# MCAN Mortgage Corporation

## ANNUAL INFORMATION FORM

For the year ended December 31, 2018

February 22, 2019

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## ABOUT THIS ANNUAL INFORMATION FORM

The information in this Annual Information Form ("AIF") is presented as at December 31, 2018, unless otherwise indicated, and except for information in documents incorporated by reference that have a different date. All references to dollar amounts and to "$" or "dollar" in this document are to Canadian dollars, unless indicated otherwise.

## CORPORATE STRUCTURE

### *Name, Address and Incorporation*

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

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

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation ("XMC"), is an originator of single family residential mortgage products across Canada. XMC was incorporated in the Province of Ontario.

MCAN is also a Canada Mortgage and Housing Corporation ("CMHC") approved *National Housing Act* ("NHA") mortgage-backed securities ("MBS") issuer.

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

We conduct our operations so as to continuously qualify as a mortgage investment corporation ("MIC") for purposes of the *Income Tax Act* (Canada) (the "Tax Act").

We maintain registrations to accept term deposits from residents of all the Provinces of Canada that qualify for Canada Deposit Insurance Corporation ("CDIC") deposit insurance.

## A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This AIF contains forward-looking information within the meaning of applicable Canadian securities laws. All information contained in this AIF, other than statements of current and historical fact, is forward-looking information. All of the forward-looking information in this AIF 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 AIF includes, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- our ability to create shareholder value;
- our business goals and strategy;
- the potential impact of new regulations and changes to existing regulations;
- the stability of home prices;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;

- the price of oil and its impact on housing markets in Western Canada;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows.

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

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

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

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

- global market activity;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- changes in Canada Mortgage Bonds ("CMB") and mortgage-backed securities ("MBS") spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation, including recent changes implemented by OSFI and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- our ability to raise capital and term deposits on favourable terms;
- our debt and leverage;

- competitive conditions in the homebuilding industry, including product and pricing pressures;
- our ability to retain our executive officers and other employees;
- the success of the business underlying our investment in MCAP, marketable securities and non-marketable securities;
- litigation risk;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with our mortgage originators; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this AIF 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 AIF 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.

## INTERCORPORATE RELATIONSHIPS

The Company consolidates the accounts of its wholly owned subsidiaries and accounts for its investment in MCAP Commercial LP (an associate) and its wholly owned subsidiaries (collectively "MCAP") using the equity method. An associate is an entity in which the Company has significant influence as defined by International Accounting Standard ("IAS") 28, *Investments in Associates and Joint Ventures*.

### *XMC*

XMC provides MCAN with the opportunity to expand the scope of its operations through an in-house origination source, underwriting capability, enhanced portfolio management resulting from XMC's database and reporting capabilities, opportunities for future earnings due to mortgage renewal rights and CMHC-approved lender status.

### *Equity Investment in MCAP Commercial LP*

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

As at December 31, 2018, the Company held a 13.71% equity interest in MCAP (December 31, 2017 - 14.41%), consisting of 14.1% of voting class A units (December 31, 2017 - 14.7%), 0% of non-voting class B units (December 31, 2017 - 0%) and 16.0% of non-voting class C units (December 31, 2017 - 16.7%). The equity interest represents 4.0 million units held by MCAN (December 31, 2017 - 4.2 million units) of the total of 29.2 million outstanding MCAP partnership units (December 31, 2017 - 29.1 million units).

MCAP is provincially registered under the *Limited Partnerships Act* (Ontario). Our investment in MCAP had a net book value of $61.6 million as at December 31, 2018 (December 31, 2017 - $59.2 million).

We use the equity basis of accounting for our investment in MCAP as we have significant influence over MCAP per IAS 28, as a result of our entitlement to a position on MCAP's Board of Directors. If we experience further dilution, our significant influence may be diminished and we may no longer qualify for the equity basis of accounting.

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

## THREE YEAR HISTORY

### Financial Performance

In 2016, we recorded net income of $40.2 million, including growth in higher yielding corporate assets which offset lower single family originations. Our investment in MCAP and the non-marketable securities portfolio contributed $13.5 million and $6.5 million of income, respectively. This strong financial performance led to $1.75 earnings per share and a 14.74% return on average shareholders' equity.

In 2017, we recorded net income of $39.9 million. Although our total assets and corporate mortgage interest income decreased by 3% and 6% respectively from 2016, our corporate spread of mortgages over term deposits increased 0.15%. The performance from our equity investment in MCAP and non-marketable securities was strong with $14.4 million and $9.0 million of income respectively. We also earned $0.8 million from the sale of a portion of our investment in MCAP. In 2017, we recorded $1.72 earnings per share and a 13.75% return on average shareholders' equity.

In 2018, we recorded net income of $36.3 million, a decrease of 9% from 2017. Notably, net corporate mortgage spread income increased 3% from 2017. Equity income from MCAP was close to that recorded in 2016, at $13.2 million while non-marketable securities contributed $5.4 million, a decrease of approximately 39% from 2017. We also earned $1.7 million from the sale of a portion of our investment in MCAP. In 2018, we recorded $1.54 earnings per share and a 11.90% return on average shareholders' equity.

### Corporate Activity

In 2016, total invested assets remained consistent from 2015 at $2.28 billion. The mortgage mix was generally evenly distributed between corporate and securitized mortgages.

In 2017, total invested assets were $2.22 billion, a decrease of 3% from 2016. Corporate mortgages decreased by $41 million (5%) due to lower origination volumes in single family, partially offset by higher originations in residential construction.

In 2018, total invested assets were $2.14 billion, a decrease of 3% from 2017. During the year, we shifted our corporate mortgage portfolio strategy to focus more on single family mortgages. Given the current phase of the real estate cycle, we believe that it is prudent to be more selective and continue to evaluate opportunities in markets for our construction lending portfolio. The average balance of our commercial loan portfolio has remained consistent during 2018 and provides an appropriate risk-adjusted return. Our securitized mortgages have decreased 13% from 2017, which is due to lower insured originations in 2017 and the natural run off of the portfolio.

## DESCRIPTION OF THE BUSINESS

MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP. MCAN is a Loan Company under the Trust Act and also qualifies as a MIC under the Tax Act.

Our objective is to generate a reliable stream of income by investing our funds in a diversified portfolio of Canadian mortgages, including single family residential, residential construction, non-residential construction and commercial loans, as well as other types of securities, loans and real estate investments. We employ leverage by issuing term deposits eligible for CDIC deposit insurance. We manage our capital and asset balances based on the regulations and limits of both the Tax Act and OSFI. Our term deposits are sourced through a network of independent financial agents.

As a MIC, we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of non-capital gains dividends that we pay to shareholders. Such dividends are taxed in the hands of our shareholders as capital gains dividends and interest income, respectively, to the extent that they are held in a non-registered plan. Dividends paid to foreign investors may be subject to withholding taxes.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation, is an originator of single family residential mortgage products across Canada.

MCAN's primary sources of income are as follows:

| For the years ended | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| (amounts in thousands, except %) | Amount | % of total | Amount | % of total |
| Corporate assets: | | | | |
| Mortgage interest | $ 51,610 | 50% | $ 47,765 | 45% |
| Equity income from MCAP Commercial LP | 13,188 | 13% | 14,427 | 14% |
| Non-marketable securities | 5,357 | 5% | 8,850 | 8% |
| Marketable securities | 3,464 | 3% | 3,722 | 4% |
| Fee and other income | 4,696 | 5% | 3,166 | 3% |
| | 78,315 | 76% | 77,930 | 74% |
| Securitization assets: | | | | |
| Mortgage interest | 24,540 | 24% | 27,028 | 26% |
| Other securitization income | 360 | 0% | 221 | 0% |
| | 24,900 | 24% | 27,249 | 26% |
| **Total revenue** | **$ 103,215** | **100%** | **$ 105,179** | **100%** |

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

Competitive Conditions

MCAN's products compete with products offered by chartered banks, loan companies, trust companies, credit unions and other financial institutions and intermediaries in Canada.

Seasonality

Mortgage origination levels in single family and construction are correlated with patterns in the Canadian residential and construction real estate markets.

People

As at December 31, 2018, MCAN had 89 active full-time employees.

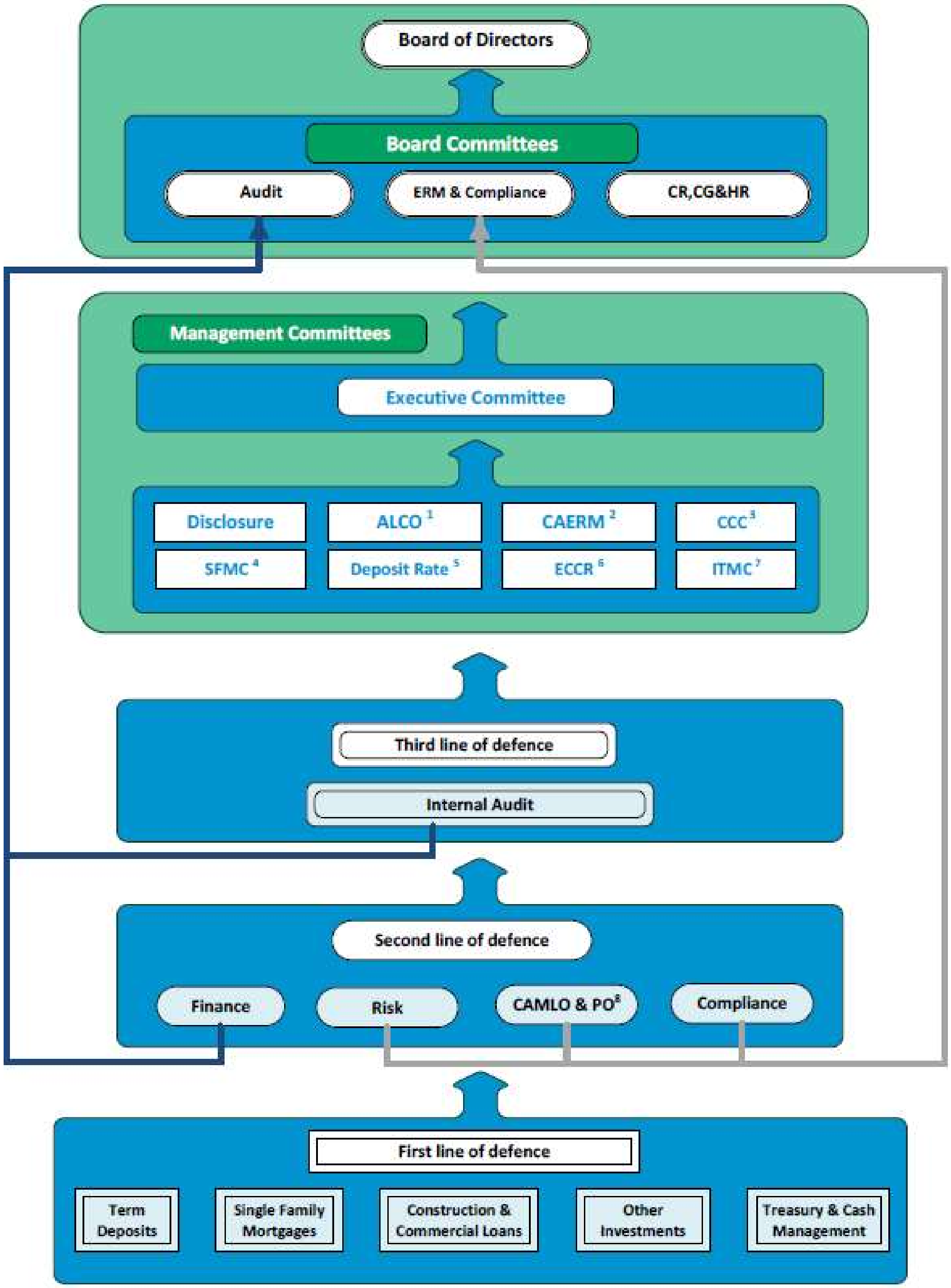
## RISK GOVERNANCE AND MANAGEMENT

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.

**Risk Governance**

MCAN has a risk governance structure, whereby the Board is supported by a number of Committees, and an experienced senior management team. This framework is governed through a hierarchy of committees and individual responsibilities as outlined in the diagram below.

The Board has oversight accountability for risk governance within MCAN. It provides this oversight and carries out its risk management mandate primarily through the Enterprise Risk Management and Compliance Committee ("ERM&CC"), the Audit Committee of the Board (the "Audit Committee"), the Conduct Review, Corporate Governance and Human Resources Committee of the Board (the "CR, CG & HR Committee"). MCAN's Risk Governance structure is illustrated in the following diagram:




[1] Asset and Liability Committee
[2] Compliance, Audit and Enterprise Risk Management Committee
[3] Capital Commitments Committee
[4] Single Family Management Committee
[5] Deposit Rate Setting Committee
[6] Executive Committee Credit Risk
[7] Information Technology Management Committee
[8] Chief Anti Money Laundering Officer & Privacy Officer

**Board of Directors**: is responsible for providing stewardship, including direction-setting and general oversight of the management and operations of the entire Company. The Board provides oversight and carries out its risk management mandate primarily through the ERM&CC, the Audit Committee, and the CR, CG & HR Committee. The Board reviews and approves the Risk Appetite Framework ("RAF") on a periodic basis and ensures its alignment with the strategic plan. The Board also ensures an effective risk culture by overseeing the implementation, by management, of appropriate systems to identify, quantify and manage the major risks of MCAN's business.

**The Enterprise Risk Management and Compliance Committee:** is responsible for overseeing risk management and compliance activities across the Company. It ensures the effectiveness of the Company's RAF and its alignment with the Company's strategy and our Internal Capital Adequacy Assessment Process. It has the responsibility to ensure that the risk management function is independent from the business activity it oversees, and is supported by the terms of the ERMF.

**The Executive Committee:** consists of the Chief Executive Officer ("CEO") and senior management, and is responsible for developing the strategic plan and a comprehensive set of enterprise wide policies for approval by the Board, including the RAF. They are responsible for fostering a strong risk culture through "tone at the top" and are accountable for identifying and reporting significant risks to the ERM&CC.

**Three-Lines-of-Defence**

The Company's operating model is predicated on the three-lines-of-defence approach to the management of risk.

**First Line (Business Units):** the business units headed by the CEO are the first line of defence in the Company's management of risk. The first line of defence has ownership of known and emerging risks whereby it acknowledges and manages the risks that it incurs or may incur in conducting its activities. The first line of defence is responsible for owning, identifying, managing, measuring and monitoring current and emerging risks and compliance with the Company's policies related to legal and regulatory matters.

**Second Line (Oversight Functions):** provide oversight and challenge to the first line through objectively identifying, measuring, monitoring and reporting known and emerging risks on an enterprise basis. The heads of the oversight functions are independent from operational management and have sufficient stature and authority within the organization to carry out their responsibilities as noted above. They have unfettered access and, for functional purposes, a direct reporting line to the Board and/or the relevant Board Committee through quarterly (or more immediate if necessary) Committee reporting and through quarterly in-camera sessions. These activities are overseen by:

- The Risk function, under the leadership of the Chief Risk Officer ("CRO"), is accountable for identifying, measuring, monitoring and reporting on the risks of the organization on an enterprise-wide and disaggregated level, independently of operational management, and for the fostering of a strong risk culture throughout the organization. The CRO has responsibility for maintaining and managing the RAF, which includes reporting on the significant business risks.

- The Finance function, under the leadership of the Chief Financial Officer ("CFO"), is accountable for the accuracy and integrity of the Company's accounting and financial reporting systems, financial statements, planning and budgeting systems. The CFO ensures legal and regulatory compliance for all financial matters within the Company.

- The Chief Compliance Officer, Chief Anti Money Laundering Officer & Privacy Officer is accountable for measuring, and reporting on, compliance with the Company's policies and procedures that have been designed to manage and mitigate legal and regulatory compliance risk, and is accountable for the Company's adherence to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*

(Canada) and the *Personal Information Protection and Electronic Documents Act* (Canada) with regard to its deposit taking and lending activities.

**Third Line (Internal Audit):** is separate from both the first and second line of defence and provides independent and objective assurance with respect to the organization's risk management controls, processes, systems and of the effectiveness of the first and second line of defence functions. The Chief Audit Officer reports to the Chair of the Audit Committee.

**Risk Appetite**

The RAF governs the risk activities undertaken by the Company on an enterprise-wide basis. The RAF articulates the aggregate level and types of risk MCAN is willing to accept, or to avoid, in order to achieve its business objectives.

Key inputs into the RAF include MCAN's risk capacity and strategy, while the foundational components include risk appetite statements, risk appetite limits, and roles and accountabilities for the Board and senior management in relation to overseeing the implementation and monitoring of the RAF.

MCAN's overarching risk appetite statement is as follows:

1. Focus on sustainable and stable growth of earnings.
2. Maintain a conservative liquidity profile and a strong capital base.
3. Balance the corporate mortgage portfolio.
4. Maintain access to adequate funding and capital markets at all times.
5. Ensure sound management of regulatory compliance and operational risk and maintain a strong risk culture.
6. Ensure financial resiliency in a stressed scenario.

MCAN's RAF includes risk appetite metrics which are quantitative measures based on forward-looking assumptions to measure and monitor if MCAN is operating within its established risk appetite. RAF level risk appetite metrics are supported by policy level limit structures and controls, as applicable.

**Stress Testing**

Stress testing is a key risk management tool that supplements risk management practices by providing an assessment of our capacity to withstand potential adverse events and aids in refining our risk limits and chosen strategies. At least quarterly, MCAN conducts enterprise-wide stress testing covering a wide range of risks and correlations among risks.

Results of stress testing are interpreted in the context of our risk appetite and our specific risk appetite metrics including metrics for capital ratios, earnings volatility and level of stress losses. Enterprise-wide stress testing and capital and financial planning processes are integrated within the Company.

**Monitoring and Reporting**

Risk monitoring and reporting are key components of MCAN's ERMF and allow both the Board and senior management to execute their oversight and challenge responsibilities with respect to business operations. Risk Management reports risk exposures to senior management and the ERM&CC on a quarterly basis, to ensure business operations are within established risk appetite limits, policy level limits and policy guidelines. Reports include emerging risks, significant changes to MCAN's risk profile, and ad hoc reporting, as applicable.

**Material Risk Types**

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

**Liquidity and Funding Risk**

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

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held (including insured single family mortgages, which are readily marketable within a time frame of one to three months), together with our ability to raise new deposits, is sufficient to meet our funding commitments, deposit maturity obligations, and other financial obligations. The Board is responsible for the approval of liquidity policies. The Asset and Liability Committee ("ALCO"), which is comprised of management, is responsible for liquidity management oversight. We have an internal target of a standard level of liquid investments. This internal target includes assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. As at December 31, 2018 and December 31, 2017, we met this internal target.

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

We maintain an overdraft facility to meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. Prior to year end, the total facility was temporarily increased from $75 million to $125 million until March 31, 2019.

We also have an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility provides liquidity and allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, we may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing.

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

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

Management has developed a Liquidity Risk Management Framework ("LRMF") that is reviewed and approved periodically by the Board. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also performs multi scenario stress testing that is reviewed monthly by ALCO and quarterly by the ERM&CC. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis. Further to the LRMF, we maintain a Contingency Funding

Plan that details the strategies and action plans to respond to stress events that could materially impair our access to funding and liquidity.

**Credit Risk**

Credit risk is the risk of financial loss resulting from the failure of a counterparty, for any reason, to fully honour its financial or contractual obligations to the Company, primarily arising from our mortgage and lending activities. Fluctuations in real estate values may increase the risk of default and may also reduce the net realizable value of the collateral property to the Company. These risks may result in defaults and credit losses, which may result in a loss of earnings. Credit losses occur when a counter party fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concerns. The “monitored/watchlist” category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which risks have increased. Loans in this category are included in stage 2 for IFRS 9 arrears classification purposes. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, as at December 31, 2018 we have not observed anything specific across the portfolio that we believe would cause a loss of principal in excess of the stage 1 and 2 allowances recorded under IFRS 9.

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.

**Credit Risk - Impairment Assessment Under IFRS 9**

*Probability of Default*

The probability of default (“PD”) is driven by historical arrears performance, and incorporates the rate at which mortgages move from performing status to defaulted status. Key macroeconomic variables, borrower credit scores and internal mortgage risk ratings (where applicable) are also used in calculating this rate. Where historical arrears performance is limited or not available, the Company uses external arrears/default data for similar loans and mortgages.

*Exposure at default*

The exposure at default (“EAD”) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the borrower’s ability to increase its exposure while approaching default and potential early repayments.

To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months for the calculation of the 12 month ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2 and Stage 3 financial assets, the EAD is considered for events over the lifetime of the instruments.

The Company determines EADs by determining the period of exposure and modelling the change in loan exposures over time. Except for some revolving credit facilities, the maximum period over which the ECL is measured is the maximum contractual period. For revolving credit facilities that include both a loan component and an undrawn commitment component, an assessment is made with respect to whether the Company’s exposure to credit losses is not limited to the contractual notice period. Once the period of exposure is determined, the EAD is modelled based on loan terms, prepayment assumptions, commitment drawing patterns and other relevant forward-looking information.

*Loss given default*

Loss given default (“LGD”) is modelled using a common LGD methodology that incorporates specific relevant data where appropriate. The LGD estimation takes into account all relevant and forward-looking information including but not limited to expected EAD, forecast of future collateral valuations including expected sales costs and discounts, debt structure and cross-collateralization, and varies with macroeconomic scenarios.

The Company segments its corporate mortgage portfolio into individual lines of business. The segmentation is based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and other transaction characteristics as applicable.

Additional data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each mortgage. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs include changes in collateral values including property prices for mortgages, regional housing price indexes or other factors that are indicative of losses in the group. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 IFRS 9 segment of each mortgage. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

*Grouping financial assets measured on a collective basis*

The Company calculates ECLs either on a collective or individual basis for the corporate mortgage portfolio based on the line of business. ECLs are calculated on an individual basis for all mortgages in Stage 3 and are calculated on a collective basis for all mortgages in Stage 1 and Stage 2.

*Analysis of inputs into the ECL model under multiple economic scenarios*

As part of the model input process, macroeconomic data are obtained from third party sources (e.g. rating agencies, bank economic forecasts), and our Risk Management department verifies the quality of data and assumptions in the Company's ECL models including determining the weights attributable to the multiple scenarios.

**Interest Rate Risk**

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

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

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

**Market Risk**

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

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

**Operational Risk**

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

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

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

***Outsourcing Risk***

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

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

***Cyber Risk***

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

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

We also maintain cyber security insurance coverage for both direct and third party coverage in the event of a cyber security incident that would result in a loss.

***Risk of Accuracy and Completeness of Borrower Information***

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

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

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

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

**Strategic Risk**

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

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

**Reputational Risk**

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

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

**Other Risk Factors**

*Reliance on Key Personnel*

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

*Changes in Laws and Regulations and Regulatory Compliance Risk*

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

*Mortgage Renewal and Prepayment Risk*

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

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment obligation. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

*Economic Conditions*

Factors that could impact MCAN include changes in short-term and long-term interest rates, commodity prices, inflation, consumer, business and government spending, real estate market volume, real estate prices and adverse economic events. Our inability to respond to meet changes effectively may have an adverse effect on our financial condition and results of operations.

*Competition Risk*

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

*Monetary Policy*

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

*Qualification as a Mortgage Investment Corporation*

If for any reason we do not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes.

*Environmental Risk*

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

*General Litigation*

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

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

*Changes in Accounting Standards and Accounting Policies*

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

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

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

*General Risk Management*

Ultimately, risk management is monitored and controlled at the highest level of the Company. The Board also reviews and approves all risk management policies and procedures periodically. Management reports to the Board on the status of risk management at least quarterly.

## DIVIDEND POLICY AND RECORD

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

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

| Fiscal Period | 2018 | 2017 | 2016 |
|---|---|---|---|
| First Quarter | $ 0.37 | $ 0.30 | $ 0.29 |
| Second Quarter | 0.37 | 0.32 | 0.29 |
| Third Quarter | 0.37 | 0.32 | 0.29 |
| Fourth Quarter | 0.32 | 0.37 | 0.30 |
| | **$ 1.43** | **$ 1.31** | **$ 1.17** |

Consistent with the prior quarter, the Board declared a first quarter regular dividend of $0.32 per share to be paid March 29, 2019 to shareholders of record as of March 15, 2019.

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

***Dividend Reinvestment Plan***

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

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

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

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

## DESCRIPTION OF CAPITAL STRUCTURE

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

At December 31, 2018 there were 23,798,464 Common Shares outstanding. As of the date hereof, the number of Common Shares outstanding is 23,910,417. Generally, each Common Share provides one vote per share. However, the Directors are elected by cumulative voting, as required by our by-laws and the Trust Act. The Trust Act requires cumulative voting for the election of directors where more than 10% of the voting shares of a company are beneficially owned, directly or indirectly, by a shareholder. In addition, our by-laws provide for cumulative voting for the election of directors where a shareholder beneficially owns, directly or indirectly, more than 9% of the voting shares of MCAN. Under the cumulative voting system, each holder of Common Shares has the right to cast a number of votes equal to the number of votes attached to the Common Shares held by the shareholder multiplied by the number of directors to be elected at the meeting. The shareholder may cast all such votes in favor of one nominee or distribute them among the nominees in any manner.

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

Changes to our share capital over the past two years are analyzed in Note 19 to our 2018 consolidated financial statements for the year ended December 31, 2018, contained in our 2018 Annual Report, which is incorporated by reference in this AIF. Our 2018 Annual Report is available on SEDAR at www.sedar.com and on our website at www.mcanmortgage.com.

## MARKET FOR SECURITIES

MCAN's Common Shares are listed and posted for trading on the TSX under the trading symbol "MKP". The volume of Common Shares traded during 2018 was 5,123,242 compared to 5,227,800 in 2017. The range of trading prices during 2018 was $12.21 to $19.46 (2017 - $13.10 to $18.20). The monthly high and low closing prices and trading volumes for the periods indicated below were as follows:

| Month in 2018 | Volume Traded | High ($) | Low ($) |
|---|---|---|---|
| January | 271,764 | 18.22 | 17.55 |
| February | 310,196 | 18.50 | 17.17 |
| March | 254,686 | 18.30 | 17.14 |
| April | 212,896 | 18.15 | 17.50 |
| May | 396,243 | 18.45 | 17.90 |
| June | 283,825 | 18.43 | 17.85 |
| July | 244,894 | 18.41 | 17.92 |
| August | 277,900 | 19.25 | 17.99 |
| September | 524,095 | 19.46 | 17.09 |
| October | 1,152,281 | 17.79 | 12.90 |
| November | 695,501 | 14.31 | 13.30 |
| December | 498,961 | 14.95 | 12.21 |

## SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

To our knowledge, there are no Common Shares that are subject to a contractual restriction on transfer.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

As at December 31, 2018, as a group, the directors and executive officers of MCAN beneficially owned, directly or indirectly, or exercised control or direction over 5,315,426 common shares, representing a 22.34% interest in MCAN.

### *Directors*

Information concerning our directors as at December 31, 2018, and their municipalities of residence and principal occupations, is as shown in the table below. The term of office of each of the directors will expire at the time of our next Annual and Special Meeting of shareholders to be held on May 8, 2019.

| Name and Municipality of Residence | Director Since | Principal Occupation for the last five years | Common Shares Owned and/or Controlled at December 31, 2018 [10] | Approximate Percentage of Common Shares |
|---|---|---|---|---|
| **VERNA CUTHBERT** [2,3]<br>Westmount, Quebec, Canada | September 2013 | Corporate Director,<br>MCAN Mortgage Corporation [4] | 6,574 | 0.03% |
| **SUSAN DORÉ** [1,2]<br>Toronto, Ontario, Canada | May 2010 | Corporate Director,<br>MCAN Mortgage Corporation | 1,457,866 | 6.13% |
| **GORDON HERRIDGE** [1,3]<br>Peachland, British Columbia, Canada | May 2018 | Corporate Director,<br>MCAN Mortgage Corporation [5] | 129,831 | 0.55% |
| **LORAINE MCINTOSH** [1,3]<br>Toronto, Ontario, Canada | May 2017 | Corporate Director,<br>MCAN Mortgage Corporation [6] | 6,191 | 0.03% |
| **GAELEN MORPHET** [1,2]<br>Toronto, Ontario, Canada | January 2018 | Chief Investment Officer,<br>Cinnamon Investments ULC [7] | Nil | Nil |
| **DEREK SUTHERLAND** [3]<br>Toronto, Ontario, Canada | May 2017 | President,<br>Canadazil Capital Inc. [8] | 121,387 | 0.51% |
| **IAN SUTHERLAND**<br>Oro-Medonte, Ontario, Canada | January 1991 | Chair,<br>MCAN Mortgage Corporation | 3,445,866 | 14.48% |
| **KAREN H. WEAVER**<br>Collingwood, Ontario, Canada | November 2011 | Chief Executive Officer, Interim,<br>MCAN Mortgage Corporation [9] | 27,794 | 0.12% |
| **W. TERRENCE WRIGHT** [2,3]<br>Winnipeg, Manitoba, Canada | September 2013 | Counsel, Pitblado LLP | 5,515 | 0.02% |

1. Member of the Audit Committee.
2. Member of the Conduct Review, Corporate Governance & Human Resources Committee.
3. Member of the Enterprise Risk Management and Compliance Committee.
4. Prior to April 2017, Ms. Cuthbert was Counsel at Fasken Martineau DuMoulin LLP.
5. Prior to July 2017, Mr. Herridge was Senior Vice President, Corporate Services, MCAP Commercial LP.
6. Prior to 2015, Ms. McIntosh was Partner, Deloitte LLP.
7. Beginning in January 2019, Ms. Morphet is a Board member of CMA Investco Inc. From August 2016 to September 2017, Ms. Morphet was Executive Vice President & Chief Investment Officer of Sentry Investments (investment management). Prior to June 2016, Ms. Morphet was Senior Vice President & Chief Investment Officer of Empire Life Investments (investment management).
8. Prior to June 2016, Mr. Sutherland was Vice President and Chief Risk Officer of MCAN Mortgage Corporation.
9. Prior to October 2018, Ms. Weaver was Director, MCAN Mortgage Corporation. Prior to June 2017 Ms. Weaver was Chief Financial Officer of D+H Corporation (financial technologies company). Prior to September 2014, Ms. Weaver was Executive Vice President & Chief Financial Officer, First Capital Realty Inc. (real estate).
10. The information as to Common Shares owned, directly or indirectly, or over which control or direction is exercised has been furnished by the respective directors.

### *Executive Officers*

Information concerning our executive officers as at December 31, 2018, and their municipalities of residence and principal occupation is as shown in the table below.

| Name and Municipality of Residence | Office | Principal Occupation for the last five years | Common Shares Owned and/or Controlled at December 31, 2018 [1] | Approximate Percentage of Common Shares |
|---|---|---|---|---|
| **KAREN H. WEAVER**<br>Collingwood, Ontario, Canada | Chief Executive Officer, Interim | Prior to October 2018, Ms. Weaver was Director, MCAN Mortgage Corporation. Prior to June 2017 Ms. Weaver was Chief Financial Officer of D+H Corporation (financial technologies company). Prior to September 2014, Ms. Weaver was Executive Vice President & Chief Financial Officer, First Capital Realty Inc. (real estate). | 27,794 | 0.12% |
| **DIPTI PATEL**<br>Toronto, Ontario, Canada | Vice President & Chief Financial Officer | Prior to her appointment as Chief Financial Officer in 2018, Ms. Patel held the role of Vice President & Chief Audit Officer for MCAN. Prior to 2016, Ms. Patel held the role of AVP, Investments for MCAN. | 561 | 0.00% |
| **JOSEPH SHAW**<br>Toronto, Ontario, Canada | Vice President & Chief Investments Officer | Prior to joining MCAN in 2018, Mr. Shaw held the role of Managing Director, Investments at a large Canadian financial institution, responsible for the acquisition and disposition of commercial real estate. | 21,316 | 0.09% |
| **MARTIN BEAUDRY**<br>Richmond Hill, Ontario, Canada | Vice President, Single Family Mortgage Operations | Prior to joining MCAN in 2016, Mr. Beaudry held various senior roles at other financial institutions, focusing on retail lending and operations. | 14,287 | 0.06% |
| **CARL BROWN**<br>Toronto, Ontario, Canada | Vice President, Operations and Treasurer | Mr. Brown has held the role of Vice President, Operations and Treasurer for the last five years. | 28,191 | 0.12% |
| **EMILY RANDLE**<br>Toronto, Ontario, Canada | Vice President & Chief Risk Officer | Prior to her appointment as Chief Risk Officer in 2018, Ms. Randle held the role of Vice President, Credit Risk Monitoring and Management for MCAN. Prior to 2018, Ms. Randle worked at a large Schedule I bank in various roles, including commercial lending, real estate finance and financial restructuring. | 407 | 0.00% |
| **MICHAEL E. JENSEN**<br>Kitchener, Ontario, Canada | Vice President & Chief Compliance Officer (Chief Anti Money Laundering & Privacy Officer) | Prior to 2014, Mr. Jensen held various senior compliance and risk management roles, including Chief Compliance Officer for investment products at a large Canadian insurance company. | 10,437 | 0.04% |
| **SYLVIA PINTO**<br>Brampton, Ontario, Canada | Vice President, Corporate Secretary & Governance Officer | Prior to November 2018, Ms. Pinto held the role of Vice President, Chief Compliance Officer & Corporate Secretary for MCAN. Prior to August 2016, Ms. Pinto held the role of Corporate Secretary & Chief Compliance Officer for MCAN. | 39,203 | 0.16% |

[1] The information as to Common Shares owned, directly or indirectly, or over which control or direction is exercised has been furnished by the respective executive officers.

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

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

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

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

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

### *Conflicts of Interest*

There are no existing or potentially material conflicts of interest of which we are aware between MCAN or any of its subsidiaries and any director or officer of MCAN or any director of officer of any of its subsidiaries.

## REGULATORY ACTIONS

In the ordinary course of business, MCAN may be subject to penalties or sanctions imposed by regulatory authorities from time to time in relation to administrative matters, including late filings or reporting, which may be considered penalties or sanctions pursuant to Canadian securities regulators but which are not, individually or in the aggregate, material, nor would they likely be considered important to a reasonable investor making an investment decision.

During the 2018 financial year, MCAN did not face any penalties imposed by securities regulatory authorities, or enter into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority, as such terms may be defined by National Instrument 14-101[1].

[1] National Instrument 14-101 limits the meaning of ‘securities legislation’ to Canadian provincial and territorial legislation and ‘securities regulatory authority’ to Canadian provincial and territorial securities regulatory authorities.

## AUDIT COMMITTEE INFORMATION

The primary purpose of the Audit Committee is to assist the Board in its oversight role with respect to (i) the quality and integrity of MCAN's financial information; (ii) the effectiveness of MCAN's internal control over financial reporting; (iii) the meeting of MCAN's reporting issuer obligations; (iv) the independent auditor's performance, qualifications and independence; (v) the performance of MCAN's internal audit function; (vi) MCAN's compliance with legal and regulatory requirements pertaining to financial disclosure and (vii) the information technology function. The Audit Committee's role and responsibilities are outlined in Schedule "A" to this Annual Information Form.

As of December 31, 2018, the members of the Audit Committee were Gordon Herridge (Chair), Susan M. Doré, Loraine McIntosh and Gaelen Morphet. All members of the Audit Committee are, for the purposes of *National Instrument 52-110 - Audit Committees*, considered to be independent and financially literate. The following is a description of the education and experience of each member of the committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee.

Mr. Herridge obtained his CPA, CA designation in 1980 and holds a Bachelor of Arts (Economics) from the University of Waterloo. Mr. Herridge was Senior Vice President, Corporate Services at MCAP Commercial LP when he retired in July, 2017. Prior to that role, Mr. Herridge held the roles of Executive Vice President and Chief Financial Officer of MCAP Leasing and Chief Financial Officer of MCAP Service Corporation. Prior to his 26-year career at MCAP, Mr. Herridge worked with private commercial real estate development and management companies, as well as in public accounting.

Ms. Doré is a member of the Chartered Professional Accountants of Canada, and currently serves on the Board of a non-public Canadian company. Ms. Doré has previously served as an officer and director of a federally regulated financial institution and in the capacity of Chief Financial Officer for a securities dealer. Ms. Doré is an ICD.D in Canada and a member of the Institute of Corporate Directors.

Ms. McIntosh obtained her CPA designation in 1984 and holds a Bachelor of Business Administration (Honours) from York University. Prior to her retirement in 2015, Ms. McIntosh served as an Audit and Advisory Partner with Deloitte LLP. Ms. McIntosh has over 30 years of experience providing accounting, assurance and advisory services to a wide range of organizations across Canada (both public and private) with a particular emphasis on the financial services sector.

Ms. Morphet is a Chartered Financial Analyst (CFA), and currently serves on the Board of CMA Investco Inc. From August 2016 to September 2017, Ms. Morphet was Executive Vice President & Chief Investment Officer of Sentry Investments. Prior to June 2016, Ms. Morphet was Senior Vice President & Chief Investment Officer of Empire Life Investments.

## AUDIT FEES

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

| Category | 2018 | 2017 |
|---|---|---|
| Audit Fees [1] | $ 503,000 | $ 724,500 |
| Audit-Related Fees [2] | 70,000 | 65,000 |
| Tax Fees [3] | 45,000 | 45,000 |
| All Other Fees [4] | 3,000 | 1,000 |
| Total Fees | $ 621,000 | $ 835,500 |

1. 2017 includes one-time fee associated with audit of IFRS 9 transition
2. Audit-Related Fees include AMF (Autorité des marchés financiers) and CMHC compliance
3. Tax Fees include tax planning, review of tax returns and tax advice
4. Other Fees includes accounting consultation services

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Information related to Interest of Management and Others in Material Transactions may be found in the "Indebtedness of Directors and Executive Officers" section of our 2017 and 2018 Management Information Circulars, herein incorporated by reference. Such Management Information Circulars are available on SEDAR at www.sedar.com and on our website at www.mcanmortgage.com. For the year ended December 31, 2018, we are not aware of any instances where a director, executive officer, any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of any class or series of outstanding voting securities, or any of their associates or affiliates has or had any material interest, direct or indirect, in any transaction during the current financial year that has materially affected or will materially affect the Company.

## TRANSFER AGENT AND REGISTRAR

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

## MATERIAL CONTRACTS

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

On November 11, 2010, MCAN and MCAP entered into an amended mortgage acquisition agreement, which replaces the mortgage origination and servicing agreement dated October 20, 2006 between the parties. Pursuant to the agreement, MCAP originates and services investment mortgages (which are intended to be held by MCAN on a long-term investment basis) for MCAN. The agreement also sets forth certain terms applicable to a sale of investment mortgages by MCAN, in that MCAP has certain rights of first refusal to assist with such sale. Origination and servicing rates are set forth in the agreement, and vary depending upon the type of mortgage that is being originated and serviced. Either party may terminate the agreement on 90 days' notice.

## INTEREST OF EXPERTS

Ernst & Young LLP, the external auditor of MCAN, reported on our 2018 consolidated financial statements. At the time of preparing its report on the 2018 consolidated financial statements, Ernst & Young LLP was independent of MCAN in accordance within the meaning of the Rules of Professional Conduct of Chartered Professional Accountants of Ontario.

## ADDITIONAL INFORMATION

Additional information about MCAN is available on our website at www.mcanmortgage.com and under our profile on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, securities authorized for issuance under equity compensation plans and interests of insiders in material transactions, is contained in our 2017 and 2018 Management Information Circulars. Additional financial information is provided in our consolidated financial statements and MD&A in our 2018 Annual Report for the year ended December 31, 2018.

Copies of our AIF, as well as a copy of our 2018 Annual Report for the year ended December 31, 2018 may be obtained from:

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

Attn: Corporate Secretary
Email: mcanexecutive@mcanmortgage.com

## SCHEDULE A - MANDATE OF THE AUDIT COMMITTEE

### ***Role***

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

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

### ***Composition and Operations***

1. The Committee shall consist of at least three directors appointed annually by the Board.

2. No member of the Committee shall be an officer or employee of MCAN, its subsidiaries or affiliates. All members of the Committee shall be independent. A majority of the members of the Committee will not be affiliated with MCAN as such term is defined in the *Trust and Loan Companies Act* (Canada).

3. Each member of the Committee shall satisfy the applicable independence, proficiency and experience requirements of the laws, regulations and guidelines governing MCAN, the applicable stock exchange(s) on which MCAN's securities are listed, applicable securities regulatory authorities and MCAN's Director Independence Policy.

4. The Board shall appoint one member of the Committee as the Committee Chair.

5. Each member of the Committee shall be financially literate as such qualification is defined by applicable laws, regulations and guidelines and interpreted by the Board in its business judgement.

   The Committee shall meet at least quarterly and as many additional times as necessary. The Committee shall report to the Board on its activities, findings and recommendations after each of its meetings.

### ***Specific Duties***

#### ***Oversight of the Independent Auditor***

1. Recommend to the Board the appointment, reappointment or removal of the independent auditor for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for MCAN, subject to required shareholder approval.

2. Review and agree to the scope and terms of all audit engagements and recommend to the Board the engagement letter and compensation of the independent auditor.

3. Provide oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services (including resolution of disagreements between management and the independent auditor regarding financial reporting). Ensure that the independent auditor reports directly to the Committee.

4. Pre-approve all audit services and permitted non-audit services (including the fees, terms and conditions for the performance of such services) to be provided by the independent auditor. When appropriate, the

Committee may delegate to the Chair of the Committee the authority to grant pre-approvals of audit and permitted non-audit services, provided that such authorization does not exceed $100,000 in a calendar year, and the full Committee shall be informed of such approvals at its next scheduled meeting.

5. Evaluate the qualifications, performance and independence of the independent auditor, including:

    (i) reviewing and evaluating the lead partner on the independent auditor's engagement with MCAN;

    (ii) considering whether the independent auditor's quality controls are adequate and that the provision of permitted non-audit services are compatible with maintaining the independent auditor's independence; and

    (iii) addressing any concerns raised by regulatory authorities or other stakeholders regarding the independent auditor's independence.

6. Present the Committee's conclusions with respect to the independent auditor to the Board and, if so determined by the Committee, recommend that the Board take additional action to satisfy itself of the qualifications, performance and independence of the independent auditor.

7. At least annually, obtain and review a report from the independent auditor regarding:

    (i) the independent auditor's internal quality-control procedures;

    (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the independent auditor;

    (iii) any steps taken to deal with any such issues; and

    (iv) all relationships between the independent auditor and MCAN.

8. Review and discuss with management and the independent auditor, prior to the annual audit, the scope, planning, materiality and staffing of the annual audit and satisfy itself that the audit plan is risk-based and addresses all of the relevant activities over a measurable cycle and that the work of the independent auditor and the internal auditor is coordinated.

9. Ensure the rotation of the lead audit partner having primary responsibility for the audit as required by applicable laws, regulations, guidelines or professional standards.

10. Review and approve hiring policies regarding partners and employees or former partners and employees of the present and former independent auditor.

11. Establish and maintain free and open communication with the independent auditor, including meeting separately with the independent auditor to assess the adequacy and effectiveness of MCAN's internal control systems, and report to the Board on the effectiveness of the independent audit process.

### *Financial Reporting*

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

13. Review and discuss with management MCAN's quarterly financial statements prior to approval by the Board and publication of earnings.

14. Review and discuss with management and the independent auditor, as appropriate, the annual and quarterly disclosures made in management's discussion and analysis prior to approval by the Board and publication.

15. Review such returns as the Office of the Superintendent of Financial Institutions may specify.

16. Require management to implement and maintain appropriate and effective internal control procedures.

17. Review, evaluate and approve the procedures established under item 16.

18. Review such investments and transactions that could adversely affect MCAN's well-being as the independent auditor or any officer of MCAN may bring to the attention of the Committee.

19. At least annually, review and discuss with management and the independent auditor significant financial reporting issues and judgements made in connection with the preparation of MCAN's financial statements, including:

    (i) key areas of risk for material misstatement of the financial statements, including critical accounting estimates or areas of measurement uncertainty;

    (ii) whether the independent auditor considers estimates to be within an acceptable range and the rationale for the final valuation decision and whether it is consistent with industry practice;

    (iii) any significant changes in MCAN's selection or application of accounting principles;

    (iv) any major issues as to the adequacy and effectiveness of MCAN's internal controls; and

    (v) any special steps adopted in light of material control deficiencies.

20. At least annually, review and discuss with management and the independent auditor reports from the independent auditor on:

    (i) critical accounting policies and practices to be used;

    (ii) significant financial reporting issues, estimates and judgements made in connection with the preparation of the financial statements;

    (iii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and

    (iv) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

21. At least annually, review and discuss with management and the independent auditor any significant changes to MCAN's accounting principles and practices suggested by the independent auditor, internal audit personnel or management and assess whether MCAN's accounting practices are appropriate.

22. At least annually, review and discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on MCAN's financial statements.

23. Periodically review and recommend to the Board the Disclosure Policy, which governs the release of information about MCAN and requires timely, accurate and fair disclosure of such information in compliance with all legal and regulatory requirements.

24. Review all financial public disclosure documents, including information contained in earnings press releases, Annual Information Form, Annual Report and Management Information Circular prior to approval by the Board.

25. Review and discuss with the CEO and the CFO the procedures undertaken in connection with the CEO and CFO certifications for the annual and interim filings with applicable securities regulatory authorities.

26. Review disclosures made by the CEO and CFO arising from their certification process for the annual and interim filing with applicable securities regulatory authorities about any significant deficiencies in the design or operation of internal controls which could adversely affect MCAN's ability to record, process, summarize and report financial data or any material weaknesses in the internal controls, and any fraud involving management or other employees who have a significant role in MCAN's internal controls.

27. At least quarterly, discuss with management any legal matters that may have a material impact on the financial statements, operations and assets of MCAN and any material reports or inquiries received by MCAN or any of its subsidiaries from regulators or governmental agencies with respect to financial statements.

### *Oversight of the Finance Function*

28. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the mandate of the Chief Financial Officer.

29. At least annually, review the budget, structure and resources of the Finance function, prior to approval by the Board.

30. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual performance evaluation of the Chief Financial Officer and assess the effectiveness of the Chief Financial Officer and the Finance function and report to the Board thereon.

31. Review the results of periodic independent reviews of the Finance function.

32. At least quarterly, meet separately with the Chief Financial Officer to assess the adequacy and effectiveness of the internal control systems and to obtain reasonable assurance that the controls are effective and report to the Board thereon.

33. Annually assess and report to the Board on the effectiveness of the Finance function.

### *Oversight of the Internal Audit Function*

34. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the mandate of the Chief Audit Officer.

35. Together with the Conduct Review, Corporate Governance & Human Resources Committee, approve decisions regarding the appointment and removal of the Chief Audit Officer.

36. At least annually, review the independence, budget, structure and resources of the Internal Audit function, prior to approval by the Board.

37. Review the internal audit plan, including any significant changes to the audit plan, and, as part of the review, satisfy itself that the audit plan is risk-based and addresses all relevant activities over a measurable cycle, prior to approval by the Board.

38. Review the scope of the audits to be performed by the Internal Audit function and the degree of co-ordination between the plans of the internal and independent auditor.

39. Confirm that outstanding internal control matters as cited by the Office of the Superintendent of Financial Institutions or other regulatory agencies are adequately addressed in the scope of audits on a timely basis.

40. Review the quarterly reports of the Chief Audit Officer on internal audit activities, including audit findings, recommendations and progress in meeting the annual audit plan.

41. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual performance evaluation of the Chief Audit Officer and assess the effectiveness of the Chief Audit Officer and the Internal Audit function and report to the Board thereon.

42. At least quarterly, meet separately with the Chief Audit Officer to assess the adequacy and effectiveness of the internal control systems and to obtain reasonable assurance that the controls are effective and report to the Board thereon.

### *Oversight of the Information Technology ("IT") Function*

43. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the mandate of the Vice President, Information Technology.

44. At least annually review the budget, structure and resources of the IT function prior to approval by the Board.

45. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual performance evaluation of the Vice President, Information Technology and assess the effectiveness of the Vice President, Information Technology and the IT function and report to the Board thereon.

46. Review the results of periodic independent reviews of the IT function.

47. Periodically review and recommend to the Board the IT Governance Framework, other associated IT policies, and oversee the IT governance framework development at MCAN.

48. Review the development of plans and direction of IT initiatives and the effectiveness of IT solutions and services in meeting stakeholder needs and expectations.

49. Review the processes for identification and mitigation of IT risks, including Cyber risk (including how they apply to relations with third-party service providers), and for compliance with all legal and regulatory requirements relative to the security of data and protection of private information.

50. Meet at least quarterly with the Vice President, Information Technology to review practices for managing cyber risk, and reports on data breaches related to cybersecurity and privacy.

### *Other*

51. Periodically, but not less often than annually, review and recommend to the Board the Whistleblowing Policy.

52. Establish procedures for the receipt, retention and treatment of complaints received by MCAN regarding accounting, internal accounting controls, or auditing matters, and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and the potential retaliation against employees who raise complaints or concerns as contemplated in the Whistleblowing Policy.

53. Periodically review and recommend to the Board the Allowance Policy.

54. Review quarterly individual and collective loan loss reserves. Approve all new individual reserves in excess of $500,000 and reserve reversals at a threshold of $100,000 per loan.

55. Review and recommend to the Board any banking facilities and other financing facilities as MCAN may, from time to time, require.

56. Review correspondence with Canadian securities regulators and administrators.

57. Review the results of the periodic independent reviews of the Investment, Treasury and Securitization, Single Family Mortgage Operations, and the Operations functions.

58. Review the internal auditor's report on the results of testing of the Business Continuity Plan as per the internal auditor's cycle of audits.

59. At the discretion of the Committee, retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities.

60. Together with the Conduct Review, Corporate Governance & Human Resources Committee, ensure an annual review of the Committee mandate.

61. Carry out any other appropriate duties and responsibilities as assigned by the Board.

Approved: November 2018