYF	—	—	2,381	—	22,194	24,575	24,698
	$ 124,041	$ 132,515	$ 119,333	$ —	$ 22,194	$ 398,083	$ 458,795

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 September 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 apply various hedging strategies 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 September 30, 2019 would have an estimated positive effect of $4.6 million (June 30, 2019 - $4.4 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 September 30, 2019 would have an estimated adverse effect of $4.1 million (June 30, 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 September 30, 2019 and June 30, 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 September 30, 2019

As at September 30, 2019 (in thousands except %)	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	$ 573,813	$ 90,911	$ 239,019	$ 172,926	$ 65,982	$ 57,343	$ 170,710	$ 1,370,704
Securitization	53,202	65,511	211,002	216,804	277,411	—	4,927	828,857
	627,015	156,422	450,021	389,730	343,393	57,343	175,637	2,199,561
Liabilities								
Corporate	—	104,742	352,949	462,691	144,705	—	11,290	1,076,377
Securitization	—	73,553	214,393	220,787	286,940	—	—	795,673
	—	178,295	567,342	683,478	431,645	—	11,290	1,872,050
Shareholders' Equity	—	—	—	—	—	—	327,511	327,511
GAP	**$ 627,015**	**$ (21,873)**	**$(117,321)**	**$(293,748)**	**$ (88,252)**	**$ 57,343**	**$ (163,164)**	**$ —**
YIELD SPREAD	**5.17%**	**1.58%**	**1.53%**	**1.12%**	**1.02%**	**9.09%**		

Table 27: Interest Rate Sensitivity as at June 30, 2019

As at June 30, 2019 (in thousands except %)	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%**		

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. Portfolio reporting is 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. All outsourced arrangements are subject to a risk management program, which includes detailed monitoring activities. If an outsourced arrangement is material, it is subjected to an enhanced risk management program.

Information Technology and Cybersecurity Risk

Within operational risk, information technology ("IT") 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 Steering Committee, which is comprised of management, is accountable for information technology and cybersecurity risk through oversight by management. The IT Steering 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 cybersecurity 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 cybersecurity 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 President and Chief Executive Officer ("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 cybersecurity 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 September 30, 2019, there were 24,215,383 common shares outstanding (June 30, 2019 - 24,129,298; December 31, 2018 - 23,798,464). As at November 8, 2019, there were 24,215,383 common shares outstanding.

During Q3 2019, we issued 86,085 new common shares under the DRIP (Q3 2018 - 93,913), 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 interim 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 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	September 30 2019	June 30 2019
Mortgage funding commitments	$ 256,556	$ 116,952	$ —	$ —	$ 373,508	$ 434,097
Commitment - KSHYF	—	2,381	—	22,194	24,575	24,698
	$ 256,556	**$ 119,333**	**$ —**	**$ 22,194**	**$ 398,083**	**$ 458,795**

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 interim 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 interim 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 November 8, 2019, the Board declared a quarterly dividend of $0.32 per share to be paid on January 2, 2020 to shareholders of record as at December 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 September 30, 2019 and September 30, 2018 and related party balances as at September 30, 2019 and December 31, 2018 are discussed in Notes 10 and 20 to the interim consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our interim 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 September 30, 2019, we had 95 employees (June 30, 2019 - 95; December 31, 2018 - 89).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company's interim consolidated 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 September 30, 2019, the President and 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 September 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 interim 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 interest rate of an asset or liability. Mortgage portfolio average interest rate (corporate and securitized), average term deposit interest rate, financial liabilities from securitization average interest rate, spread of corporate mortgages over term deposit interest and spread of securitized mortgages 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.

Net Corporate Mortgage Spread Income and Net Securitized Mortgage Spread Income
Net corporate mortgage spread income is calculated as the difference between corporate mortgage interest and term deposit interest and expenses. Net securitized mortgage spread income is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization.

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 interim 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.