

NOTICE TO READER

The attached quarterly report for the interim period ended June 30, 2018 (“**Q2 Report**”) replaces the version filed on August 9, 2018. The Q2 Report is being re-filed to correct the below typographical errors on page 13 of the document. No other changes have been made.

- (a) In the row entitled “Financial investments and other loans”, the following figures:

<u>Q2 2018</u>	<u>Q2 2017</u>	<u>Change (%)</u>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Change (%)</u>
267	301	(11)%	630	592	6%

have been replaced with the following figures:

<u>Q2 2018</u>	<u>Q2 2017</u>	<u>Change (%)</u>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Change (%)</u>
1,321	911	45%	2,875	5,174	(44)%

- (b) In the row entitled “Fees”, the following figures:

<u>Q2 2018</u>	<u>Q2 2017</u>	<u>Change (%)</u>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Change (%)</u>
1,321	911	45%	2,875	5,174	(44)%

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<u>Q2 2018</u>	<u>Q2 2017</u>	<u>Change (%)</u>	<u>YTD 2018</u>	<u>YTD 2017</u>	<u>Change (%)</u>
267	301	(11)%	630	592	6%



Quarterly Report

2018 Q2



DESCRIPTION OF BUSINESS

MCAN Mortgage Corporation ("MCAN") is a public company listed on the Toronto Stock Exchange ("TSX") under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and also qualifies as a mortgage investment corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act").

Our objective is to generate a reliable stream of income by investing our funds in a diversified portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of loans and investments, real estate and securitization investments. We employ leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance up to a maximum of five times capital (on a non-consolidated basis in the MIC entity) as limited by the provisions of the Tax Act applicable to a MIC. 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 outside of Canada may be subject to withholding taxes.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation ("XMC"), is an originator of residential first-charge mortgage products across Canada. As such, XMC operates primarily in one industry segment through its sales team and mortgage brokers.

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation (“MCAN”, the “Company” or “we”) reported net income for the second quarter of 2018 of \$11.1 million compared to \$8.9 million earned in the second quarter of 2017.

Earnings per share totalled \$0.47 for the second quarter of 2018 compared to \$0.39 in Q2 2017. Second quarter 2018 return on average shareholders’ equity was 14.54% compared to 12.37% in the prior year.

The Board of Directors (the “Board”) declared a quarterly dividend of \$0.37 per share on August 9, 2018 to be paid on September 28, 2018.

Corporate Assets

Corporate assets totalled \$1.21 billion at June 30, 2018, an increase of \$90 million (8%) from March 31, 2018. The corporate mortgage portfolio increased by \$60 million (7%) during the second quarter of 2018 to \$919 million from \$859 million, which included increases of \$50 million in insured single family, \$25 million in construction loans and \$7 million in uninsured single family, partially offset by a decrease of \$24 million in commercial loans.

Mortgage arrears totalled \$21 million at June 30, 2018, compared to \$19 million at March 31, 2018. The June 30, 2018 arrears balance consists entirely of single family mortgages, \$3.8 million of which were uninsured.

The impaired total mortgage ratio decreased to 0.02% at June 30, 2018 from 0.10% as at March 31, 2018, while the impaired corporate mortgage ratio decreased to 0.03% from 0.22% during the same period. We continue to maintain a low level of arrears as measured against our historical performance. We remain vigilant and continue to use underwriting and credit standards and default management practices which we believe are conservative and appropriate in the context of the current market.

Equity income from our investment in MCAP Commercial LP (“MCAP”) was \$3.2 million in the second quarter of 2018, down from \$3.8 million in the prior year. The decrease was a result of lower net income from securitized mortgages, lower origination income and a higher origination fee expense, partially offset by lower operating expenses and higher hedge gains. MCAP’s Q2 2018 origination volumes were \$4.2 billion (Q2 2017 - \$3.3 billion). MCAP had \$68.7 billion of assets under administration as at May 31, 2018 (February 28, 2018 - \$66.8 billion).

Securitization Assets

During the second quarter of 2018, we securitized \$46 million (Q2 2017 - \$14 million) of insured single family mortgages through the National Housing Act (“NHA”) mortgage-backed securities (“MBS”) program. We retained the MBS securitized in Q2 2018 on our corporate balance sheet to strengthen our corporate liquidity position, however in Q2 2017 we sold the MBS to a third party. We will continue to securitize mortgages to the extent that it is profitable.

Business Activities

The first half of the year has been impacted by a significant number of rule changes by the federal and provincial governments affecting residential mortgage lending. These changes have impacted mortgage affordability and demand for housing, and in some markets they have weakened home prices.

The Greater Toronto Area (“GTA”) housing market showed signs of recovery with increased sales activity levels in Q2 2018. GTA residential home sales increased 2.4% in June 2018 compared to June 2017, with sale volumes up 3.1% from May 2018. The GTA saw home prices recover, experiencing a 2% increase in resale prices in June 2018 compared to June 2017. The supply of listings continued to increase by 16.3% in the month.

Greater Vancouver Area (“GVA”) residential home sales dropped 37.7% in June 2018 compared to June 2017, with sale volumes 28.7% below the 10-year June average. The GVA experienced a 9.5% increase in home prices in June 2018 compared to June 2017. The number of homes listed in the GVA increased 40.3% year over year.

We continued to see evidence of a buyer’s market in the second quarter, with fewer examples of multiple bidders on homes creating high price inflation in the GTA and GVA markets that we observed in 2016 and 2017. The suburban markets in the GTA have continued to experience significant price weakness. We expect the GTA market to show improvement in the second half of the year, while we believe that the GVA market will experience reduced demand with increasing levels of inventory and weakening prices.

MCAN is a strategic lender to housing markets, and we will tactically adjust the composition of our corporate mortgage portfolio based on considerations such as changes in housing and mortgage market risk factors. We believe that housing markets will

continue to react to new mortgage regulations, but we expect to see markets stabilize and recover to more normal demand and price levels which we believe will present good lending opportunities for MCAN.

A handwritten signature in black ink, appearing to read 'W. Jandrisits', with a stylized, cursive script.

William Jandrisits
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended June 30, 2018 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2017. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2017 remain substantially unchanged. Information has been presented as at August 9, 2018.

Effective January 1, 2018, MCAN prospectively adopted IFRS 9, *Financial Instruments* and did not restate prior period information. Accordingly, financial information as at June 30, 2018 and for the quarter and six months ended June 30, 2018 is based on IFRS 9 and prior periods are based on IAS 39, *Financial Instruments: Recognition and Measurement*. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

- the current business environment and outlook;
- possible or assumed future results;
- our ability to create shareholder value;
- our business goals and strategy;
- the potential impact of changes to 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 continued health 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;
- 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;
- litigation risk;
- our relationships with our mortgage originators;
- additional risks and uncertainties, many of which are beyond our control, referred to in this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

ACRONYMS

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

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)						
For the Periods Ended June 30	Q2 2018 ¹	Q2 2017	Change (%)	YTD 2018 ¹	YTD 2017	Change (%)
Income Statement Highlights						
Net investment income - corporate assets	\$ 15,063	\$ 12,179	24%	\$ 27,136	\$ 25,142	8%
Net investment income - securitization assets	1,317	1,374	(4%)	2,618	2,665	(2%)
	16,380	13,553	21%	29,754	27,807	7%
Other income	-	-	-	1,701	876	94%
Operating expenses	5,142	4,616	11%	9,773	9,233	6%
Net income before income taxes	11,238	8,937	26%	21,682	19,450	11%
Provision for (recovery of) income taxes	113	(1)	114%	(58)	247	(123%)
Net income	\$ 11,125	\$ 8,938	24%	\$ 21,740	\$ 19,203	13%
Basic and diluted earnings per share	\$ 0.47	\$ 0.39	21%	\$ 0.92	\$ 0.83	11%
Dividends per share	\$ 0.37	\$ 0.32	16%	\$ 0.74	\$ 0.62	19%
Next quarter's dividend per share	\$ 0.37					
Return on average shareholders' equity ²	14.54%	12.37%	2.17%	14.32%	13.37%	0.95%
Taxable income per share ^{2,4}	\$ 0.48	\$ 0.43	12%	\$ 0.67	\$ 0.81	(17%)
Yields						
Average mortgage portfolio yield - corporate ³	5.65%	5.28%	0.37%	5.68%	5.20%	0.48%
Term deposit average interest rate ³	2.48%	2.21%	0.27%	2.43%	2.21%	0.22%
Spread of mortgages over term deposits	3.17%	3.07%	0.10%	3.25%	2.99%	0.26%
Average mortgage portfolio yield - securitized ³	2.59%	2.67%	(0.08%)	2.58%	2.64%	(0.06%)
Financial liabilities from securitization - average interest rate ³	1.83%	1.93%	(0.10%)	1.83%	1.92%	(0.09%)
Spread of mortgages over liabilities	0.76%	0.74%	0.02%	0.75%	0.72%	0.03%

¹ Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

² Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

³ Refer to "Average Interest Rate" in the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

⁴ For further information refer to the "Taxable Income" section of this MD&A.

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	June 30 2018 ¹	March 31 2018 ¹	December 31 2017	Change from Prior Quarter (\$) (%)	
Balance Sheet Highlights					
Assets					
Corporate	\$ 1,212,078	\$ 1,121,806	\$ 1,182,371	\$ 90,272	8%
Securitization	993,992	1,032,078	1,034,404	(38,086)	(4%)
Total assets	<u>\$ 2,206,070</u>	<u>\$ 2,153,884</u>	<u>\$ 2,216,775</u>	<u>\$ 52,186</u>	<u>2%</u>
Mortgages - corporate	\$ 919,053	\$ 859,372	\$ 863,384	\$ 59,681	7%
Mortgages - securitized	\$ 964,507	\$ 1,013,036	\$ 1,016,724	\$ (48,529)	(5%)
Liabilities					
Corporate	\$ 923,205	\$ 836,552	\$ 904,099	\$ 86,653	10%
Securitization	976,769	1,015,296	1,015,699	(38,527)	(4%)
Total liabilities	<u>\$ 1,899,974</u>	<u>\$ 1,851,848</u>	<u>\$ 1,919,798</u>	<u>\$ 48,126</u>	<u>3%</u>
Shareholders' equity	\$ 306,096	\$ 302,036	\$ 296,977	\$ 4,060	1%
Capital Ratios ²					
Income Tax Assets to Capital Ratio	4.60	4.33	4.60		6%
Common Equity Tier 1 Capital Ratio ⁴	21.47%	21.29%	21.26%		0.18%
Tier 1 Capital Ratio ⁴	21.47%	21.29%	21.26%		0.18%
Total Capital Ratio ⁴	21.47%	21.29%	21.26%		0.18%
Leverage ratio ³	11.55%	11.74%	11.31%		(0.19%)
Credit Quality					
Impaired mortgage ratio (total) ^{2,5}	0.02%	0.10%	0.09%		(0.08%)
Impaired mortgage ratio (corporate) ^{2,5}	0.03%	0.22%	0.20%		(0.19%)
Mortgage Arrears ⁶					
Corporate	\$ 6,739	\$ 9,204	\$ 8,766	\$ (2,465)	(27%)
Securitized	13,979	9,554	8,803	4,425	46%
Total	<u>\$ 20,718</u>	<u>\$ 18,758</u>	<u>\$ 17,569</u>	<u>\$ 1,960</u>	<u>10%</u>
Common Share Information (end of period)					
Number of common shares outstanding	23,652	23,559	23,378		-
Book value per common share ²	\$ 12.94	\$ 12.82	\$ 12.70	\$ 0.12	1%
Common share price - close	\$ 17.90	\$ 17.61	\$ 17.84	\$ 0.29	2%
Market capitalization ²	\$ 423,371	\$ 414,874	\$ 417,064	\$ 8,497	2%

¹ Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

² Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

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

⁴ These ratios are presented on the "all-in" basis, with certain regulatory capital deductions fully phased in.

⁵ Incorporates impaired (stage 3) mortgages under IFRS 9 and impaired mortgages under IAS 39.

⁶ The calculation of mortgage arrears was not impacted by the adoption of IFRS 9 as it represents mortgages that are at least one day past due.

HIGHLIGHTS

Financial Performance

Q2 2018

- Net income of \$11.1 million in Q2 2018, an increase of \$2.2 million (24%) from \$8.9 million in Q2 2017.
- Earnings per share totalled \$0.47 per share in Q2 2018, up \$0.08 (21%) from \$0.39 per share in Q2 2017.
- Return on average shareholders' equity¹ was 14.54% in Q2 2018 compared to 12.37% in Q2 2017.
- Recognized a \$3.3 million unrealized gain on financial instruments (consisting of marketable securities and financial investments) in Q2 2018. IFRS 9, which was adopted effective January 1, 2018, requires unrealized gains and losses on equities to be recorded through net income. Prior period financial information was governed by IAS 39, which required unrealized gains and losses on equities to be recorded through other comprehensive income. Prior period financial information was not restated on adoption of IFRS 9.

Year to Date 2018

- For 2018 year to date, we earned net income of \$21.7 million, up \$2.5 million (13%) from \$19.2 million in 2017.
- Earnings per share were \$0.92 for 2018 year to date, up \$0.09 (11%) from \$0.83 in 2017.
- Return on average shareholders' equity¹ was 14.32% for 2018 year to date compared to 13.37% in 2017.

Corporate Activity

- Corporate assets, which totalled \$1.21 billion at June 30, 2018, increased by \$90 million (8%) from March 31, 2018.
- Corporate mortgage portfolio increased by \$60 million (7%) during Q2 2018 to \$919 million from \$859 million, which included increases of \$50 million in insured single family, \$25 million in construction loans and \$7 million in uninsured single family, partially offset by a decrease of \$24 million in commercial loans.
- Corporate mortgage originations increased to \$112 million in Q2 2018 from \$94 million in Q2 2017, including increases of \$20 million in insured single family and \$19 million in uninsured single family.

Dividend

- Consistent with the second quarter dividend, the Board of Directors (the "Board") declared a third quarter dividend of \$0.37 per share to be paid on September 28, 2018 to shareholders of record as of September 14, 2018.

Credit Quality

- Impaired total mortgage ratio^{1,2} decreased significantly to 0.02% at June 30, 2018 from 0.10% at March 31, 2018.
- Impaired corporate mortgage ratio^{1,2} decreased to 0.03% at June 30, 2018 from 0.22% at March 31, 2018.
- Total mortgage arrears^{1,3} were \$21 million at June 30, 2018, compared to \$19 million at March 31, 2018. The June 30, 2018 balance consists entirely of single family mortgages, \$3.8 million of which were uninsured.
- Net write-offs were 10.6 basis points of the average corporate portfolio in Q2 2018 compared to 4.7 basis points in Q2 2017.
- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 56.9% at June 30, 2018 compared to 53.1% at March 31, 2018.

Capital

- Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios¹ were 21.47% at June 30, 2018 compared to 21.29% at March 31, 2018.
- Leverage ratio¹ was 11.55% at June 30, 2018 compared to 11.74% at March 31, 2018.
- Income tax asset capacity¹ was \$293 million at June 30, 2018 compared to \$356 million at March 31, 2018. This balance represents the additional amount of corporate assets in which we could invest within the rules of the *Income Tax Act (Canada)* (the "Tax Act") that govern leverage for mortgage investment corporations.

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

² Represents impaired (stage 3) mortgages under IFRS 9 and impaired mortgages under IAS 39.

³ The calculation of mortgage arrears was not impacted by the adoption of IFRS 9 as it represents mortgages that are at least one day past due.

OUTLOOK

Regulatory Changes

Effective January 1, 2018, significant changes were implemented to Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* by OSFI. While creating uncertainty in terms of the number of borrowers that qualify for new mortgages, these new stress tests provide for an improvement in the quality of newly originated mortgages. We estimate that the uninsured stress test has impacted approximately 10-15% of mortgages that we underwrite based on the borrower's ability to service the higher mortgage rates used in the stress test, and will continue to have some impact on the proportion of mortgages that we approve.

Real Estate Conditions

Canadian residential real estate markets continue to have a mixed performance as regional markets adjust to both regulatory changes and local economic conditions. We expect Canadian housing market conditions to experience volatility and uncertainty in 2018 and continue to face headwinds as consumers face a rising interest rate environment, making mortgages less affordable.

We expect home sale levels to partially recover in Ontario in the second half of the year as buyers adjust to the multiple rule changes. We have seen significant increases in the number of days that resale home listings are on the market and notable decreases in sales volumes. We expect to see some level of weakness in resale markets as markets adjust to fewer buyers. Similar to the Greater Vancouver Area ("GVA") market in 2017, the Greater Toronto Area ("GTA") market has experienced lower sales in the first half of 2018 as a result of the announced mortgage rule changes, and we expect to see some level of recovery in the second half of 2018.

We expect the GVA to experience reduced sales activity in the second half of 2018 as buyers become less active in the market, allowing the supply of homes for sale to accumulate to levels higher than the last few years. Notwithstanding the above, there continues to be a lack of inventory in this market, which has and which we believe will continue to push prices upward.

The Prairie Provinces are expected to continue to demonstrate stabilization following the strengthening of oil prices. We expect to see more lending opportunities in this market as conditions continue to improve.

Given the recent increase in unsold homes in the resale market that we have seen, we expect to observe some weakness in construction markets in the near future.

Impact on MCAN

MCAN has historically repositioned itself during times of uncertainty to adapt its portfolio to changing market dynamics. At this time, we have decided to reposition our mortgage portfolio to focus more on single family mortgages and less on construction lending over future periods, given the uncertainty in the housing market, the economy and related risk factors.

Our construction lending activity, as discussed in the "Risk Governance and Management" section of this MD&A, is considered a higher risk lending activity and we believe that it is prudent to moderate lending activities in this business segment as we are currently seeing sales levels and property values weaken in the construction housing market. Comparatively, we believe that the single family business provides a more moderate risk profile as we enter into more uncertain times with respect to the housing market and the economy as a whole. Accordingly, we will focus on further growth in uninsured single family origination volumes in comparison to the volumes from the past two years.

To assist with our single family growth plans, we have been reviewing the launch of new single family products through XMC Mortgage Corporation ("XMC") and we have recommenced our program of acquiring uninsured single family mortgages from third parties. Through MCAP and other originators, we have accelerated discussions to acquire additional single family mortgages.

Given the competitive market conditions for single family lending market and the recent regulatory changes related to OSFI Guideline B-20, we believe that there will be some challenge in originating adequate volumes to grow the single family portfolio. Additionally, we expect to experience competitive mortgage rate pressures in our single family lending business as we compete with other lenders for market share. As a result of this rebalancing, we expect to observe a reduction in historical spread levels and economics in our mortgage portfolio. We expect to add additional resources and invest in new systems to ensure that there are sufficient processes and monitoring in place to support this growth and rebalancing. Collectively, we believe that this strategy may impact our net interest margins, while at the same time we believe that it will increase the strength of our balance sheet and improve our internal operating capabilities.

Our corporate assets have increased by 3% year to date, compared to our stated annual growth target of 10%. After experiencing a 5% decrease in the first quarter of the year, our corporate balance sheet achieved growth of 8% during the second quarter. We maintain our stated annual growth target for corporate assets of 10% per annum, as we believe that this target provides our

shareholders with a measure of the long term expected pace of annual growth for the Company. As market conditions change, we may choose to deviate from this target to exercise prudent risk management, or should an appropriate opportunity arise, we may choose to exceed it. We currently have \$293 million of available income tax asset capacity to take advantage of market opportunities.

As uncertainty in the current market evolves, we believe that our strong capital position and asset capacity can be deployed if and when opportunities arise. Overall, we believe that our strategy in the near term is prudent given the current state of the economy and housing markets.

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts)						
For the Periods Ended June 30	Q2 2018 ¹	Q2 2017	Change (%)	YTD 2018 ¹	YTD 2017	Change (%)
Net Investment Income - Corporate Assets						
Mortgage interest	\$ 12,867	\$ 12,095	6%	\$ 24,867	\$ 23,650	5%
Equity income from MCAP Commercial LP	3,194	3,818	(16%)	6,633	5,710	16%
Financial investments and other loans	1,321	911	45%	2,875	5,174	(44%)
Marketable securities	867	1,094	(21%)	1,745	1,940	(10%)
Fees	267	301	(11%)	630	592	6%
Interest on cash and cash equivalents	208	141	48%	495	299	66%
Unrealized gain (loss) on financial instruments ^{1,3}	3,341	-	-	3,285	-	-
	22,065	18,360	20%	40,530	37,365	8%
Term deposit interest and expenses	5,643	5,136	10%	10,890	10,157	7%
Mortgage expenses	1,024	995	3%	1,975	1,954	1%
Interest on loans payable	96	4	2,300%	116	36	222%
Provision for credit losses ^{1,2}	239	46	420%	413	76	443%
	7,002	6,181	13%	13,394	12,223	10%
	15,063	12,179	24%	27,136	25,142	8%
Other Income - Corporate Assets						
Gain on sale of investment in MCAP Commercial LP	-	-	-	1,701	785	117%
Gain on dilution of investment in MCAP Commercial LP	-	-	-	-	91	(100%)
	-	-	-	1,701	876	94%
Net Investment Income - Securitization Assets						
Mortgage interest	6,375	7,021	(9%)	12,868	13,793	(7%)
Other securitization income	23	37	(38%)	95	73	30%
	6,398	7,058	(9%)	12,963	13,866	(7%)
Interest on financial liabilities from securitization	4,558	5,147	(11%)	9,239	10,158	(9%)
Mortgage expenses	534	537	(1%)	1,102	1,043	6%
Provision for credit losses ^{1,2}	(11)	-	-	4	-	-
	5,081	5,684	(11%)	10,345	11,201	(8%)
	1,317	1,374	(4%)	2,618	2,665	(2%)
Operating Expenses						
Salaries and benefits	3,179	2,589	23%	6,124	5,183	18%
General and administrative	1,963	2,027	(3%)	3,649	4,050	(10%)
	5,142	4,616	11%	9,773	9,233	6%
Net income before income taxes	11,238	8,937	26%	21,682	19,450	11%
Provision for (recovery of) income taxes	113	(1)	(11,400%)	(58)	247	(123%)
Net Income	\$ 11,125	\$ 8,938	25%	\$ 21,740	\$ 19,203	13%
Basic and diluted earnings per share	\$ 0.47	\$ 0.39	21%	\$ 0.92	\$ 0.83	11%
Dividends per share	\$ 0.37	\$ 0.32	16%	\$ 0.74	\$ 0.62	19%

¹ Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

² Under IFRS 9, the methodology for the calculation of mortgage allowances and provisions has changed from IAS 39, therefore provisions under IFRS 9 are not directly comparable to prior periods.

³ Under IFRS 9, fair value changes in certain reclassified financial assets are presented in the income statement and are therefore not directly comparable to prior periods. Under IAS 39, these fair value changes were recorded through other comprehensive income.

Net Investment Income - Corporate Assets

Mortgage interest income

Table 4: Interest Income and Average Rate by Mortgage Portfolio - Q2

For the Quarters Ended June 30	2018			2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate ¹	Average Balance	Interest Income	Average Rate ¹
Single family						
- Uninsured	\$ 203,052	\$ 2,356	4.65%	\$ 225,513	\$ 2,581	4.51%
- Insured	94,847	734	3.10%	81,653	742	3.63%
- Uninsured - completed inventory	12,065	159	5.29%	41,401	507	4.90%
Construction loans						
- Residential	440,870	7,076	6.44%	400,166	5,542	5.55%
- Non residential	5,291	77	5.87%	7,188	93	5.18%
Commercial loans						
- Multi family residential	74,034	1,014	5.43%	45,475	504	4.44%
- Other commercial	82,753	1,451	7.05%	112,564	2,126	7.58%
Mortgages - corporate portfolio	\$ 912,912	\$ 12,867	5.65%	\$ 913,960	\$ 12,095	5.28%
Term deposits	856,680	5,643	2.48%	872,198	5,136	2.21%
Spread of mortgages over term deposits			3.17%			3.07%
Mortgages - securitized portfolio	\$ 985,757	\$ 6,375	2.59%	\$ 1,057,298	\$ 7,021	2.67%
Financial liabilities from securitization	997,584	4,558	1.83%	1,071,719	5,147	1.93%
Spread of mortgages over liabilities			0.76%			0.74%

¹ Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended June 30, 2018 and June 30, 2017. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

The Bank of Canada announced two 0.25% increases in the overnight rate in the second half of 2017 and a third during Q1 2018. We expect these increases, in addition to a further 0.25% increase announced subsequent to quarter end, to have a positive impact on future mortgage interest income related to the floating rate component of our corporate mortgage portfolio. These rate increases contributed 0.68% and 0.42%, respectively, to the average interest rate for the construction and total corporate portfolios in Q2 2018, as approximately 85% and 50% of those respective portfolios were floating rate as at June 30, 2018 and repriced following the rate increases.

In Q2 2018 we also recognized additional corporate mortgage interest income from the acceleration of mortgage commitment fee amortization on the early payout of certain completed inventory, construction and commercial loans, which contributed 0.18% to the increase in the average interest rate from Q2 2017.

During Q2 2017 we earned \$0.3 million of non-recurring discount income on the payout of a construction loan. Excluding this discount income, the average yield on the corporate portfolio was 5.13% and the construction portfolio average yield was 5.21%. During Q2 2018 we did not earn any discount income.

Our construction portfolio grew steadily in Q2 2018, as we experienced seasonal growth in the second quarter. We generally target experienced builders in markets with favourable economic activity while ensuring that any new lending fits within our risk appetite and corporate strategy. Construction lending is based on specific loan covenants required to be satisfied prior to funding (e.g. pre-sales), which act as a risk mitigant given concerns about inflated valuations in certain real estate markets.

Our commercial loan portfolio levelled off during Q2 2018 after experiencing steady growth in the past few quarters. This portfolio provides a different risk profile from single family while providing appropriate risk-adjusted returns. The majority of the growth since 2017 has been in the multi family residential lending category, which carries a lower risk profile as it is secured by collateral such as apartment buildings.

During 2018, we have experienced a significant decrease in the completed inventory portfolio as certain loans paid out after the sale and closing of completed units. This portfolio balance can be volatile given the short-term nature of completed inventory

loans, which generally represent loans that have been transferred from the residential construction portfolio upon the substantial completion of housing units.

Our uninsured single family portfolio, while down from Q2 2017, has remained consistent for several quarters and increased slightly during Q2 2018. While we have maintained a conservative underwriting approach in recent quarters given home valuations in certain single family markets, we continue to monitor our underwriting criteria in the context of the lending market and have steadily increased origination volumes to maintain our portfolio balance. We funded \$11 million from external sources during Q2 2018.

Our combined insured and uninsured single family origination volumes increased by \$38 million from Q2 2017. During Q2 2018 we securitized insured single family mortgages through the NHA MBS program, however we retained the MBS on our corporate balance sheet for liquidity purposes instead of selling it to a third party.

The adoption of OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* effective January 1, 2018 has impacted the proportion of mortgages that we underwrite based on the borrower's ability to service the higher mortgage rates. These new stress tests provide for an improvement in the quality of newly originated mortgages.

Average mortgage portfolio yield is a non-IFRS measure. For a definition of this measure, refer to the "Non-IFRS Measures" section of this MD&A.

Equity income from MCAP

The decrease in equity income from MCAP from Q2 2017 was a result of lower net income from securitized mortgages, lower origination income and a higher origination fee expense, partially offset by lower operating expenses and higher hedge gains.

We recognize equity income from MCAP on a one-month lag such that our Q2 2018 equity income from MCAP is based on MCAP's net income for the quarter ended May 31, 2018. For further information on our equity investment in MCAP, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Other net investment income

The change in the average term deposit balance is generally similar to that of the average corporate mortgage portfolio in that we use term deposits to fund our corporate assets. We issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor. For further details, refer to the "Liquidity Management" section of this MD&A.

Mortgage expenses consist primarily of mortgage servicing fees paid to external mortgage servicers.

Details of the provision for (recovery of) credit losses are discussed in the "Credit Quality" sub-section below.

For further information on corporate and securitization net investment income, refer to the "Net Interest Income" sub-section below.

Other Income - Corporate Assets

The Q2 2018 unrealized gain on financial instruments was comprised of \$1.3 million relating to marketable securities and \$2.0 million on our investment in the Crown Realty II Limited Partnership ("Crown LP"). Fair value changes in the investment in Crown LP are primarily driven by changes in the fair value of the properties held within Crown LP.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and CMB program, which involve the securitization of insured mortgages through the Canada Mortgage and Housing Corporation ("CMHC") NHA MBS program. In Q2 2018, our total securitization volumes were \$46 million (Q2 2017 - \$14 million). For further details on these programs, refer to the "Securitization Programs" section of this MD&A.

Market MBS Program

The average outstanding market MBS program mortgage balance decreased to \$842 million in Q2 2018 from \$921 million in Q2 2017, while the net spread increased to 0.79% from 0.75%. New market MBS and CMB program securitization volumes have been low since 2017.

CMB Program

The average outstanding CMB program mortgage balance increased to \$143 million in Q2 2018 from \$136 million in Q2 2017, while the net spread was unchanged at 0.61%.

Table 5: Interest Income and Average Rate by Mortgage Portfolio

For the Six Months Ended June 30	2018			2017		
(in thousands except %)	Average Balance	Interest Income	Average Rate ¹	Average Balance	Interest Income	Average Rate ¹
Single family						
- Uninsured	\$ 201,605	\$ 4,672	4.65%	\$ 234,547	\$ 5,366	4.51%
- Insured	80,504	1,269	3.16%	93,889	1,583	3.37%
- Uninsured - completed inventory	14,675	404	5.55%	31,335	811	5.22%
Construction loans						
- Residential	417,628	13,218	6.38%	394,804	10,714	5.46%
- Non residential	4,698	137	5.89%	7,522	198	5.31%
Commercial loans						
- Multi family residential	73,638	1,953	5.35%	40,169	892	4.47%
- Other commercial	88,147	3,214	7.34%	108,869	4,086	7.57%
Mortgages - corporate portfolio	\$ 880,895	\$ 24,867	5.68%	\$ 911,135	\$ 23,650	5.20%
Term deposits	847,250	10,890	2.43%	870,088	10,157	2.21%
Spread of mortgages over term deposits			3.25%			2.99%
Mortgages - securitized portfolio	\$ 1,000,459	\$ 12,868	2.58%	\$ 1,054,785	\$ 13,793	2.64%
Financial liabilities from securitization	1,010,581	9,239	1.83%	1,066,396	10,158	1.92%
Spread of mortgages over liabilities			0.75%			0.72%

¹ Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the six months ended June 30, 2018 and June 30, 2017. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

Net Interest Income

Presented in the following tables is an analysis of average rates and net interest income. Net interest income is the difference between interest earned on certain assets and the interest paid on liabilities to fund those assets. For further details, refer to the “Non-IFRS Measures” section of this MD&A.

Table 6: Net Interest Income - Q2

For the Quarters Ended June 30	2018			2017		
(in thousands except %)	Average Balance ¹	Income / Expense	Average Rate ³	Average Balance ¹	Income / Expense	Average Rate ³
Assets						
Cash and cash equivalents	\$ 72,074	\$ 208	1.16%	\$ 74,568	\$ 141	0.76%
Mortgages - corporate	912,912	12,867	5.65%	913,960	12,095	5.28%
Other loans	2,505	34	5.44%	3,745	47	5.05%
Corporate interest earning assets	987,491	13,109	5.32%	992,273	12,283	4.98%
Cash held in trust	17,095	57	1.34%	18,833	11	0.23%
Mortgages - securitized	985,757	6,375	2.59%	1,057,298	7,021	2.67%
Securitization interest earning assets	1,002,852	6,432	2.57%	1,076,131	7,032	2.63%
Total interest earning assets	\$ 1,990,343	\$ 19,541	3.94%	\$ 2,068,404	\$ 19,315	3.76%
Liabilities						
Term deposits	\$ 856,680	\$ 5,643	2.48%	\$ 872,198	\$ 5,136	2.21%
Loans payable	9,187	96	4.19%	385	4	3.13%
Corporate liabilities	865,867	5,739	2.51%	872,583	5,140	2.21%
Securitization liabilities	997,584	4,558	1.83%	1,071,719	5,147	1.93%
Total interest bearing liabilities	\$ 1,863,451	\$ 10,297	2.21%	\$ 1,944,302	\$ 10,287	2.07%
Net Interest Income ²		\$ 9,244			\$ 9,028	

¹ The average balances (excluding cash and cash equivalents, mortgages and term deposits) are calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. The average cash and cash equivalents, mortgage and term deposit balances are calculated using daily balances.

² Net interest income is equal to net investment income less equity income from MCAP, income from financial investments, marketable securities income, fees, unrealized gain/loss on financial instruments, other securitization income, mortgage expenses and provision for credit losses. Net interest income is a non-IFRS measure. Refer to the “Non-IFRS Measures” section of this MD&A for a definition of this measure.

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to “Income/Expense” divided by “Average Balance”, as non-recurring items such as discount income, one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items were immaterial for the quarters ended June 30, 2018 and June 30, 2017. Average rate is considered to be a non-IFRS measure. Refer to the “Non-IFRS Measures” section of this MD&A for a definition of this measure.

Table 7: Net Interest Income - YTD

For the Six Months Ended June 30	2018			2017		
(in thousands except %)	Average Balance ¹	Income / Expense	Average Rate ³	Average Balance ¹	Income / Expense	Average Rate ³
Assets						
Cash and cash equivalents	\$ 89,200	\$ 495	1.12%	\$ 77,768	\$ 289	0.75%
Mortgages - corporate	880,895	24,867	5.68%	911,135	23,650	5.20%
Other loans	2,526	68	5.43%	3,709	93	5.07%
Corporate interest earning assets	972,621	25,430	5.27%	992,612	24,032	4.88%
Cash held in trust	14,845	106	1.44%	15,905	21	0.27%
Mortgages - securitized	1,000,459	12,868	2.58%	1,054,785	13,793	2.64%
Securitization interest earning assets	1,015,304	12,974	2.58%	1,070,690	13,814	2.60%
Total interest earning assets	\$ 1,987,925	\$ 38,404	3.90%	\$ 2,063,302	\$ 37,846	3.70%
Liabilities						
Term deposits	\$ 847,250	\$ 10,890	2.43%	\$ 870,088	\$ 10,157	2.21%
Loans payable	5,564	116	4.20%	2,077	36	3.50%
Corporate liabilities	852,814	11,006	2.45%	872,165	10,193	2.21%
Securitization liabilities	1,010,581	9,239	1.83%	1,066,396	10,158	1.92%
Total interest bearing liabilities	\$ 1,863,395	\$ 20,245	2.17%	\$ 1,938,561	\$ 20,351	2.07%
Net Interest Income ²		\$ 18,159			\$ 17,495	

¹ The average balances (excluding cash and cash equivalents, mortgages and term deposits) are calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. The average cash and cash equivalents, mortgage and term deposit balances are calculated using daily balances.

² Net interest income is equal to net investment income less equity income from MCAP, income from financial investments, marketable securities income, fees, unrealized gain/loss on financial instruments, other securitization income, mortgage expenses and provision for credit losses. Net interest income is a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income, one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items were immaterial for the six months ended June 30, 2018 and June 30, 2017. Average rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

Credit Quality

Table 8: Provisions for Credit Losses and Write-offs

(in thousands except basis points)						
For the Periods Ended June 30	Q2 2018	Q2 2017	Change (%)	YTD 2018	YTD 2017	Change (%)
Provision (recovery) on impaired corporate mortgages ¹						
Single family uninsured	\$ 90	\$ (65)	(239%)	\$ 154	\$ 29	431%
Provision (recovery) on performing corporate mortgages ²						
Single family insured	11	-	-	10	-	-
Single family uninsured	706	(66)	(1,170%)	738	(147)	(602%)
Single family uninsured - completed inventory	8	144	(94%)	(344)	182	(289%)
Construction	(52)	82	(163%)	86	163	(47%)
Commercial						
Multi family residential	(79)	58	(236%)	58	67	(13%)
Other commercial	(408)	(2)	20,300%	(237)	(112)	112%
	186	216	(14%)	311	153	103%
Other provisions (recoveries)	(37)	(105)	(65%)	(52)	(106)	(51%)
Corporate provision for credit losses	239	46	420%	413	76	443%
Provision (recovery) on performing securitized mortgages ²	(11)	-	-	4	-	-
Total provisions for credit losses, net	\$ 228	\$ 46	396%	\$ 417	\$ 76	449%
Corporate mortgage portfolio data:						
Provisions for credit losses, net	\$ 276	\$ 151	83%	\$ 465	\$ 182	156%
Net write offs	\$ 243	\$ 107	127%	\$ 256	\$ 377	(32%)
Net write offs (basis points)	10.6	4.7	127%	5.8	8.3	(30%)

¹ Represents impaired (stage 3) provision for credit losses on mortgages and mortgage commitments under IFRS 9 and individual provisions for credit losses under IAS 39.

² Represents performing (stage 1 and 2) provision for credit losses on mortgages and mortgage commitments under IFRS 9 and collective provisions for credit losses under IAS 39.

The significant increase in the general provision on the uninsured single family portfolio relates to an increased allowance taken on the Alberta and Saskatchewan geographical sub-segment of this portfolio during Q2 2018. The recovery of the general provision on the commercial portfolio was largely driven by a reduction in the portfolio balance.

Write-offs in all periods presented above relate entirely to uninsured single family mortgages, except for 2017 year to date which includes a \$220,000 construction loan.

Table 9: Operating Expenses

(in thousands)						
For the Periods Ended June 30	Q2 2018	Q2 2017	Change (%)	YTD 2018	YTD 2017	Change (%)
Salaries and benefits	\$ 3,179	\$ 2,589	23%	\$ 6,124	\$ 5,183	18%
General and administrative	1,963	2,027	(3%)	3,649	4,050	(10%)
	\$ 5,142	\$ 4,616	11%	\$ 9,773	\$ 9,233	6%

The increase in salaries and benefits is a result of an increase in the number of employees from 2017. Our headcount has increased since 2017 as we have continued to expand our risk management and corporate governance departments.

General and administrative expenses have decreased since 2017 as a result of expenditures associated with the development of systems and processes related to single family mortgage operations. In recent years, we have undertaken multiple projects to improve governance and mitigate risk, the volume of which was higher in 2017.

Provision for Income Taxes

Table 10: Income Taxes

(in thousands)							
For the Periods Ended June 30	Q2 2018	Q2 2017	Change (%)	YTD 2018	YTD 2017	Change (%)	
Current tax provision (recovery)	\$ 457	\$ -	-	\$ 457	\$ -	-	
Deferred tax provision (recovery)	(344)	(1)	34,300%	(515)	247	(309%)	
	\$ 113	\$ (1)	(11,400%)	\$ (58)	\$ 247	(124%)	

The current tax provision recorded during Q2 2018 relates to estimated current taxes payable in a subsidiary of MCAN as a result of taxable income earned from the sale of properties within the Crown LP investment. This current tax provision is largely offset by a corresponding recovery of deferred taxes from the investment in Crown LP.

As at June 30, 2018, we had \$8 million of losses available for carry-forward in the MCAN mortgage investment corporation ("MIC") parent company on a non-consolidated basis (March 31, 2018 - \$11 million). The benefit of these loss carry-forwards are not reflected in deferred taxes due to the fact that we have the ability to pay sufficient dividends in current and future years to ensure that we are not subject to income taxes in the MIC entity. For further information, refer to Notes 4 and 14 to the consolidated financial statements.

Taxable Income

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

As a MIC, we typically pay out all of our taxable income to shareholders through dividends as our MIC status allows us to deduct dividends paid within 90 days of year end from taxable income. MCAN's dividend objective is to provide shareholders with a consistent and stable regular dividend, wherein dividend changes over time follow MCAN's long term growth. From quarter to quarter, timing differences between taxable income and accounting income are considered by the Board in the determination of the quarterly dividend.

Dividends that are deducted in the calculation of taxable income are not included in the table below.

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

Table 11: Taxable Income Reconciliation ¹

(in thousands)				
	Q2	Q2	YTD	YTD
For the Periods Ended June 30	2018	2017	2018	2017
Net income for accounting purposes	\$ 11,125	\$ 8,938	\$ 21,740	\$ 19,203
Adjustments:				
Deduct: Equity income from MCAP - accounting purposes	(3,194)	(3,818)	(6,633)	(5,710)
Add: MCAP taxable income	4,143	3,117	406	5,404
Provision for (recovery of) credit losses ²	167	190	312	109
Amortization of upfront securitization program costs ³	1,764	1,686	3,536	3,347
Securitization program mortgage origination costs ³	(698)	(489)	(1,017)	(1,212)
Unrealized gain on financial instruments ²	(1,304)	-	(729)	-
Equity income from subsidiaries ²	(1,411)	496	(1,803)	(1,396)
Deduct: Accounting gain on partial sale of MCAP ⁴	-	-	(1,701)	(785)
Add: Taxable gain on partial sale of MCAP ⁴	-	-	1,425	537
Gain on dilution of investment in MCAP ²	-	-	-	(91)
Other securitization program cash outflows	-	(67)	(269)	(649)
Other items	679	(165)	475	(23)
	\$ 11,271	\$ 9,888	\$ 15,742	\$ 18,734

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

² Not deductible/recognizable in the calculation of taxable income. Individual mortgage allowances are 90% deductible for tax purposes.

³ Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes, however amortization is added back in calculation of taxable income.

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

The increase in taxable income in Q2 2018 over Q2 2017 was generally consistent with the increase in accounting income, incorporating adjustments for unrealized gains on financial instruments, equity income from subsidiaries and taxable income from MCAP. For 2018 year to date, the significant decrease in taxable income was driven primarily by timing differences between accounting and taxable income in respect of a number of securitization transactions that MCAP completed during 2018. These timing differences are expected to reverse over the duration of the associated transactions.

In Q2 2018, we incurred \$0.7 million of origination costs on securitized mortgages (including market MBS held by MCAN) (Q2 2017 - \$0.5 million). These costs are deductible for income tax purposes in the period that the mortgages are securitized, while for accounting purposes they are capitalized and amortized over the term of the associated mortgages.

As at June 30, 2018, the unamortized origination fee balance was \$10.1 million (March 31, 2018 - \$10.8 million), which represents costs that are still to be expensed for non-consolidated accounting purposes but will be added back in the calculation of taxable income in future periods.

Table 12: Quarterly Net Income

(in thousands except per share amounts and %)				
For the Quarters Ended	June 30 2018	March 31 2018	Change from Prior Quarter (\$)(%)	
Net Investment Income - Corporate Assets				
Mortgage interest	\$ 12,867	\$ 12,000	\$ 867	7%
Equity income from MCAP Commercial LP	3,194	3,439	(245)	(7%)
Financial investments and other loans	1,321	1,554	(233)	(15%)
Marketable securities	867	878	(11)	(1%)
Fees	267	363	(96)	(26%)
Interest on cash and cash equivalents	208	287	(79)	(28%)
Unrealized gain (loss) on financial instruments	3,341	(56)	3,397	(6,066%)
	22,065	18,465	3,600	19%
Term deposit interest and expenses	5,643	5,247	396	8%
Mortgage expenses	1,024	951	73	8%
Interest on loans payable	96	20	76	380%
Provision for credit losses	239	174	65	37%
	7,002	6,392	610	10%
	15,063	12,073	2,990	25%
Other Income - Corporate Assets				
Gain on sale of investment in MCAP Commercial LP	-	1,701	(1,701)	(100%)
	-	1,701	(1,701)	(100%)
Net Investment Income - Securitization Assets				
Mortgage interest	6,375	6,493	(118)	(2%)
Other securitization income	23	72	(49)	(68%)
	6,398	6,565	(167)	(3%)
Interest on financial liabilities from securitization	4,558	4,681	(123)	(3%)
Mortgage expenses	534	568	(34)	(6%)
Provision for (recovery of) credit losses	(11)	15	(26)	(173%)
	5,081	5,264	(183)	(3%)
	1,317	1,301	16	1%
Operating Expenses				
Salaries and benefits	3,179	2,945	234	8%
General and administrative	1,963	1,686	277	16%
	5,142	4,631	511	11%
Net Income Before Income Taxes	11,238	10,444	794	8%
Provision for (recovery of) income taxes	113	(171)	284	(166%)
Net Income	\$ 11,125	\$ 10,615	\$ 510	5%
Basic and diluted earnings per share	\$ 0.47	\$ 0.45	\$ 0.02	4%
Dividends per share	\$ 0.37	\$ 0.37	\$ -	-

Q2 2018 vs. Q1 2018

Net Investment Income - Corporate Assets

Table 13: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended	June 30, 2018			March 31, 2018		
(in thousands except %)	Average Balance	Interest Income	Average Rate ¹	Average Balance	Interest Income	Average Rate ¹
Single family						
- Uninsured	\$ 203,052	\$ 2,356	4.65%	\$ 200,142	\$ 2,315	4.65%
- Insured	94,847	734	3.10%	66,001	535	3.26%
- Uninsured - completed inventory	12,065	159	5.29%	17,314	245	5.73%
Construction loans						
- Residential	440,870	7,076	6.44%	394,128	6,140	6.32%
- Non residential	5,291	77	5.87%	4,098	60	5.91%
Commercial loans						
- Multi family residential	74,034	1,014	5.43%	73,238	951	5.27%
- Other commercial	82,753	1,451	7.05%	93,602	1,754	7.61%
Mortgages - corporate portfolio	\$ 912,912	\$ 12,867	5.65%	\$ 848,523	\$ 12,000	5.72%
Term deposits	856,680	5,643	2.48%	837,715	5,247	2.38%
Spread of mortgages over term deposits			3.17%			3.34%
Mortgages - securitized portfolio	\$ 985,757	\$ 6,375	2.59%	\$ 1,015,325	\$ 6,493	2.57%
Financial liabilities from securitization	997,584	4,558	1.83%	1,023,721	4,681	1.83%
Spread of mortgages over liabilities			0.76%			0.74%

¹ Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as discount income, deferred interest and prior period adjustments are excluded from the calculation of the average interest rate as applicable. Non-recurring items were immaterial for the quarters ended June 30, 2018 and March 31, 2018. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

Changes in the average balances for individual portfolios are consistent with the analysis in the "Mortgage Interest Income" sub-section of the "Net Investment Income - Corporate Assets" section of this MD&A.

Equity income from MCAP decreased slightly from Q1 2018 due to increased origination expense and provision for income taxes, partially offset by higher securitization net interest income and origination fee income. Equity income from MCAP is discussed further in the "Net Investment Income - Corporate Assets" section of this MD&A.

For a discussion of the Q2 2018 unrealized gain on financial instruments, refer to the "Other Income" sub-section of the "Results of Operations" section of this MD&A. In Q1 2018 there was minimal change to the asset fair values.

During Q1 2018 we sold 200,000 partnership units in MCAP at a price of \$22.60 per unit (compared to a net book value of \$14.10 per unit), recognizing a gain on sale of \$1.7 million.

For a discussion of operating expenses, refer to the "Operating Expenses" sub-section of the "Results of Operations" section of this MD&A.

For a discussion of current and deferred taxes, refer to the "Provision for Income Taxes" sub-section of the "Results of Operations" section of this MD&A.

Cash Flows

Operating activities used cash flows of \$9 million in 2018 and provided \$11 million in 2017. In 2018, we had higher net outflows related to mortgages and financial liabilities from securitization.

Investing activities provided cash flows of \$10 million in 2018 and provided \$4 million in 2017. In 2018, we had higher net inflows related to distributions from MCAP. In addition, we received proceeds from a partial sale of our equity investment in MCAP of \$4.5 million in 2018.

Financing activities used cash flows of \$21 million in 2018 and used \$18 million in 2017. In 2018, there was an increase in outflows from dividends paid.

FINANCIAL POSITION

Table 14: Assets

(in thousands except %)					
As at	June 30 2018 ¹	March 31 2018 ¹	December 31 2017	Change from Prior Quarter (\$) (%)	
Corporate Assets					
Cash and cash equivalents	\$ 96,985	\$ 62,463	\$ 117,571	\$ 34,522	55%
Marketable securities	58,534	61,429	62,518	(2,895)	(5%)
Mortgages	919,053	859,372	863,384	59,681	7%
Financial investments	70,191	73,446	68,190	(3,255)	(4%)
Other loans	2,426	2,655	2,612	(229)	(9%)
Equity investment in MCAP Commercial LP	57,954	56,398	59,189	1,556	3%
Foreclosed real estate	435	435	435	-	-
Deferred tax asset	3,005	2,874	2,672	131	5%
Other assets	3,495	2,734	5,800	761	28%
	1,212,078	1,121,806	1,182,371	90,272	8%
Securitization Assets					
Cash held in trust	25,740	15,073	13,441	10,667	71%
Mortgages	964,507	1,013,036	1,016,724	(48,529)	(5%)
Other assets	3,745	3,969	4,239	(224)	(6%)
	993,992	1,032,078	1,034,404	(38,086)	(4%)
	\$ 2,206,070	\$ 2,153,884	\$ 2,216,775	\$ 52,186	2%

¹ Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

Mortgages - Corporate & Securitized

Table 15: Mortgage Summary

(in thousands)					
As at	June 30 2018	March 31 2018	December 31 2017	Change from Prior Quarter (\$) (%)	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 203,897	\$ 196,624	\$ 198,354	\$ 7,273	4%
- Insured	125,330	75,698	80,377	49,632	66%
- Uninsured - completed inventory	9,314	7,410	51,190	1,904	26%
Construction loans					
- Residential	429,855	404,987	386,562	24,868	6%
- Non-residential	5,496	5,014	4,840	482	10%
Commercial loans					
- Multi family residential	73,830	73,026	64,655	804	1%
- Other commercial	71,331	96,613	77,406	(25,282)	(26%)
	919,053	859,372	863,384	59,681	7%
Securitized portfolio:					
Single family insured - Market MBS program	821,807	867,149	867,406	(45,342)	(5%)
Single family insured - CMB program	142,700	145,887	149,318	(3,187)	(2%)
	964,507	1,013,036	1,016,724	(48,529)	(5%)
	\$ 1,883,560	\$ 1,872,408	\$ 1,880,108	\$ 11,152	1%

Corporate and Securitized Mortgage Portfolio Analysis

Q2 2018 Summary

Our construction portfolio continued to grow steadily in Q2 2018, in line with the seasonal nature of the portfolio. We generally target experienced builders in markets with favourable economic activity while ensuring that any new lending fits within our risk appetite and corporate strategy. Construction lending is based on specific loan covenants required to be satisfied prior to funding (e.g. pre-sales), which act as a risk mitigant given concerns about inflated valuations in certain real estate markets.

During Q2 2018 we experienced a levelling off of our commercial loan portfolio, which provides a different risk profile from single family while providing appropriate risk-adjusted returns. Within this portfolio we have focused on the lower-risk segments, such as loans secured by apartment buildings, which we believe represent good lending opportunities in a slowing single family market as they are counter-cyclical to home sales.

The uninsured single family portfolio balance has remained steady over the last several quarters. While we have maintained a conservative underwriting approach in recent quarters given home valuations in certain single family markets, we continue to monitor our underwriting criteria in the context of the lending market. We have recommenced external acquisition programs for uninsured single family mortgages from MCAP and another third party origination source to earn attractive risk-adjusted returns and deploy excess balance sheet capacity.

The adoption of OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* effective January 1, 2018 has impacted the proportion of mortgages that we underwrite based on the borrower's ability to service the higher mortgage rates. These new stress tests provide for an improvement in the quality of newly originated mortgages.

Our insured single family portfolio increased significantly during Q2 2018. Origination volumes increased from the prior quarter, and additionally we issued \$46 million of market MBS that we retained on our corporate balance sheet to strengthen our liquidity position amidst current uncertainty in housing markets. These mortgages remain in the insured single family corporate mortgage classification since the transaction associated with the retention of MBS fails mortgage derecognition criteria under IFRS. The impact of multiple changes to mortgage regulations enacted within the last two years have made this market segment more competitive and have also led to reduced securitization economics.

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

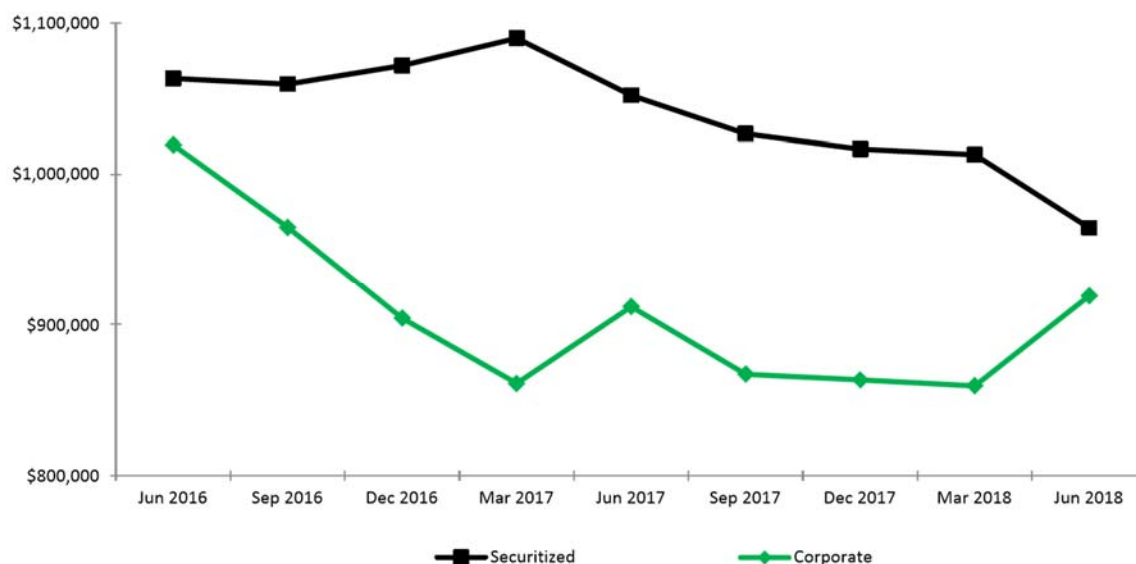
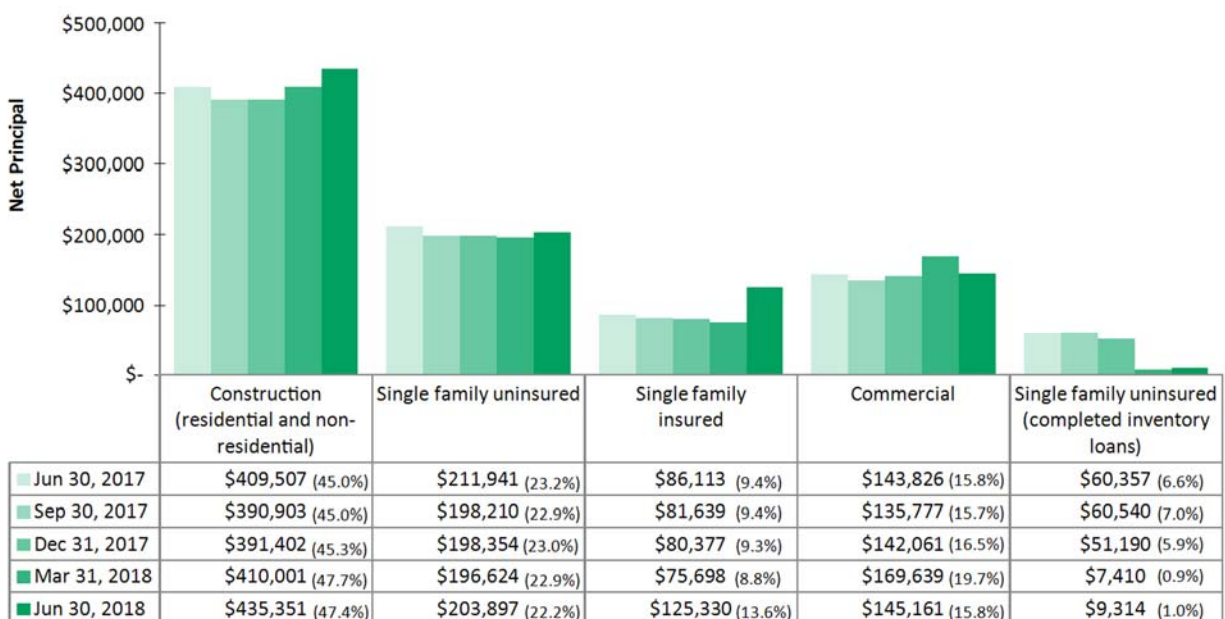
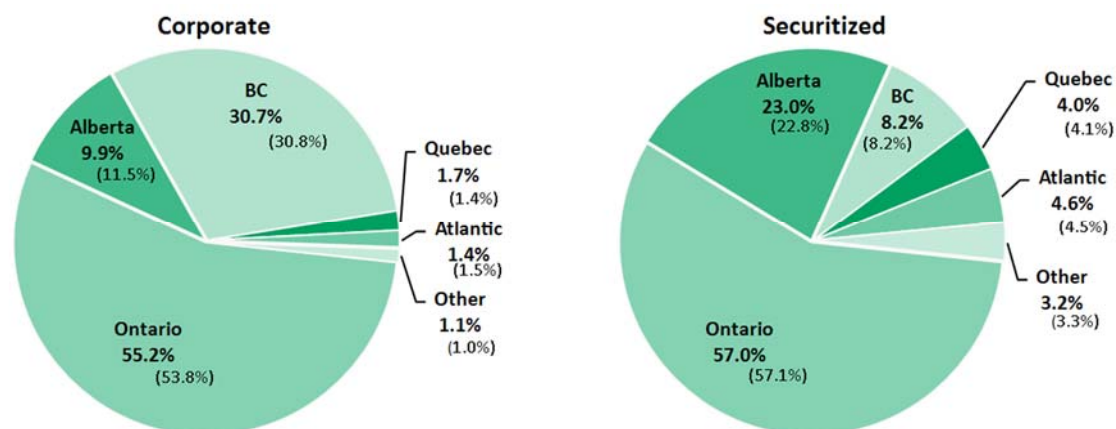


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



Note: Amounts in parentheses represent the percentage of the corporate portfolio represented by the individual mortgage portfolio. Commercial consists of commercial - multi family residential and commercial - other.

Figure 3: Mortgage Portfolio Geographic Distribution as at June 30, 2018 (March 31, 2018)



Arrears and Impaired Mortgages

Table 16: Arrears and Impaired Mortgages

(in thousands except %)	IFRS 9 June 30 2018	IFRS 9 March 31 2018	Change (%)	IAS 39 December 31 2017
As at				
Impaired mortgages ²				
Corporate				
Single family - uninsured	\$ 292	\$ 1,873	(84%)	\$ 1,696
Single family - insured	1,939	1,945	(0%)	832
	2,231	3,818	(42%)	2,528
Securitized	1,458	966	51%	-
Total impaired mortgages	\$ 3,689	\$ 4,784	(23%)	\$ 2,528
Impaired mortgage ratio (total) ¹	0.02%	0.10%	(0.08%)	0.09%
Impaired mortgage ratio (corporate) ¹	0.03%	0.22%	(0.19%)	0.20%
Mortgage arrears ⁵				
Corporate				
Single family - uninsured	\$ 3,813	\$ 6,978	(45%)	\$ 5,912
Single family - insured	2,926	2,226	32%	2,854
Total corporate mortgage arrears ¹	6,739	9,204	(27%)	8,766
Total securitized mortgage arrears ¹	13,979	9,554	46%	8,803
Total mortgage arrears ¹	\$ 20,718	\$ 18,758	10%	\$ 17,569
Allowance for credit losses				
Corporate				
Allowance on performing mortgages ³	\$ 5,040	\$ 4,865	4%	\$ 4,748
Allowance on impaired mortgages ⁴	31	173	(82%)	62
	5,071	5,038	1%	4,810
Securitized - allowance on performing mortgages ³	21	32	(34%)	-
Total allowance for credit losses	\$ 5,092	\$ 5,070	0%	\$ 4,810

¹ Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

² Represents impaired (stage 3) mortgages under IFRS 9 and impaired mortgages under IAS 39.

³ Represents performing (stage 1 and 2) allowances for credit losses on mortgages and mortgage commitments under IFRS 9 and collective allowances for credit losses under IAS 39.

⁴ Represents impaired (stage 3) allowances for credit losses on mortgages and mortgage commitments under IFRS 9 and individual allowances for credit losses under IAS 39.

⁵ The calculation of mortgage arrears was not impacted by the adoption of IFRS 9 as it represents mortgages that are at least one day past due.

In 2017, a land developer in Western Canada filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). We hold \$5.3 million of outstanding mortgages from the borrower legal entity that are not in arrears as at June 30, 2018, and we do not believe that we would incur a loss of principal or interest based on the value of the underlying collateral. During Q2 2018, the issues with the developer were resolved.

The majority of the increase in securitized mortgage arrears as at June 30, 2018 occurred in the 1-30 day category. Although we monitor our arrears position closely, the majority of arrears mortgages in this category are resolved and do not migrate to arrears categories over 30 days.

Figure 4: Impaired Corporate Mortgage Ratio



The ratio as presented above incorporates impaired (stage 3) mortgages under IFRS 9 for data presented after January 1, 2018. Data prior to this time incorporates impaired mortgages under IAS 39. Refer to the "Non-IFRS Measures" section of this MD&A for a full definition of impaired mortgage ratios.

Other Mortgage Information

Table 17: Mortgage Originations

(in thousands)					
For the Periods Ended June 30	Q2 2018	Q2 2017	Q1 2018	YTD 2018	YTD 2017
Single family - insured	\$ 28,013	\$ 7,754	\$ 12,992	\$ 41,005	\$ 17,817
Single family - uninsured	24,963	6,166	12,171	37,134	12,726
Single family - uninsured completed inventory	6,678	-	-	6,678	-
Residential construction	52,601	47,564	37,977	90,578	87,232
Non-residential construction	-	-	2,646	2,646	-
Commercial	-	32,639	44,819	44,819	35,869
	\$ 112,255	\$ 94,123	\$ 110,605	\$ 222,860	\$ 153,644

New uninsured single family origination volumes have increased modestly since mid-2017, which has stabilized the portfolio balance in recent quarters. While we have maintained a conservative underwriting approach in recent quarters given home valuations in certain single family markets, we continue to monitor our underwriting criteria in the context of the lending market.

We participate in acquisition programs for uninsured single family mortgages with MCAP and another third party origination source. Q2 2018 acquisition volumes of \$11 million are included in the table above. We will seek to identify additional sources for uninsured single family mortgage origination consistent with our risk and quality standards, given the attractive risk-adjusted returns and our excess balance sheet capacity.

The increase in insured single family originations during 2018 has enabled us to grow our insured single family portfolio (via the retention of market MBS on our corporate balance sheet) and strengthen our liquidity position.

The adoption of OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures* effective January 1, 2018 has impacted the proportion of mortgages that we underwrite based on the borrower's ability to service the higher mortgage rates. These new stress tests provide for an improvement in the quality of newly originated mortgages.

Construction, commercial and completed inventory originations represent first advances on newly originated loans, i.e. they exclude additional fundings on existing loans in the portfolio or reclassifications between portfolios.

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

(in thousands except %)								
For the Periods Ended June 30	Q2 2018	Average LTV	YTD 2018	Average LTV	Q2 2017	Average LTV	YTD 2017	Average LTV
Ontario	\$ 17,990	69.6%	\$ 25,632	68.8%	\$ 6,021	68.7%	\$ 12,189	69.2%
Alberta	7,175	62.1%	7,402	62.5%	145	34.5%	145	34.5%
British Columbia	5,910	70.8%	9,183	68.6%	-	-	225	50.6%
Other	566	68.7%	1,595	70.8%	-	-	167	66.8%
	\$ 31,641	68.1%	\$ 43,812	67.8%	\$ 6,166	67.9%	\$ 12,726	68.5%

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

As at	June 30 2018	March 31 2018	December 31 2017
Corporate portfolio:			
Single family mortgages			
- Uninsured	67.6%	67.3%	67.5%
- Uninsured completed inventory	57.6%	57.6%	64.2%
- Insured	80.8%	79.6%	78.1%
Construction loans			
- Residential	60.6%	61.4%	61.6%
- Non-residential	52.0%	52.6%	47.0%
Commercial loans			
- Multi family residential	67.9%	68.8%	67.9%
- Other commercial	65.3%	63.0%	64.6%
	65.8%	65.0%	65.3%
Securitized portfolio:			
Single family insured - Market MBS Program	85.4%	85.3%	85.8%
Single family insured - CMB Program	82.1%	82.1%	82.0%
	84.9%	84.9%	85.3%
	75.5%	75.7%	76.0%

Based on past experience and relative to the specifics of the then prevailing economic conditions, we would expect to observe an increase in overall mortgage default and arrears rates in the event of an economic downturn as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This would also result in a corresponding increase in our allowance for credit losses. An economic downturn, for example, could include changes to employment and unemployment rates, income levels and consumer spending which would have the above noted impact on our single family mortgage portfolio. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages. In addition, MCAN's corporate uninsured single family mortgage portfolio (which includes completed inventory loans) is also secured with an average LTV at origination of 67.2% as at June 30, 2018 (March 31, 2018 - 66.9%). Based on an industry index that incorporates current real estate values, the ratios would be 56.9% and 53.1%, respectively.

Note: The LTV ratios in the above table represent the LTV at origination, not as at the reporting dates.

Mortgage renewal rights

Through our XMC origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the balance sheet. At renewal, we may be able to renew these mortgages by offering clients attractive renewal options, thereby contributing to future revenues.

As at June 30, 2018, we had the renewal rights to \$936 million of single family mortgages (March 31, 2018 - \$923 million). The majority of these renewal rights relate to mortgages held on the consolidated balance sheet as corporate or securitized mortgages, while \$8 million relates to off-balance sheet mortgages sold to third parties on a whole loan basis (March 31, 2018 - \$27 million).

Other items

The Canadian mortgage industry continues to experience falsification of supporting documents provided to lenders in the mortgage underwriting process, and we have observed this activity in our own underwriting processes. We have enhanced and continue to enhance our underwriting processes, and we maintain a rigorous due diligence process.

To date, the impact of 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.

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

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

Insured mortgages include mortgages insured by CMHC or other approved insurers at origination and mortgages that are portfolio insured after origination.

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

Table 20: Single Family Mortgages by Province as at June 30, 2018

(in thousands except %)

	Corporate						Securitized		Total	
	Insured	%	Uninsured	%	HELOCs	%	Insured	%		
Ontario	\$ 77,540	61.9%	\$ 130,376	61.1%	\$ 101	76.5%	\$ 549,428	56.9%	\$ 757,445	58.0%
Alberta	23,279	18.6%	37,429	17.6%	31	23.5%	221,684	23.0%	282,423	21.7%
British Columbia	7,010	5.6%	28,155	13.2%	-	-	79,009	8.2%	114,174	8.8%
Quebec	7,375	5.9%	4,698	2.2%	-	-	38,337	4.0%	50,410	3.9%
Atlantic Provinces	7,246	5.8%	5,920	2.8%	-	-	43,894	4.6%	57,060	4.4%
Other	2,748	2.2%	6,633	3.1%	-	-	32,155	3.3%	41,536	3.2%
Total	\$ 125,198	100.0%	\$ 213,211	100.0%	\$ 132	100.0%	\$ 964,507	100.0%	\$ 1,303,048	100.0%

Table 21: Single Family Mortgages by Province as at March 31, 2018

(in thousands except %)

	Corporate						Securitized		Total	
	Insured	%	Uninsured	%	HELOCs	%	Insured	%		
Ontario	\$ 42,479	56.2%	\$ 124,260	60.9%	\$ 95	65.5%	\$ 578,407	57.1%	\$ 745,241	57.6%
Alberta	16,386	21.7%	36,914	18.1%	47	32.4%	230,691	22.8%	284,038	22.0%
British Columbia	3,492	4.6%	25,315	12.4%	3	2.1%	82,961	8.2%	111,771	8.6%
Quebec	4,759	6.3%	4,746	2.3%	-	-	41,638	4.1%	51,143	4.0%
Atlantic Provinces	6,201	8.2%	6,340	3.1%	-	-	45,924	4.5%	58,465	4.5%
Other	2,236	3.0%	6,459	3.2%	-	-	33,415	3.3%	42,110	3.3%
Total	\$ 75,553	100.0%	\$ 204,034	100.0%	\$ 145	100.0%	\$ 1,013,036	100.0%	\$ 1,292,768	100.0%

Table 22: Single Family Mortgages by Amortization Period as at June 30, 2018

(in thousands except %)	Up to 20 Years		>20 to 25 Years		>25 to 30 Years		>30 to 35 Years		>35 to 40 Years		Total
Corporate	\$	67,494	\$	97,926	\$	171,311	\$	1,810	\$	-	338,541
		19.9%		28.9%		50.7%		0.5%		-	100.0%
Securitized	\$	216,195	\$	468,607	\$	218,197	\$	61,508	\$	-	964,507
		22.4%		48.6%		22.6%		6.4%		-	100.0%
Total	\$	283,689	\$	566,533	\$	389,508	\$	63,318	\$	-	1,303,048
		21.8%		43.5%		29.8%		4.9%		-	100.0%

Table 23: Single Family Mortgages by Amortization Period as at March 31, 2018

(in thousands except %)	Up to 20 Years		>20 to 25 Years		>25 to 30 Years		>30 to 35 Years		>35 to 40 Years		Total
Corporate	\$	49,974	\$	69,085	\$	158,814	\$	1,859	\$	-	279,732
		17.9%		24.7%		56.7%		0.7%		-	100.0%
Securitized	\$	218,868	\$	495,987	\$	227,991	\$	69,850	\$	340	1,013,036
		21.6%		49.0%		22.5%		6.9%		-	100.0%
Total	\$	268,842	\$	565,072	\$	386,805	\$	71,709	\$	340	1,292,768
		20.8%		43.7%		30.0%		5.5%		-	100.0%

Other Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, increased by \$35 million in Q2 2018. Cash and cash equivalents provide liquidity to meet maturing term deposit and new mortgage funding commitments and are considered to be Tier 1 liquid assets. For further information, refer to the "Liquidity Management" section of this MD&A.

Marketable securities

Marketable securities, consisting of corporate bonds and real estate investment trusts ("REITs"), decreased by \$3 million in Q2 2018. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents and are considered to be Tier 2 liquid assets. For further information, refer to the "Liquidity Management" section of this MD&A.

We recorded an increase to the unrealized gain on marketable securities of \$1.3 million through net income in Q2 2018 such that the unrealized gain as at June 30, 2018 was \$2.5 million.

Financial investments

We hold a \$41 million (March 31, 2018 - \$41 million) investment in the KingSett High Yield Fund ("KSHYF"), in which we have an 8.0% equity interest (March 31, 2018 - 8.0%). Our Q2 2018 return was 10.5% (Q2 2017 - 10.4%). As at June 30, 2018, our total remaining commitment to the KSHYF was \$22 million (March 31, 2018 - \$22 million), consisting of \$1 million of unfunded capital advances and \$21 million that supports credit facilities throughout the life of the KSHYF.

We also hold a \$29 million (March 31, 2018 - \$32 million) investment in Crown LP, in which we have a 14.1% equity interest (March 31, 2018 - 14.1%). In Q2 2018, we recorded an increase to the unrealized gain on the investment in Crown LP of \$2.0 million through net income such that the unrealized gain as at June 30, 2018 was \$14 million.

During Q2 2018, Crown LP sold the last remaining property in its opportunity fund and paid a distribution of \$5.1 million which reduced the carrying value of our investment in Crown LP. The remaining properties held by Crown LP are held in its core fund, which represents commercial office buildings that are expected to provide stable cash flows over a longer term time horizon.

Equity investment in MCAP

We hold a 13.83% equity interest in MCAP (March 31, 2018 - 13.83%), which represents 4.0 million units held by MCAN (March 31, 2018 - 4.0 million) of the 28.9 million total outstanding MCAP partnership units (March 31, 2018 - 28.9 million).

The investment had a net book value of \$58 million as at June 30, 2018 (March 31, 2018 - \$56 million).

The Limited Partner's At-Risk Amount ("LP ARA"), which represents the cost base of the equity investment in MCAP for income tax purposes, was \$36 million as at June 30, 2018 (March 31, 2018 - \$33 million). For further information on the LP ARA, refer to the "Non-IFRS Measures" section of this MD&A.

MCAP is an originator and servicer of mortgages for third party investors in Canada. MCAP's origination volumes were \$4.2 billion in Q2 2018 (Q2 2017 - \$3.3 billion). MCAP had \$68.7 billion of assets under administration as at May 31, 2018 (February 28, 2018 - \$66.8 billion).

Subsequent to quarter end, MCAP announced the retirement of its Chief Executive Officer, Derek Norton, and announced the appointment of Mark Aldridge as MCAP's new Chief Executive Officer.

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

Securitization Assets

Securitization assets consist primarily of single family insured mortgages securitized through the market MBS program and CMB program. For further information, refer to the "Securitization Programs" section of this MD&A.

Table 24: Liabilities and Shareholders' Equity

(in thousands)					
As at	June 30 2018 ¹	March 31 2018 ¹	December 31 2017	Change from Prior Quarter (\$)	(%)
Corporate Liabilities					
Term deposits	\$ 912,223	\$ 823,604	\$ 884,460	\$ 88,619	11%
Loans payable	-	3,020	-	(3,020)	(100%)
Current tax liabilities	457	-	-	457	-
Deferred tax liabilities	3,390	3,603	3,572	(213)	(6%)
Other liabilities	7,135	6,315	16,067	820	13%
	923,205	836,542	904,099	86,663	10%
Securitization Liabilities					
Financial liabilities from securitization	976,769	1,015,296	1,015,699	(38,527)	(4%)
	976,769	1,015,296	1,015,699	(38,527)	(4%)
	1,899,974	1,851,838	1,919,798	48,136	3%
Shareholders' Equity					
Share capital	219,456	217,817	214,664	1,639	1%
Contributed surplus	510	510	510	-	-
Retained earnings	86,130	83,719	65,365	2,411	3%
Accumulated other comprehensive income	-	-	16,438	-	-
	306,096	302,046	296,977	4,050	1%
	\$ 2,206,070	\$ 2,153,884	\$ 2,216,775	\$ 52,186	2%

¹ Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

To fund our corporate operations, we issue term deposits that are eligible for CDIC deposit insurance. We do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor. The role of term deposits in managing liquidity risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

Financial liabilities from securitization relate to our participation in the market MBS program and CMB program, where we have sold MBS to third parties but have not derecognized the related mortgages from our balance sheet. For further information on the market MBS program and CMB program, refer to the “Securitization Programs” section of this MD&A.

Share capital activity for Q2 2018 reflects new common shares issued through the Dividend Reinvestment Plan (“DRIP”). The DRIP participation rate for the June 30, 2018 dividend was 19% (March 31, 2018 - 20%). For further information, refer to Note 16 to the consolidated financial statements.

Retained earnings activity for Q2 2018 consists of net income of \$11.1 million less dividends of \$7.4 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 25: Selected Quarterly Financial Data

(in thousands except for per share amounts and %)	Q2/18 ²	Q1/18 ²	Q4/17	Q3/17	Q2/17	Q1/17	Q4/16	Q3/16
Net investment income - corporate assets ²	\$ 15,063	\$ 12,073	\$ 14,359	\$ 12,913	\$ 12,179	\$ 12,963	\$ 11,684	\$ 12,396
Other income - corporate assets	-	1,701	-	-	-	876	-	-
Net investment income - securitization assets ²	1,317	1,301	1,416	1,534	1,374	1,291	1,519	1,594
	16,380	15,075	15,775	14,447	13,553	15,130	13,203	13,990
Operating expenses	5,142	4,631	5,302	4,686	4,616	4,617	4,471	4,323
Net income before income taxes	11,238	10,444	10,473	9,761	8,937	10,513	8,732	9,667
Provision for (recovery of) income taxes	113	(171)	(334)	(157)	(1)	248	(268)	(108)
Net income	\$ 11,125	\$ 10,615	\$ 10,807	\$ 9,918	\$ 8,938	\$ 10,265	\$ 9,000	\$ 9,775
Basic and diluted earnings per share	\$ 0.47	\$ 0.45	\$ 0.47	\$ 0.42	\$ 0.39	\$ 0.44	\$ 0.39	\$ 0.43
Dividends per share	\$ 0.37	\$ 0.37	\$ 0.37	\$ 0.32	\$ 0.32	\$ 0.30	\$ 0.30	\$ 0.29
Return on average shareholders' equity ¹	14.54%	14.10%	14.63%	13.63%	12.37%	14.37%	12.94%	14.08%
Average mortgage portfolio yield - corporate ¹	5.65%	5.72%	5.56%	5.25%	5.28%	5.12%	4.99%	5.14%
Average term deposit interest rate ¹	2.48%	2.38%	2.29%	2.25%	2.21%	2.20%	2.20%	2.22%
Average mortgage portfolio balance - corporate (\$ million)	\$ 913	\$ 849	\$ 866	\$ 908	\$ 914	\$ 908	\$ 954	\$ 1,008
Average mortgage portfolio yield - securitized ¹	2.59%	2.57%	2.57%	2.63%	2.67%	2.61%	2.74%	2.74%
Average financial liability from securitization rate ¹	1.83%	1.83%	1.81%	1.83%	1.93%	1.90%	2.01%	2.01%
Average mortgage portfolio balance - securitized (\$ million)	\$ 986	\$ 1,015	\$ 1,002	\$ 1,028	\$ 1,057	\$ 1,052	\$ 1,032	\$ 1,032

¹ Refer to the “Non-IFRS Measures” section of this MD&A for a definition of these measures.

² Provisions for credit losses are included in both net investment income from corporate and securitization assets. Effective Q1 2018, we prospectively adopted IFRS 9 and did not restate prior period information. Under IFRS 9, the methodology for the calculation of mortgage allowances and provisions has changed from IAS 39, therefore provisions under IFRS 9 are not directly comparable to prior periods. Additionally, under IFRS 9 fair value changes in certain reclassified financial assets are presented in the income statement and are therefore not directly comparable to prior periods. Under IAS 39, these fair value changes were recorded through other comprehensive income.

Net investment income from corporate and securitization assets is largely driven by changes in the average mortgage portfolio balance and interest rate. Additionally, corporate net investment income was impacted by significant distribution income from Crown LP in Q1 2017 and substantial equity income from MCAP in Q2 2017 and Q4 2017. Operating expenses increased in Q4 2017 as a result of non-recurring professional fee accruals.

Corporate mortgage interest yields have increased since Q3 2017 as a result of increases to the overnight rate by the Bank of Canada given that the majority of the corporate portfolio is floating rate and repriced following the rate increases.

The securitized mortgage portfolio has gradually decreased since Q2 2017 as a result of a reduction in securitization volumes.

Since the adoption of IFRS 9 effective January 1, 2018, we have experienced increased volatility in net income as a result of the recognition of unrealized gains on certain financial instruments through net income. This volatility was especially prominent in Q2 2018, generating a positive impact to net income of \$3.3 million. Prior to the adoption of IFRS 9, these unrealized gains were recognized through accumulated other comprehensive income.

SECURITIZATION PROGRAMS

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. We issue MBS through our internal market MBS program and the Canada Housing Trust ("CHT") CMB program.

Market MBS Program

During Q2 2018, we securitized \$46 million of MBS through the market MBS program (Q2 2017 - \$14 million). We retained the MBS securitized in Q2 2018 on our corporate balance sheet to strengthen our corporate liquidity position, however in Q2 2017 we sold the MBS to a third party.

As noted above, we may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes instead of selling it to a third party. As at June 30, 2018, we held \$73 million of retained MBS on our balance sheet (March 31, 2018 - \$28 million), which is included in the insured single family classification within corporate mortgages.

CAPITAL MANAGEMENT

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

Income Tax Capital

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

We manage our income tax assets to a level of 5.75 times income tax capital on a non-consolidated tax basis to provide a prudent cushion between the maximum permitted assets and total actual assets. Income tax asset capacity represents additional asset growth available to yield a 5.75 income tax assets to income tax capital ratio.

Table 26: Income Tax Capital ¹

(in thousands except ratios)			
As at	June 30 2018 ²	March 31 2018 ²	December 31 2017
Income tax assets ¹			
Consolidated assets	\$ 2,206,070	\$ 2,153,884	\$ 2,216,775
Adjustment for assets in subsidiaries	5,390	6,403	5,435
Non-consolidated assets in MIC entity	2,211,460	2,160,287	2,222,210
Add: mortgage allowances	5,061	4,883	4,750
Less: securitization assets ³	(988,051)	(1,028,356)	(1,030,020)
Less: equity investments in MCAP and subsidiaries	(48,616)	(48,061)	(42,411)
Other adjustments	(8,139)	(7,286)	(7,475)
	<u>\$ 1,171,715</u>	<u>\$ 1,081,467</u>	<u>\$ 1,147,054</u>
Income tax liabilities ¹			
Consolidated liabilities	\$ 1,899,974	\$ 1,851,838	\$ 1,919,798
Adjustment for liabilities in subsidiaries	(7,588)	(6,488)	(7,852)
Non-consolidated liabilities in MIC entity	1,892,386	1,845,350	1,911,946
Less: securitization liabilities ³	(975,384)	(1,013,854)	(1,014,258)
	<u>\$ 917,002</u>	<u>\$ 831,496</u>	<u>\$ 897,688</u>
Income tax capital ¹	<u>\$ 254,713</u>	<u>\$ 249,971</u>	<u>\$ 249,366</u>
Income tax asset capacity ¹	<u>\$ 292,883</u>	<u>\$ 355,867</u>	<u>\$ 286,801</u>
Income tax capital ratios ¹			
Income tax assets to capital ratio	4.60	4.33	4.60
Income tax liabilities to capital ratio	3.60	3.33	3.60

¹ Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

² Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

³ The majority of securitization assets and liabilities per balance sheet are excluded from income tax assets, liabilities and capital to the extent that they are held in the MIC entity.

Regulatory Capital

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

Subsequent to quarter end, OSFI released a discussion paper in regards to the proposed implementation of final Basel III reforms in Canada. The reforms were published by the Basel Committee on Banking Supervision ("BCBS") in December 2017 and seek to enhance credibility in the calculation of risk-weighted assets and improve the comparability and transparency of the capital ratios of OSFI-regulated financial institutions. These proposed reforms could significantly impact the risk-weighting of the Company's construction and commercial mortgage portfolios. We are currently investigating the impact of these proposed reforms and the associated potential for higher capital requirements on real estate lending in Canada.

Subsequent to quarter end we increased our internal target minimum CET 1, Tier 1 and Total Capital ratios from 18% to 20%. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 27: Regulatory Capital

(in thousands except %)			
As at	June 30 2018 ¹	March 31 2018 ¹	December 31 2017
Regulatory Ratios (OSFI)			
Share capital	\$ 219,456	\$ 217,817	\$ 214,664
Contributed surplus	510	510	510
Retained earnings	86,130	83,719	65,365
Accumulated other comprehensive income	-	-	16,438
Deduction for equity investment in MCAP (Transitional adjustment) ²	n/a	n/a	(23,593)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) ^{2,3}	n/a	n/a	\$ 273,384
Deduction for equity investment in MCAP (All-in adjustment) ²	(27,344)	(26,193)	(5,898)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) ^{2,3}	\$ 278,752	\$ 275,853	\$ 267,486
Total Exposures/Regulatory Assets ³			
Consolidated assets	\$ 2,206,070	\$ 2,153,884	\$ 2,216,775
Less: deductions from all-in Tier 1 Capital ²	(27,344)	(26,193)	(29,491)
Other adjustments ⁴	2,222	1,530	2,915
Total On-Balance Sheet Exposures	2,180,948	2,129,221	2,190,199
Mortgage and investment funding commitments	423,043	397,790	317,687
Less: conversion to credit equivalent amount (50%)	(211,522)	(198,895)	(158,844)
Letters of credit	42,236	44,178	32,164
Less: conversion to credit equivalent amount (50%)	(21,118)	(22,089)	(16,082)
Total Off-Balance Sheet Items	232,639	220,984	174,925
Total Exposures/Regulatory Assets	\$ 2,413,587	\$ 2,350,205	\$ 2,365,124
Leverage ratio ³	11.55%	11.74%	11.31%
Risk weighted assets (all-in) ^{2,3}	\$ 1,298,367	\$ 1,295,953	\$ 1,258,171
Risk weighted assets (transitional) ^{2,3}	n/a	n/a	\$ 1,269,967
Regulatory Capital Ratios ³			
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	21.47%	21.29%	21.26%
Tier 1 capital to risk-weighted assets ratio (all-in)	21.47%	21.29%	21.26%
Total capital to risk-weighted assets ratio (all-in)	21.47%	21.29%	21.26%
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	n/a	n/a	21.53%
Tier 1 capital to risk-weighted assets ratio (transitional)	n/a	n/a	21.53%
Total capital to risk-weighted assets ratio (transitional)	n/a	n/a	21.53%

¹ Effective January 1, 2018 we adopted IFRS 9, Financial Instruments. Results from periods prior to January 1, 2018 are reported in accordance with IAS 39, Financial Instruments: Recognition & Measurement. For further information on the adoption of IFRS 9, refer to Notes 4 and 6 to the consolidated financial statements.

² The deduction for the equity investment in MCAP on an all-in basis is equal to the equity investment balance less 10% of the Company's shareholders' equity. As of January 1, 2018, the deduction was fully deductible whereas in 2017, the deduction on the transitional basis was equal to 80% of the all-in adjustment.

³ Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

⁴ Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

Table 28: Regulatory Risk-Weighted Assets

(in thousands except %)	June 30, 2018			March 31, 2018		
	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
As at						
On-Balance Sheet Assets						
Cash and cash equivalents	\$ 96,985	20%	\$ 19,841	\$ 62,463	20%	\$ 12,799
Cash held in trust	25,740	20%	5,148	15,073	20%	3,015
Marketable securities	58,534	100%	58,534	61,429	100%	61,429
Mortgages - corporate	919,053	72%	665,771	859,372	77%	658,403
Mortgages - securitized	964,507	3%	29,089	1,013,036	3%	31,111
Financial investments	70,191	229%	161,033	73,446	245%	179,620
Other loans	2,426	100%	2,426	2,655	100%	2,655
Equity investment in MCAP	57,954	53%	30,609	56,398	54%	30,205
Foreclosed real estate	435	100%	435	435	100%	435
Deferred tax asset	3,005	100%	3,005	2,874	100%	2,874
Other assets	7,240	100%	7,240	6,703	100%	6,703
			<u>983,131</u>			<u>989,249</u>
Off-Balance Sheet Items						
Letters of credit	42,236	50%	21,118	44,178	50%	22,089
Commitments	423,043	44%	185,130	397,790	44%	176,040
			<u>206,248</u>			<u>198,129</u>
Charge for operational risk			<u>108,988</u>			<u>108,575</u>
Risk-Weighted Assets (all-in)			\$ <u>1,298,367</u>			\$ <u>1,295,953</u>

LIQUIDITY MANAGEMENT

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the Board on a quarterly basis.

We fund our corporate operations by issuing term deposits that are eligible for CDIC deposit insurance. We do not accept deposits that can be cashed prior to maturity or paid on demand except in the event of the death of a depositor.

For further information on how we manage liquidity risk, refer to the “Liquidity and Funding Risk” sub-section of the “Risk Governance & Management” section of this MD&A. For information on our credit facilities refer to Note 24 to the consolidated financial statements.

OSFI’s Liquidity Adequacy Requirements (“LAR”) guideline establishes three minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio (“LCR”) and Net Cumulative Cash Flow (“NCCF”) metric, which are both currently in effect, and the Net Stable Funding Ratio (“NSFR”), which is effective January 1, 2020.

As at June 30, 2018, we were in compliance with the LCR and NCCF. Based on our current financial and liquidity position, we believe that we will be able to comply with the NSFR requirements once enacted. These requirements are supplemented by additional supervisory monitoring metrics including the liquidity monitoring tools and the intraday liquidity monitoring tools as considered in the Basel III framework.

The following table shows the composition of our internal liquidity ratios. These internal ratios include assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. We manage our Tier 1 & 2 and Total liquid assets to a minimum of 60% and 100% of term deposit liabilities maturing within 100 days, respectively, and a maximum of 150% for both ratios.

As at June 30, 2018 our liquidity ratios increased significantly compared to the prior quarter. During Q2 2018 we specifically targeted growth in our liquid asset position by way of issuance of market MBS that we retained on our corporate balance sheet. Additionally, we raised our corporate cash balances to strengthen our position amidst current uncertainty in housing markets.

Table 29: Liquidity Ratios

(in thousands except %)			
As at	June 30 2018	March 31 2018	December 31 2017
Tier 1 liquid assets ¹			
Cash and cash equivalents	\$ 96,985	\$ 62,463	\$ 117,571
Tier 2 liquid assets ¹			
Marketable securities	58,534	61,429	62,518
Less: marketable securities adjustment ²	(13,952)	(14,002)	(14,391)
Market MBS retained by MCAN ³	73,123	28,040	28,597
	117,705	75,467	76,724
Tier 3 liquid assets ¹			
Single family insured mortgages ⁴	51,849	47,310	51,711
Less: single family insured mortgages adjustment ⁴	(19,008)	(16,619)	(17,713)
	32,841	30,691	33,998
Total liquid assets ¹	\$ 247,531	\$ 168,621	\$ 228,293
100 day term deposit maturities	\$ 53,398	\$ 158,910	\$ 103,632
Liquidity ratios ¹			
Tier 1 & 2 liquid assets to 100 day term deposit maturities	402%	87%	187%
Total liquid assets to 100 day term deposit maturities	464%	106%	220%

¹ Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.

² Adjusted to reflect estimated impact to fair market value in a stressed scenario. Corporate bonds are reduced as follows: BBB- or higher (30%); below BBB- (45%). REITs are reduced as follows: constituent in TSX/S&P Composite Index (20%); not a constituent in TSX/S&P Composite Index (40%).

³ Included in corporate mortgages - insured single family. For further information, refer to the "Securitization Programs" section of this MD&A.

⁴ Single family insured mortgages exclude mortgages pledged as collateral and second mortgages not insured by CMHC. The adjustment reflects lower liquidity than Tier 1 and Tier 2 liquidity, as follows: CMHC insured (25%), CMHC insured second mortgages (50%), privately insured (50%).

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

Table 30: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	June 30 2018	March 31 2018
Sources of liquidity							
Cash and cash equivalents	\$ 96,985	\$ -	\$ -	\$ -	\$ -	\$ 96,985	\$ 62,463
Marketable securities	58,506	-	-	-	28	58,534	61,429
Mortgages - corporate	164,484	402,413	289,323	56,845	5,988	919,053	859,372
Financial investments	-	-	41,033	-	29,158	70,191	73,446
Other loans	1,088	175	1,163	-	-	2,426	2,655
	321,063	402,588	331,519	56,845	35,174	1,147,189	1,059,365
Uses of liquidity							
Term deposits	52,499	303,624	460,146	95,954	-	912,223	823,604
Loans payable	-	-	-	-	-	-	3,020
Other liabilities	7,135	-	-	-	-	7,135	6,315
	59,634	303,624	460,146	95,954	-	919,358	832,939
Net liquidity surplus (deficit)	\$ 261,429	\$ 98,964	\$ (128,627)	\$ (39,109)	\$ 35,174	\$ 227,831	\$ 226,426
Off-Balance Sheet							
Unfunded mortgage commitments	\$ 93,705	\$ 125,383	\$ 181,522	\$ -	\$ -	\$ 400,610	\$ 375,357
Commitment - KSHYF	-	-	22,433	-	-	22,433	22,433
	\$ 93,705	\$ 125,383	\$ 203,955	\$ -	\$ -	\$ 423,043	\$ 397,790

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

RISK GOVERNANCE AND MANAGEMENT

We are exposed to a number of risks, including credit risk, liquidity and funding risk, operational risk, strategic and business risk, reputational risk, interest rate risk, market risk and cyber risk, that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital and/or damage to our reputation. We mitigate these risks through prudent credit limits, established lending policies and procedures, effective monitoring and reporting, investment diversification and by the diligent management of assets and liabilities.

We operate in changing regulatory and economic environments. As a result, we believe that our management team and the Board are particularly diligent in their consideration of all identified and emerging risks. Our goal is not to eliminate risk, as this would result in significantly reduced earnings, but rather to be proactive in our assessment and management of risk, as a means to gain a strategic advantage and ultimately enhance shareholder value.

The risks that have been identified may not be the only risks that we face. Other risks of which we are not aware or which we currently deem to be immaterial may surface in future periods and have a material adverse impact on our business, results from operations and financial condition.

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

For a detailed discussion of risks that the Company is exposed to, refer to the "Risk Governance and Management" section of the 2017 Annual MD&A.

Liquidity and Funding Risk

Liquidity and funding risk is the risk that cash inflows, 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, which may result in a loss of earnings or capital, or have an otherwise adverse effect on our financial condition and results of operations.

For information on the contractual maturities of certain obligations of the Company, refer to notes 13, 15 and 23 to the consolidated financial statements.

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, customers, depositors, employees, suppliers and regulators. 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 corporation's leadership. Failure to effectively manage reputation risk can result in reduced market capitalization, loss of client loyalty, reduced access to deposit funding and the inability to achieve our strategic objectives.

Strategic and Business Risk

Strategic and business 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, business results, changes in the competitive environment or the inability of the business to change its cost levels in response to those changes.

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 and cyber risk. The remaining risks arise from the small size and entrepreneurial nature of MCAN, and the legacy systems used within it. 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.

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.

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.

Cyber Risk

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.

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.

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 dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

Our exposure to interest rate risk is discussed further in Note 25 to the consolidated financial statements.

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.

Risk Management

For a detailed discussion of how we manage the risks noted above, refer to the “Risk Governance and Management” section of the 2017 Annual MD&A.

Credit Risk - Impairment Assessment Under IFRS 9

The analysis of MCAN’s IFRS 9 impairment assessment and measurement approach discussed below should be read in conjunction with Note 4 to the consolidated financial statements.

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 Beacon 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, Stage 3 and POCI 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 ECL is measured is the maximum contractual period. For revolving credit facilities that include both a loan component and an undrawn commitment component, 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, 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-collateralisation, and varies with macroeconomic scenarios.

The Company segments its corporate mortgage portfolio into individual lines of business, outlined in Note 8. 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 involve 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 (per Note 8). 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

An overview of the approach to estimating ECLs is set out in Notes 4 and 5. As part of the model input process, macroeconomic data are obtained from third party sources (e.g. rating agencies, bank economic forecasts), and its 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.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At June 30, 2018, there were 23,651,814 common shares outstanding (March 31, 2018 - 23,559,145). As at August 9, 2018, there were 23,651,814 common shares outstanding.

During Q2 2018, we issued 92,669 new common shares under the DRIP (Q2 2017 - 79,334), which provides MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%.

For additional information related to share capital, refer to Note 16 to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to an operating lease, in addition to outstanding commitments for future fundings of corporate mortgages and our investment in the KSHYF. We are obligated to advance additional fundings on the investment at any time subject to capital calls by the KSHYF.

We outsource the majority of our mortgage servicing and continue to pay servicing expenses as long as the mortgages remain on our balance sheet.

Table 31: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	June 30 2018	March 31 2018
Mortgage funding commitments	\$ 219,088	\$ 181,522	\$ -	\$ -	\$ 400,610	\$ 375,357
Commitment - KSHYF	-	22,433	-	-	22,433	22,433
Operating lease	852	1,761	1,769	3,943	8,325	8,538
	\$ 219,940	\$ 205,716	\$ 1,769	\$ 3,943	\$ 431,368	\$ 406,328

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

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. For further information, refer to Note 24 to the consolidated financial statements.

As at June 30, 2018, of our total single family mortgage renewal rights of \$936 million (March 31, 2018 - \$923 million), \$8 million related to off-balance sheet mortgages sold to third parties on a whole loan basis (March 31, 2018 - \$27 million).

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

DIVIDENDS

Consistent with the prior quarter, the Board declared a third quarter dividend of \$0.37 per share, to be paid on September 28, 2018 to shareholders of record as of September 14, 2018.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended June 30, 2018 and June 30, 2017 and related party balances as at June 30, 2018 are discussed in Note 22 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

As at June 30, 2018, we had 75 employees (March 31, 2018 - 76).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that may include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgage assets by an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Allowances on impaired mortgages include all of the accumulated provisions for losses to reduce the assets to their estimated realizable value. Allowances depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect net realizable values and lead to an increase or decrease the allowance for credit losses.

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are model outputs with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk which results in allowances being measured on a lifetime versus 12 month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

We review our ECL models on a quarterly basis. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, we may make temporary qualitative adjustments or overlays using expert credit judgment when such differences are material.

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums using the EIM.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income in the subsidiaries of the Company. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to the tax treatment of income and expenses already recorded in the subsidiaries of the Company.

The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by relevant tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the responsible tax authority. As the Company assesses the probability of litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used in the subsidiaries of the Company. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the subsidiaries of the Company, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Impairment of financial assets

As applicable, the Company reviews financial assets at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows associated with these assets when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the fair value of the asset.

Critical Accounting Judgments

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Significant influence

In determining whether it has significant influence over an entity, the Company makes certain judgments based on the applicable accounting standards. These judgments form the basis for the Company's policies in accounting for its equity investments.

Taxes

As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends in current and future years to ensure that it is not subject to income taxes in the MIC entity on a non-consolidated basis. Accordingly, the Company does not record a provision for current and deferred taxes within the MIC entity; however provisions are recorded as applicable in all subsidiaries of MCAN.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective include IFRS 16, *Leases*, IFRS 2, *Share-based Payment Transactions* and IFRIC 23, *Uncertainty over Income Tax Treatments*. For further information on these standards, refer to Note 4 to the consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As at June 30, 2018, the CEO and CFO of MCAN, along with the assistance of the Company's disclosure committee comprised of members of senior management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our internal controls over financial reporting that occurred during the interim period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

We adopted IFRS 9 effective January 1, 2018 and have updated and modified certain internal controls over financial reporting as a result of the new accounting standard.

All internal control systems, no matter how well designed, have inherent limitations. As a result, even systems determined to be effective may not prevent or detect misstatements on a timely basis, as systems can provide only reasonable assurance that the objectives of the control system are met. In addition, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may change.

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

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

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

NON IFRS MEASURES

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

Return on Average Shareholders' Equity

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

Taxable Income Measures

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

Average Interest Rate

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

Net Interest Income

Net interest income is a profitability measure that reflects net interest income earned only from interest-bearing assets and liabilities.

Impaired Mortgage Ratios

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

Mortgage Arrears

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

Common Equity Tier 1, Tier 1 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio, Assets to Capital Multiple and Risk Weighted Assets

These measures provided in this MD&A are in accordance with guidelines issued by OSFI and are located on Table 27 of this MD&A and Note 26 to the consolidated financial statements.

Tier 1, Tier 2, Tier 3 and Total Liquid Assets and Liquidity Ratios

Tier 1, Tier 2, Tier 3 and Total Liquid Assets are internal metrics that quantify the balance sheet assets (or components of assets) that comprise various liquidity levels. Liquidity ratios represent the ratio of select tiers of liquid assets to term deposits maturing within 100 days.

Income Tax Capital Measures

Income tax assets, income tax liabilities and income tax capital represent assets, liabilities and capital as calculated on a non-consolidated basis using the provisions of the Tax Act applicable to a MIC. The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts. Income tax asset capacity represents additional income tax asset growth available to yield a 5.75 income tax assets to capital ratio, which is our target ratio.

Market Capitalization

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

Book Value per Common Share

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

Limited Partner's At-Risk Amount

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

CONSOLIDATED BALANCE SHEETS
(Unaudited) (in thousands of Canadian dollars)

As at	Note	June 30 2018	December 31 2017
Assets			
Corporate Assets			
Cash and cash equivalents		\$ 96,985	\$ 117,571
Marketable securities	7	58,534	62,518
Mortgages	8	919,053	863,384
Financial investments	9	70,191	68,190
Other loans		2,426	2,612
Equity investment in MCAP Commercial LP	10	57,954	59,189
Foreclosed real estate		435	435
Deferred tax asset	14	3,005	2,672
Other assets		3,495	5,800
		1,212,078	1,182,371
Securitization Assets			
Cash held in trust		25,740	13,441
Mortgages	12	964,507	1,016,724
Other assets		3,745	4,239
		993,992	1,034,404
		\$ 2,206,070	\$ 2,216,775
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	13	\$ 912,223	\$ 884,460
Current taxes payable	14	457	-
Deferred tax liabilities	14	3,390	3,572
Other liabilities		7,135	16,067
		923,205	904,099
Securitization Liabilities			
Financial liabilities from securitization	15	976,769	1,015,699
		976,769	1,015,699
		1,899,974	1,919,798
Shareholders' Equity			
Share capital	16	219,456	214,664
Contributed surplus		510	510
Retained earnings		86,130	65,365
Accumulated other comprehensive income	18	-	16,438
		306,096	296,977
		\$ 2,206,070	\$ 2,216,775

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

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited) (in thousands of Canadian dollars except for per share amounts)

For the Quarters Ended June 30	Note	2018	2017
Net Investment Income - Corporate Assets			
Mortgage interest		\$ 12,867	\$ 12,095
Equity income from MCAP Commercial LP	10	3,194	3,818
Financial investments and other loans	9	1,321	911
Marketable securities		867	1,094
Fees		267	301
Interest on cash and cash equivalents		208	141
Unrealized gain (loss) on financial instruments	19	3,341	-
		22,065	18,360
Term deposit interest and expenses		5,643	5,136
Mortgage expenses	20	1,024	995
Interest on loans payable		96	4
Provision for credit losses	21	239	46
		7,002	6,181
		15,063	12,179
Net Investment Income - Securitization Assets			
Mortgage interest		6,375	7,021
Other securitization income		23	37
		6,398	7,058
Interest on financial liabilities from securitization		4,558	5,147
Mortgage expenses	20	534	537
Provision for (recovery of) credit losses	21	(11)	-
		5,081	5,684
		1,317	1,374
Operating Expenses			
Salaries and benefits		3,179	2,589
General and administrative		1,963	2,027
		5,142	4,616
Net Income Before Income Taxes			
		11,238	8,937
Provision for (recovery of) income taxes			
Current	14	457	-
Deferred	14	(344)	(1)
		113	(1)
Net Income		\$ 11,125	\$ 8,938
Basic and diluted earnings per share		\$ 0.47	\$ 0.39
Dividends per share		\$ 0.37	\$ 0.32
Weighted average number of basic and diluted shares (000's)		23,561	23,225

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

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited) (in thousands of Canadian dollars except for per share amounts)

For the Six Months Ended June 30	Note	2018	2017
Net Investment Income - Corporate Assets			
Mortgage interest		\$ 24,867	\$ 23,650
Equity income from MCAP Commercial LP	10	6,633	5,710
Financial investments and other loans	9	2,875	5,174
Marketable securities		1,745	1,940
Fees		630	592
Interest on cash and cash equivalents		495	299
Unrealized gain (loss) on financial instruments	19	3,285	-
		40,530	37,365
Term deposit interest and expenses		10,890	10,157
Mortgage expenses	20	1,975	1,954
Interest on loans payable		116	36
Provision for credit losses	21	413	76
		13,394	12,223
		27,136	25,142
Other Income - Corporate Assets			
Gain on sale of investment in MCAP Commercial LP	10	1,701	785
Gain on dilution of investment in MCAP Commercial LP	10	-	91
		1,701	876
Net Investment Income - Securitization Assets			
Mortgage interest		12,868	13,793
Other securitization income	11	95	73
		12,963	13,866
Interest on financial liabilities from securitization		9,239	10,158
Mortgage expenses	20	1,102	1,043
Provision for credit losses	21	4	-
		10,345	11,201
		2,618	2,665
Operating Expenses			
Salaries and benefits		6,124	5,183
General and administrative		3,649	4,050
		9,773	9,233
Net Income Before Income Taxes			
		21,682	19,450
Provision for (recovery) of income taxes			
Current	14	457	-
Deferred	14	(515)	247
		(58)	247
Net Income		\$ 21,740	\$ 19,203
Basic and diluted earnings per share		\$ 0.92	\$ 0.83
Dividends per share		\$ 0.74	\$ 0.62
Weighted average number of basic and diluted shares (000s)		23,513	23,187

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (in thousands of Canadian dollars)

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Net income	\$ 11,125	\$ 8,938	\$ 21,740	\$ 19,203
Other comprehensive income (loss)				
Change in unrealized gain on available for sale marketable securities	-	(353)	-	826
Transfer of gains on sale of marketable securities to net income	-	(139)	-	(139)
Change in unrealized gain on available for sale financial investments	-	608	-	946
Transfer of income distribution from available for sale financial investments to net income	-	-	-	(308)
Transfer of unrealized gains on available for sale financial investments to net income	-	(205)	-	(3,351)
Less: deferred taxes	-	(55)	-	357
	-	(144)	-	(1,669)
Comprehensive income	\$ 11,125	\$ 8,794	\$ 21,740	\$ 17,534

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

For the Periods Ended June 30	Note	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Share capital					
Balance, beginning of period		\$ 217,817	\$ 212,379	\$ 214,664	\$ 210,239
Share capital issued	16	1,639	1,159	4,792	3,299
Balance, end of period		219,456	213,538	219,456	213,538
Contributed surplus					
Balance, beginning of period		510	510	510	510
Changes to contributed surplus		-	-	-	-
Balance, end of period		510	510	510	510
Retained earnings					
Balance, beginning of period		83,719	59,242	65,365	55,923
IFRS 9 transitional adjustment	6	-	n/a	16,420	n/a
Net income		11,125	8,938	21,740	19,203
Dividends declared		(8,714)	(7,432)	(17,395)	(14,378)
Balance, end of period		86,130	60,748	86,130	60,748
Accumulated other comprehensive income					
Balance, beginning of period		-	13,579	16,438	15,104
IFRS 9 transitional adjustment	6	-	n/a	(16,438)	n/a
Other comprehensive income (loss)		-	(144)	-	(1,669)
Balance, end of period		-	13,435	-	13,435
Total shareholders' equity		\$ 306,096	\$ 288,231	\$ 306,096	\$ 288,231

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (in thousands of Canadian dollars)

For the Six Months Ended June 30	2018	2017
Cash provided by (used for):		
Operating Activities		
Net income	\$ 21,740	\$ 19,203
Adjustments to determine cash flows relating to operating activities:		
Current taxes	457	-
Deferred taxes	(515)	247
Equity income from MCAP Commercial LP	(6,633)	(5,710)
Gain on sale of investment in MCAP Commercial LP	(1,701)	(785)
Gain on dilution of investment in MCAP Commercial LP	-	(91)
Provision for credit losses	417	76
Unrealized gain/loss on financial instruments	(3,285)	-
Amortization of securitized mortgage and liability transaction costs	2,542	2,762
Amortization of other assets	272	258
Amortization of mortgage discounts	(17)	(69)
Changes in operating assets and liabilities:		
Marketable securities	4,713	(2,684)
Mortgages	(5,713)	10,184
Financial investments	555	(2,795)
Other loans	186	(43)
Other assets	2,581	(1,338)
Cash held in trust	(12,299)	(4,098)
Term deposits	27,763	10,234
Financial liabilities from securitization	(39,622)	(13,464)
Other liabilities	(279)	(888)
Cash flows from (for) operating activities	(8,838)	10,999
Investing Activities		
Distributions from MCAP Commercial LP	5,048	2,095
Decrease in foreclosed real estate	-	94
Proceeds on sale of investment in MCAP Commercial LP	4,521	1,947
Acquisition of capital and intangible assets	(64)	(318)
Cash flows from investing activities	9,505	3,818
Financing Activities		
Issue of common shares	4,792	3,299
Dividends paid	(26,045)	(21,300)
Cash flows for financing activities	(21,253)	(18,001)
Decrease in cash and cash equivalents	(20,586)	(3,184)
Cash and cash equivalents, beginning of year	117,571	111,732
Cash and cash equivalents, end of year	\$ 96,985	\$ 108,548
Supplementary Information	2018	2017
Interest received	\$ 37,129	\$ 36,767
Interest paid	16,778	17,170
Distributions received from investments	4,005	6,553

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

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1. Corporate Information

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

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

MCAN’s primary objective is to generate a reliable stream of income by investing its corporate funds in a diversified portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments. MCAN employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation (“CDIC”) deposit insurance up to a maximum of five times capital (on a non-consolidated income tax basis in the MIC entity) as limited by the provisions of the Tax Act applicable to a MIC. The term deposits are sourced through a network of independent financial agents.

As a MIC, MCAN is entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of other dividends paid. Such dividends are taxed in the hands of the Company’s 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 outside of Canada may be subject to withholding taxes.

MCAN’s primary wholly owned subsidiary, XMC Mortgage Corporation (“XMC”), is an originator of residential first-charge mortgage products across Canada. As such, XMC operates primarily in one industry segment through its sales team and mortgage brokers. XMC is incorporated in the Province of Ontario.

MCAN is also a *National Housing Act* (“NHA”) mortgage-backed securities (“MBS”) issuer. For further details, refer to Note 11.

MCAN is incorporated in Canada. MCAN and XMC’s head office is located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is listed on the Toronto Stock Exchange under the symbol MKP.

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors (the “Board”) on August 9, 2018.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a historical cost basis, except for marketable securities, foreclosed real estate and certain financial investments designated as fair value reported through profit and loss (“FVPL”), which have been measured at fair value. The consolidated financial statements are presented in Canadian dollars.

The disclosures that accompany the consolidated financial statements include the significant accounting policies applied (Note 4) and the significant judgments (Note 5(a)) and estimates (Note 5(b)) applicable to the preparation of the consolidated financial statements.

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets represent the Company’s core strategic investments, and are funded by term deposits and share capital. Securitization assets consist primarily of mortgages that have been securitized through the NHA MBS program and subsequently sold to third parties. These assets are funded by the cash received from the sale of the associated securities, which is then classified as a financial liability from securitization.

3. Basis of Consolidation

The consolidated financial statements include the balances of MCAN and its subsidiaries as at June 30, 2018.

Subsidiaries are fully consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Per IFRS 10, *Consolidated Financial Statements*, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

All intercompany balances due to/from subsidiaries, income and expenses and unrealized gains and losses resulting from intercompany transactions and dividends are eliminated in full.

4. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its consolidated financial statements are the same with those disclosed in Note 4 to the Company's annual consolidated financial statements as at and for the year ended December 31, 2017, with the exception of the adoption of certain policies adopted as of January 1, 2018 that are discussed below.

Current Period Changes in Accounting Policy

IFRS 9, *Financial Instruments* ("IFRS 9")

On January 1, 2018, the Company adopted IFRS 9 which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The Company, as permitted, has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. All comparative period information is presented in accordance with the accounting policies as described in the annual consolidated financial statements for the year ended December 31, 2017. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018 and are disclosed in Note 6.

The adoption of IFRS 9 has resulted in changes to the Company's accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also amends IFRS 7, *Financial Instruments: Disclosures* to introduce expanded qualitative and quantitative disclosures related to IFRS 9, which the Company has also adopted as of January 1, 2018.

Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Company to record an allowance for ECLs for all mortgages and other debt financial assets not held at fair value through profit or loss ("FVPL"), together with mortgage commitments and financial guarantee contracts not measured at FVPL.

Overview of ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk ("SICR") since origination, in which case, the allowance is based on the 12 months' expected credit loss. The Company's policies for determining if there has been a SICR are discussed in the "Significant increase in credit risk" sub-section of this note.

The Company groups its mortgages into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When mortgages are first recognized, the Company recognizes an allowance based on 12 month ECLs, which represent the portion of lifetime ECLs that represent the ECLs that result from default events on a financial instrument that are expected or believed to be possible within the 12 months after the reporting date. Stage 1 mortgages also include facilities where the credit risk has subsequently improved such that the increase in credit risk since initial recognition is no longer significant and the mortgages have been reclassified from Stage 2.
- Stage 2: When a mortgage has shown a SICR since origination, the Company records an allowance for the lifetime ECLs. Stage 2 mortgages also include facilities where the credit risk has improved and the mortgage has been reclassified from Stage 3.
- Stage 3: Mortgages considered credit-impaired (as outlined below in "Definition of default and cure"). The Company records an allowance for the lifetime ECLs.

4. Summary of Significant Accounting Policies (continued)

Both lifetime ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Company's policy for grouping financial assets measured on a collective basis is discussed in the "Credit Risk - Impairment Assessment Under IFRS 9" sub-section of the "Risk Governance and Management" section of Management's Discussion and Analysis (the "MD&A").

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This policy is further explained in the "Significant increase in credit risk" sub-section of this note.

Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 month ECL or lifetime ECL, the Company assesses whether there has been a SICR since initial recognition. The primary indicators of SICR are relative changes in beacon scores for single family mortgages and changes in risk ratings for construction and commercial mortgages. The Company also applies a secondary qualitative method for triggering a SICR for an asset, such as changes in macroeconomic circumstances or the application of management's judgement. In certain cases, the Company may also consider that certain events are a SICR as opposed to a default. For a definition of default and cure, refer to the "Definition of default and cure" sub-section of this note. IFRS 9 provides a rebuttable presumption that a SICR has occurred if contractual payments are more than 30 days past due. The Company has not rebutted this presumption.

When estimating ECLs on a collective basis for a specified corporate mortgage line of business, the Company applies the same principles for assessing whether there has been a SICR since initial recognition.

Calculation of ECLs

The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate ("EIR"). The cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD: The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio. The concept of PDs is further explained in the "Credit Risk - Impairment Assessment Under IFRS 9" sub-section of the "Risk Governance and Management" section of the MD&A.
- EAD: The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in the "Credit Risk - Impairment Assessment Under IFRS 9" sub-section of the "Risk Governance and Management" section of the MD&A.
- LGD: The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in the "Credit Risk - Impairment Assessment Under IFRS 9" sub-section of the "Risk Governance and Management" section of the MD&A.

When estimating the ECLs, the Company considers three scenarios (base case, favourable and unfavourable). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted mortgages are expected to be recovered, including the probability that the mortgages will cure and the value of collateral or the amount that might be received for selling the asset.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call the instrument earlier.

Mortgage commitments and letters of credit

Undrawn mortgage commitments and letters of credit are commitments under which, over the duration of the commitment, the Company is required to provide a mortgage with pre-specified terms to the borrower. These contracts are in the scope of the ECL requirements.

4. Summary of Significant Accounting Policies (continued)

The nominal contractual value of letters of credit and undrawn mortgage commitments, where the mortgage agreed to be provided is on market terms, are not recorded on in the consolidated balance sheet.

When estimating lifetime ECLs for undrawn mortgage commitments, the Company estimates the expected portion of the mortgage commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the mortgage is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the mortgage. In the case of letters of credit, the ECL is also based on the present value of expected cash flow shortfalls and the other aforementioned parameters, to the extent applicable.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments and, in certain cases, where qualitative thresholds indicate unlikelihood to pay as a result of a credit event. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Significant financial difficulty of the borrower
- Breach of contract, such as a default or past due event
- The granting by the lender, for economic or contractual reasons relating to the borrower's financial difficulty, a concession(s) that the lender(s) would not otherwise consider
- The increased likelihood that the borrower will enter bankruptcy or other financial reorganization
- The origination or acquisition of a financial asset at a deep discount that reflects the incurred credit losses

The combined impact of several events may cause financial assets to become defaulted as opposed to one discrete event. It is the Company's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least twelve consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the assessment of whether the SICR will reverse. The Company has also set probation periods for an asset to return to Stage 1.

Forward looking information

In its ECL models, the Company relies on a broad range of forward looking information as economic inputs, such as:

- House Price Indices
- Foreign exchange rate
- Interest rates
- Market mortgage rates
- Unemployment rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, the Company may make temporary qualitative adjustments or overlays using expert credit judgment when such differences are significantly material. Further information about these inputs and sensitivity analysis are provided in the "Credit Risk - Impairment Assessment Under IFRS 9" sub-section of the "Risk Governance and Management" section of the MD&A.

Modified financial assets

In a case where a borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a mortgage. Modifications may include payment deferrals, extension of amortization periods, rate reductions, principal forgiveness, debt consolidation, forbearance and other modifications intended to minimize the economic loss and to avoid foreclosure, legal action or repossession of collateral. The Company has policies in place to determine the appropriate remediation strategy based on the individual borrower.

If the Company determines that a modification results in an expiry of cash flows, the original financial asset is derecognized while a new asset is recognized based on the new contractual terms. SICR is assessed relative to the risk of default on the date of modification.

4. Summary of Significant Accounting Policies (continued)

If the Company determines that a modification does not result in derecognition, SICR is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For mortgages that have been modified while having a lifetime ECL, the mortgages can revert to having a 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Write-offs

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

Classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (FVPL, available for sale ("AFS"), held-to-maturity and amortized cost) have been replaced as follows:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income ("FVOCI"), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

The Company's classification of its financial assets and liabilities and the quantitative impact of applying IFRS 9 as at January 1, 2018 is disclosed in Note 6.

Measurement categories

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, and they are measured as amortized cost, FVOCI or FVPL.

The Company only measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

4. Summary of Significant Accounting Policies (continued)

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Financial assets at fair value through profit and loss

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Financial assets at FVPL are recorded in the consolidated balance sheets at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income using the EIR, taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rates. Dividend income from equity instruments measured at FVPL is recorded in profit or loss when the right to the payment has been established.

Hedge accounting

The new hedge accounting principles incorporated into IFRS 9 are designed to align hedge accounting more closely with risk management. The Company currently does not have any hedging relationships eligible for hedge accounting under IFRS 9, and therefore the adoption of the hedge accounting rules of IFRS 9 did not have any impact on the Company.

IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15, *Revenue from Contracts with Customers* that established a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects in exchange for transferring goods or services to a customer. The standard does not apply to revenue associated with financial instruments under IFRS 9, therefore it did not impact the majority of the Company's revenue. As a result, the Company has had no material impact on its interim consolidated financial statements from the adoption of IFRS 15.

IFRS 2, Share-based Payment Transactions

The Company adopted amendments to IFRS 2, *Share-based Payment Transactions* that clarified the accounting for the effects on vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The amendments to IFRS 2 have had no impact on the Company's interim consolidated financial statements.

4. Summary of Significant Accounting Policies (continued)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 16, Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 is effective for annual periods beginning on or after January 1, 2019. All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17, *Leases* and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of income. The Company has not yet determined the impact of IFRS 16 on its consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

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

5. Significant Accounting Judgments and Estimates

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Significant accounting judgments

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Significant influence

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

Income taxes

As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends in current and future years to ensure that it is not subject to income taxes in the MIC entity on a non-consolidated basis. Accordingly, the Company does not record a provision for current and deferred taxes within the MIC entity, however provisions are recorded as applicable in all subsidiaries of MCAN.

5. Significant Accounting Judgments and Estimates (continued)

(b) Significant accounting estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that may include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Impairment of financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are model outputs with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's criteria for assessing if there has been a SICR which results in allowances being measured on a lifetime versus 12 month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

Mortgage prepayment rates

In calculating the rate at which borrowers prepay their mortgages, the Company makes estimates based on its historical experience. These assumptions impact the timing of revenue recognition and the amortization of mortgage premiums using the effective interest rate method ("EIM").

Income taxes

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be used in the subsidiaries of the Company. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the subsidiaries of the Company, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

6. Transition to IFRS 9

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS as of January 1, 2018 is as follows:

(a) IFRS 9 transition summary

Financial instrument	Category ⁴	IAS 39 Amount	Remeasurement	IFRS 9 Amount	Category ⁴	Note
<u>Financial assets</u>						
Cash and cash equivalents	L&R	\$ 117,571	\$ -	\$ 117,571	AC	
Marketable securities	AFS	62,518	-	62,518	FVPL	1
Mortgages - corporate	L&R	863,384	(1)	863,383	AC	2
Financial investments	AFS	68,190	-	68,190	FVPL	3
Other loans	L&R	2,612	-	2,612	AC	
Cash held in trust	L&R	13,441	-	13,441	AC	
Mortgages - securitized	L&R	1,016,724	(17)	1,016,707	AC	
Other assets	FVPL	4,239	-	4,239	FVPL	
		<u>\$ 2,148,679</u>	<u>\$ (18)</u>	<u>\$ 2,148,661</u>		
<u>Financial liabilities</u>						
Term deposits	AC	\$ 884,460	\$ -	\$ 884,460	AC	
Financial liabilities from securitization	AC	1,015,699	-	1,015,699	AC	
		<u>\$ 1,900,159</u>	<u>\$ -</u>	<u>\$ 1,900,159</u>		

¹ Marketable securities were reclassified from available for sale under IAS 39 to FVPL under IFRS 9. Marketable securities are considered to be equity instruments and the Company did not elect to carry them at FVOCI, therefore they are carried at FVPL.

² Corporate mortgages had their ECL recalculated and other adjustments made upon the adoption of IFRS 9.

³ Financial investments were reclassified from available for sale under IAS 39 to FVPL under IFRS 9. Financial investments are considered to be equity instruments and the Company did not elect to carry them at FVOCI, therefore they are carried at FVPL.

⁴ Category acronyms are as follows: L&R - loans and receivables; AFS - available for sale; FVPL - fair value through profit and loss; AC - amortized cost.

As an "investment in associate" under IAS 28, the equity investment in MCAP is not directly in the scope of the classification and measurement principles of IFRS 9, which govern financial instruments. Since MCAP's fiscal year end is November 30, MCAP will not officially adopt IFRS 9 until December 1, 2018. However, IAS 28 requires the Company to consistently apply its accounting policies in accounting for investments in associates, and therefore the principles of IFRS 9 (including applicable policy choices by the Company), have been reflected in equity income from MCAP and the carrying value of the equity investment.

(b) Impact of IFRS 9 transition on retained earnings and accumulated other comprehensive income

<u>Retained earnings</u>	
Closing balance under IAS 39, December 31, 2017	\$ 65,365
Recognition of expected credit losses on corporate mortgages	(52)
Recognition of expected credit losses on securitized mortgages	(17)
Other adjustments - corporate mortgages	51
Reclassification of AFS financial investments to FVPL	13,125
Reclassification of AFS marketable securities to FVPL	3,313
Opening balance under IFRS 9, January 1, 2018	<u>\$ 81,785</u>
<u>Accumulated other comprehensive income</u>	
Closing balance under IAS 39, December 31, 2017	\$ 16,438
Reclassification of AFS financial investments to FVPL	(13,125)
Reclassification of AFS marketable securities to FVPL	(3,313)
Opening balance under IFRS 9, January 1, 2018	<u>\$ -</u>

6. Transition to IFRS 9 (continued)

(c) Reconciliation of mortgage allowances under IAS 39 and IFRS 9

	IAS 39	Remeasurement	IFRS 9
Corporate			
Insured single family	\$ -	\$ 2	\$ 2
Uninsured single family	910	(526)	384
Uninsured - completed inventory	220	180	400
Construction - residential	2,536	38	2,574
Construction - non-residential	32	22	54
Commercial - multi family residential	423	184	607
Commercial - other	689	152	841
Corporate total	4,810	52	4,862
Securitized	-	17	17
Total	\$ 4,810	\$ 69	\$ 4,879

7. Marketable Securities

As at	June 30 2018	December 31 2017
Real estate investment trusts	\$ 58,506	\$ 61,973
Corporate bonds	28	545
	\$ 58,534	\$ 62,518

As at June 30, 2018, the marketable securities portfolio included an unrealized gain of \$2,468 (December 31, 2017 - \$3,313). For details of changes in unrealized gains on marketable securities, refer to Note 19.

8. Mortgages - Corporate

(a) Summary

As at June 30, 2018 (IFRS 9)	Gross Principal	Allowance				Net Principal
		Stage 1	Stage 2	Stage 3	Total	
Corporate portfolio:						
Single family mortgages						
- Insured	\$ 125,331	\$ 1	\$ -	\$ -	\$ 1	\$ 125,330
- Uninsured	204,928	803	197	31	1,031	203,897
- Uninsured - completed inventory	9,370	56	-	-	56	9,314
Construction loans						
- Residential	432,503	2,276	372	-	2,648	429,855
- Non-residential	5,532	36	-	-	36	5,496
Commercial loans						
- Multi family residential	74,495	649	16	-	665	73,830
- Other commercial	71,965	545	89	-	634	71,331
	\$ 924,124	\$ 4,366	\$ 674	\$ 31	\$ 5,071	\$ 919,053

8. Mortgages - Corporate (continued)

As at December 31, 2017 (IAS 39)	Gross Principal	Allowance			Net Principal	
		Collective	Individual	Total		
Corporate portfolio:						
Single family mortgages						
- Insured	\$ 80,377	\$ -	\$ -	\$ -	\$ 80,377	
- Uninsured	199,264	848	62	910	198,354	
- Uninsured - completed inventory	51,410	220	-	220	51,190	
Construction loans						
- Residential	389,098	2,536	-	2,536	386,562	
- Non-residential	4,872	32	-	32	4,840	
Commercial loans						
- Multi family residential	65,078	423	-	423	64,655	
- Other commercial	78,095	689	-	689	77,406	
	\$ 868,194	\$ 4,748	\$ 62	\$ 4,810	\$ 863,384	

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

(b) Mortgages by Risk Rating

The table below shows the credit quality of the Company's corporate mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECL allowances are calculated on an impaired or performing basis are set out in Note 4.

The Company's internal risk rating system involves significant judgment and combines multiple factors to arrive at a borrower-specific score to assess the borrower's probability of default and ultimately classify the mortgage into one of the categories listed in the table below. For single family mortgages, these factors include the loan to value ratio, the borrower's ability to service debt, property location and beacon score. For construction, commercial and completed inventory loans, these factors include borrower net worth, project presales, experience with the borrower, project location and loan to value ratio.

As at June 30, 2018	Stage 1		Stage 2		Stage 3		Total
Insured single family							
Insured performing	\$	113,667	\$	8,733	\$	-	\$ 122,400
Arrears		-		991		-	991
Impaired/default		-		-		1,939	1,939
		113,667		9,724		1,939	125,330
Uninsured single family							
Very low risk	\$	30,968	\$	5,082	\$	-	\$ 36,050
Low risk		37,436		6,710		-	44,146
Normal risk		70,434		8,632		-	79,066
Moderate risk		21,774		2,561		-	24,335
High risk		15,276		1,215		-	16,491
Arrears		-		3,517		-	3,517
Impaired/default		-		-		292	292
		175,888		27,717		292	203,897
Uninsured completed inventory							
High risk	\$	4,194	\$	-	\$	-	\$ 4,194
Higher risk		5,120		-		-	5,120
		9,314		-		-	9,314

8. Mortgages - Corporate (continued)

	Stage 1	Stage 2	Stage 3	Total
Construction				
Moderate risk	\$ 41,129	\$ -	\$ -	\$ 41,129
High risk	153,922	764	-	154,686
Higher risk	182,211	37,062	-	219,273
Monitored/Watchlist	-	20,263	-	20,263
	377,262	58,089	-	435,351
Commercial - multi family residential				
Low risk	\$ 18,242	\$ -	\$ -	\$ 18,242
Normal risk	10,043	-	-	10,043
Moderate risk	14,087	-	-	14,087
High risk	5,398	-	-	5,398
Higher risk	23,439	-	-	23,439
Monitored/Watchlist	-	2,621	-	2,621
	71,209	2,621	-	73,830
Commercial - other				
Low risk	\$ 3,078	\$ -	\$ -	\$ 3,078
Normal risk	18,857	-	-	18,857
Moderate risk	11,969	-	-	11,969
High risk	2,699	3,487	-	6,186
Higher risk	23,558	7,683	-	31,241
	60,161	11,170	-	71,331
	\$ 807,501	\$ 109,321	\$ 2,231	\$ 919,053

(c) Geographic Analysis

As at June 30, 2018 (IFRS 9)	Single Family	Construction	Commercial	Total	
Ontario	\$ 208,017	\$ 202,795	\$ 96,526	\$ 507,338	55.2%
Alberta	60,739	27,808	2,621	91,168	9.9%
British Columbia	35,165	200,796	46,014	281,975	30.7%
Quebec	12,073	3,952	-	16,025	1.7%
Atlantic Provinces	13,166	-	-	13,166	1.4%
Other	9,381	-	-	9,381	1.1%
	\$ 338,541	\$ 435,351	\$ 145,161	\$ 919,053	100.0%

As at December 31, 2017 (IAS 39)	Single Family	Construction	Commercial	Total	
Ontario	\$ 207,293	\$ 179,088	\$ 91,323	\$ 477,704	55.3%
Alberta	62,376	34,736	13,905	111,017	12.9%
British Columbia	28,202	177,578	36,833	242,613	28.1%
Quebec	9,357	-	-	9,357	1.1%
Atlantic Provinces	13,681	-	-	13,681	1.6%
Other	9,012	-	-	9,012	1.0%
	\$ 329,921	\$ 391,402	\$ 142,061	\$ 863,384	100.0%

8. Mortgages - Corporate (continued)

(d) Mortgage Allowances

Details of the allowance for credit losses for the current quarter recorded under IFRS 9 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Insured single family				
Allowance, April 1, 2018	\$ 1	\$ -	\$ -	\$ 1
Net remeasurement of allowance	11	-	-	11
Total provision for credit losses	11	-	-	11
Write-offs	(11)	-	-	(11)
Allowance, June 30, 2018	1	-	-	1
Uninsured single family				
Allowance, April 1, 2018	\$ 194	\$ 100	\$ 173	\$ 467
Transfer to stage 1	51	(51)	-	-
Transfer to stage 2	(55)	55	-	-
Transfer to stage 3	-	(31)	31	-
Net remeasurement of allowance	534	133	231	898
New originations or purchases	86	-	-	86
Mortgages derecognized or repaid	(7)	(9)	(172)	(188)
Total provision for credit losses	609	97	90	796
Write-offs	-	-	(232)	(232)
Allowance, June 30, 2018	803	197	31	1,031
Uninsured completed inventory				
Allowance, April 1, 2018	\$ 48	\$ -	\$ -	\$ 48
Net remeasurement of allowance	(34)	-	-	(34)
New originations or purchases	51	-	-	51
Mortgages derecognized or repaid	(9)	-	-	(9)
Total provision for credit losses	8	-	-	8
Allowance, June 30, 2018	56	-	-	56
Construction				
Allowance, April 1, 2018	\$ 2,392	\$ 344	\$ -	\$ 2,736
Transfer to stage 1	(59)	59	-	-
Net remeasurement of allowance	(100)	(18)	-	(118)
New originations or purchases	340	-	-	340
Mortgages derecognized or repaid	(261)	(13)	-	(274)
Total provision for credit losses	(80)	28	-	(52)
Allowance, June 30, 2018	2,312	372	-	2,684
Commercial - multi-family				
Allowance, April 1, 2018	\$ 728	\$ 16	\$ -	\$ 744
Net remeasurement of allowance	(79)	-	-	(79)
Total provision for credit losses	(79)	-	-	(79)
Allowance, June 30, 2018	649	16	-	665

8. Mortgages - Corporate (continued)

	Stage 1	Stage 2	Stage 3	Total
Commercial - other				
Allowance, April 1, 2018	\$ 799	\$ 243	\$ -	\$ 1,042
Transfer to stage 2	(44)	44	-	-
Net remeasurement of allowance	(178)	(77)	-	(255)
Mortgages derecognized or repaid	(32)	(121)	-	(153)
Total provision for credit losses	(254)	(154)	-	(408)
Allowance, June 30, 2018	545	89	-	634
Total				
Allowance, April 1, 2018	\$ 4,162	\$ 703	\$ 173	\$ 5,038
Transfer to stage 1	(8)	8	-	-
Transfer to stage 2	(99)	99	-	-
Transfer to stage 3	-	(31)	31	-
Net remeasurement of allowance	154	38	231	423
New originations or purchases	477	-	-	477
Mortgages derecognized or repaid	(309)	(143)	(172)	(624)
Total provision for credit losses	215	(29)	90	276
Write-offs	(11)	-	(232)	(243)
Allowance, June 30, 2018	\$ 4,366	\$ 674	\$ 31	\$ 5,071

Details of the allowances for mortgage credit losses for the prior year comparative period under IAS 39 are as follows:

For the Quarter Ended June 30, 2017	Collective	Individual	Total
Balance, beginning of quarter	\$ 4,795	\$ 215	\$ 5,010
Provisions	216	78	294
Reversal of provisions	-	(143)	(143)
Write-offs, net	(3)	(104)	(107)
Balance, end of quarter	\$ 5,008	\$ 46	\$ 5,054

(e) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at June 30, 2018 (IFRS 9)	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	\$ 2,022	\$ 1,231	\$ 268	\$ -	\$ 3,521
Single family - insured	493	155	339	-	987
	\$ 2,515	\$ 1,386	\$ 607	\$ -	\$ 4,508
As at December 31, 2017 (IAS 39)	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	\$ 3,303	\$ 225	\$ 688	\$ -	\$ 4,216
Single family - insured	1,296	157	-	569	2,022
	\$ 4,599	\$ 382	\$ 688	\$ 569	\$ 6,238

8. Mortgages - Corporate (continued)

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

As at	June 30, 2018 (IFRS 9)			December 31, 2017 (IAS 39)		
	SF Insured	SF Uninsured	Total	SF Insured	SF Uninsured	Total
Ontario	\$ 169	\$ -	\$ 169	\$ -	\$ 86	\$ 86
Alberta	1,027	195	1,222	32	1,546	1,578
Quebec	338	-	338	526	-	526
Atlantic Provinces	248	-	248	-	64	64
Other	157	97	254	274	-	274
	\$ 1,939	\$ 292	\$ 2,231	\$ 832	\$ 1,696	\$ 2,528

(f) Other Information

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

As at	June 30 2018	December 31 2017
Single family - insured	3.09%	3.22%
Single family - uninsured	4.64%	4.72%
Single family - uninsured completed inventory	5.03%	6.17%
Construction - residential	5.92%	5.58%
Construction - non residential	6.00%	5.25%
Commercial - multi family residential	5.22%	5.11%
Commercial - other	6.70%	7.81%
Total	5.26%	5.36%

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

As at	June 30 2018	December 31 2017
Single family - insured	\$ 39,974	\$ 27,797
Single family - uninsured	20,811	9,535
Single family - uninsured completed inventory	148	1,955
Construction - residential	329,941	246,550
Construction - non residential	2,911	2,720
Commercial - multi family residential	5,822	1,362
Commercial - other	1,003	1,285
Total	\$ 400,610	\$ 291,204

The fair value of the corporate mortgage portfolio as at June 30, 2018 was \$923,109 (December 31, 2017 - \$869,147). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages. For information regarding the maturity dates of the Company's mortgages, refer to Note 25.

As at June 30, 2018, single family insured mortgages included \$73,123 of mortgages that had been securitized through the market MBS program, however the underlying MBS security has been retained by the Company for liquidity purposes (December 31, 2017 - \$28,597).

9. Financial Investments

As at	June 30 2018	December 31 2017
Investment - KingSett High Yield Fund	\$ 41,033	\$ 36,153
Investment - Crown Realty II Limited Partnership	29,158	32,037
	\$ 70,191	\$ 68,190

9. Financial Investments (continued)

The Company holds an 8.0% equity interest in the KingSett High Yield Fund ("KSHYF") (December 31, 2017 - 8.1%). As at June 30, 2018, the Company's total remaining commitment to the KSHYF was \$22,433 (December 31, 2017 - \$26,483), consisting of \$1,433 of capital advances for the Fund (December 31, 2017 - \$5,483) and \$21,000 that supports credit facilities throughout the life of the KSHYF (December 31, 2017 - \$21,000).

The Company holds a 14.1% equity interest (December 31, 2017 - 14.1%) in the Crown Realty II Limited Partnership ("Crown LP"). As at June 30, 2018, the Crown LP investment included an unrealized gain of \$14,266 (December 31, 2017 - \$15,548). For details of changes in unrealized gains on financial investments, refer to Note 19.

During Q2 2018, Crown LP sold the last remaining property in its opportunity fund and paid a distribution of \$5,070 which reduced the carrying value of the investment in Crown LP. The remaining properties held by Crown LP are held in its core fund, which represents commercial office buildings that are expected to provide stable cash flows over a longer term time horizon.

10. Equity Investment in MCAP Commercial LP

As at June 30, 2018, the Company held a 13.83% 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 of the 28.9 million total outstanding MCAP partnership units. MCAN holds a 14.1% voting interest in MCAP through its class A units (December 31, 2017 - 14.7%).

During Q1 2018, MCAN sold 200,000 partnership units in MCAP at a price of \$22.60 per unit, recognizing a gain on sale of \$1,701. The sale reduced MCAN's equity interest in MCAP from 14.41% to 13.83%.

In 2017, MCAN sold 100,000 partnership units in MCAP at a price of \$19.47 per unit, recognizing a gain on sale of \$785. MCAP also issued additional class B units to other partners of MCAP at a price in excess of the carrying value per unit, resulting in a dilution gain of \$91.

For information on the impact of the adoption of IFRS 9 on the equity investment in MCAP, refer to Note 6 to the consolidated financial statements.

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

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Balance, beginning of period	\$ 56,398	\$ 50,416	\$ 59,189	\$ 50,805
Equity income	3,194	3,818	6,633	5,710
Dilution gain	-	-	-	91
Carrying value of portion of investment sold	-	-	(2,820)	(1,163)
Distributions received	(1,638)	(886)	(5,048)	(2,095)
Balance, end of period	\$ 57,954	\$ 53,348	\$ 57,954	\$ 53,348

10. Equity Investment in MCAP Commercial LP (continued)

Selected MCAP financial information is as follows:

As at	May 31 2018	November 30 2017
MCAP's balance sheet:		
Assets	\$ 32,754,578	\$ 29,719,416
Liabilities	32,317,683	29,279,919
Equity	436,895	439,497

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
MCAP revenue and net income:				
Revenue	\$ 133,620	\$ 132,323	\$ 246,418	\$ 239,298
Net income	\$ 23,137	\$ 26,601	\$ 46,830	\$ 38,970

11. Securitization Activities

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. The Company issues MBS through its internal market MBS program and the Canada Housing Trust ("CHT") CMB program.

Market MBS Program

During Q2 2018, MCAN securitized \$46,352 of MBS through the market MBS program (Q2 2017 - \$14,204). MCAN retained the MBS securitized in Q2 2018 on the corporate balance sheet, but in Q2 2017 the MBS was sold to a third party.

Transferred financial assets that are not derecognized in their entirety

MCAN's securitization transactions have generally not met derecognition criteria, such that as at June 30, 2018 MCAN holds securitized mortgages of \$964,507 (December 31, 2017 - \$1,016,724) (Note 12) and financial liabilities from securitization of \$976,769 (December 31, 2017 - \$1,015,699) (Note 15).

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

Certain previous securitization transactions led to the derecognition of the mortgages from MCAN's consolidated balance sheet. MCAN's continuing involvement is the ongoing obligation in its role as MBS issuer to service the mortgages and MBS until maturity. The total outstanding derecognized MBS balance related to the market MBS program and CMB program is not reflected as an asset or liability on MCAN's consolidated balance sheet as at June 30, 2018. The MBS mature as follows:

	2020	2021	2026	Total
June 30, 2018	\$ 101,364	\$ 73,098	\$ 9,560	\$ 184,022
December 31, 2017	\$ 108,990	\$ 73,786	\$ 9,678	\$ 192,454

12. Mortgages - Securitized

(a) Summary

As at June 30, 2018 (IFRS 9)	Gross Principal	Allowance Stage 1	Allowance Stage 2	Total	Net Principal
Single family insured - Market MBS program	\$ 821,814	\$ 7	\$ -	\$ 7	\$ 821,807
Single family insured - CMB program	142,714	4	10	14	142,700
	\$ 964,528	\$ 11	\$ 10	\$ 21	\$ 964,507

12. Mortgages - Securitized (continued)

As at December 31, 2017 (IAS 39)	Gross Principal	Allowance	Net Principal
Single family insured - Market MBS program	\$ 867,406	\$ -	\$ 867,406
Single family insured - CMB program	149,318	-	149,318
	\$ 1,016,724	\$ -	\$ 1,016,724

(b) Mortgages by Risk Rating

The table below shows the credit quality of the Company's securitized mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECL allowances are calculated on an impaired or performing basis are set out in Note 4.

The Company's internal risk rating system combines multiple factors to arrive at a borrower credit score and ultimately classify the mortgage into one of the categories listed in the table below. These factors include the loan to value ratio, the borrower's ability to service debt, property location and beacon score.

As at June 30, 2018	Stage 1	Stage 2	Stage 3	Total
Market MBS program				
Insured performing	\$ 735,092	\$ 73,422	\$ -	\$ 808,514
Arrears	-	11,933	-	11,933
Impaired/default	-	-	1,360	1,360
	<u>735,092</u>	<u>85,355</u>	<u>1,360</u>	<u>821,807</u>
CMB program				
Insured performing	\$ 132,909	\$ 9,105	\$ -	\$ 142,014
Arrears	-	588	-	588
Impaired/default	-	-	98	98
	<u>132,909</u>	<u>9,693</u>	<u>98</u>	<u>142,700</u>
	\$ 868,001	\$ 95,048	\$ 1,458	\$ 964,507

(c) Geographic Analysis

As at	June 30, 2018 (IFRS 9)		December 31, 2017 (IAS 39)	
Ontario	\$ 549,428	57.0%	\$ 576,785	56.7%
Alberta	221,684	23.0%	231,335	22.8%
British Columbia	79,009	8.2%	90,174	8.9%
Quebec	38,337	4.0%	41,449	4.1%
Atlantic Provinces	43,894	4.6%	44,924	4.4%
Other	32,155	3.2%	32,057	3.1%
	\$ 964,507	100.0%	\$ 1,016,724	100.0%

12. Mortgages - Securitized (continued)

(d) Mortgage Allowances

Details of the allowance for credit losses for the current quarter recorded under IFRS 9 are presented in the table below.

	Stage 1		Stage 2		Stage 3		Total
Market MBS program							
Allowance, April 1, 2018	\$	11	\$	-	\$	-	\$ 11
Net remeasurement of allowance		(4)		-		-	(4)
Total provision for credit losses		(4)		-		-	(4)
Allowance, June 30, 2018		7		-		-	7
CMB program							
Allowance, April 1, 2018	\$	7	\$	14	\$	-	\$ 21
Net remeasurement of allowance		(3)		(4)		-	(7)
Total provision for credit losses		(3)		(4)		-	(7)
Allowance, June 30, 2018		4		10		-	14
Total							
Allowance, April 1, 2018	\$	18	\$	14	\$	-	\$ 32
Net remeasurement of allowance		(7)		(4)		-	(11)
Total provision for credit losses		(7)		(4)		-	(11)
Allowance, June 30, 2018	\$	11	\$	10	\$	-	\$ 21

(e) Arrears and Impaired Mortgages

Securitized mortgages past due but not impaired are as follows:

As at June 30, 2018 (IFRS 9)	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS Program	\$ 9,824	\$ 1,374	\$ 737	\$ -	\$ 11,935
Single family - CMB Program	586	-	-	-	586
	\$ 10,410	\$ 1,374	\$ 737	\$ -	\$ 12,521

As at December 31, 2017 (IAS 39)	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS program	\$ 5,207	\$ 1,941	\$ 263	\$ 1,112	\$ 8,523
Single family - CMB program	280	-	-	-	280
	\$ 5,487	\$ 1,941	\$ 263	\$ 1,112	\$ 8,803

Impaired securitized mortgages are as follows:

As at	June 30, 2018 (IFRS 9)			December 31, 2017 (IAS 39)		
	CMB	Market MBS	Total	CMB	Market MBS	Total
Alberta	\$ -	\$ 522	\$ 522	\$ -	\$ -	\$ -
British Columbia	-	351	351	-	-	-
Quebec	-	164	164	-	-	-
Other	98	323	421	-	-	-
	\$ 98	\$ 1,360	\$ 1,458	\$ -	\$ -	\$ -

12. Mortgages - Securitized (continued)

(f) Other Information

Certain capitalized transaction costs are included in mortgages and are amortized using the EIM. As at June 30, 2018, the unamortized capitalized cost balance was \$4,850 (December 31, 2017 - \$6,536). The amortization of these transaction costs incorporates a 12% annual mortgage prepayment rate.

The fair value of the securitized mortgage portfolio as at June 30, 2018 was \$971,670 (December 31, 2017 - \$1,031,154).

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

As at	June 30 2018	December 31 2017
Single family - Market MBS program	2.50%	2.49%
Single family - CMB program	2.21%	2.22%
Total	2.46%	2.45%

13. Term Deposits

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

	Within 3 Months	3 Months to 1 Year	One to three years	Three to five years	Total	Average Rate
June 30, 2018	\$ 52,499	\$ 303,624	\$ 460,146	\$ 95,954	\$ 912,223	2.57%
December 31, 2017	\$ 98,760	\$ 314,574	\$ 318,321	\$ 152,805	\$ 884,460	2.34%

Term deposits are classified as other financial liabilities and are recorded at amortized cost. The estimated fair value of term deposits as at June 30, 2018 was \$911,901 (December 31, 2017 - \$882,553), and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

14. Income Taxes

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

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Income before income taxes	\$ 11,238	\$ 8,937	\$ 21,682	\$ 19,450
Statutory rate of tax	0%	0%	0%	0%
Tax provision (recovery) before the following:	-	-	-	-
Income subject to tax in subsidiaries	113	(1)	(58)	247
	\$ 113	\$ (1)	\$ (58)	\$ 247

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Current tax provision (recovery)	\$ 457	\$ -	\$ 457	\$ -
Deferred tax provision (recovery)				
Financial investment	(215)	(9)	(162)	443
Relating to loss carry forward benefit	(33)	71	(150)	(225)
Other	(96)	(63)	(203)	29
	(344)	(1)	(515)	247
	\$ 113	\$ (1)	\$ (58)	\$ 247

14. Income Taxes (continued)

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

As at	June 30 2018	December 31 2017
Deferred tax asset		
Loss carry forward benefit	\$ 2,208	\$ 2,058
Other	797	614
	\$ 3,005	\$ 2,672
Deferred tax liability		
Financial investments	\$ 3,362	\$ 3,524
Other	28	48
	\$ 3,390	\$ 3,572

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

Deferred taxes recorded in accumulated other comprehensive income relating to financial investments were \$nil in Q2 2018 (Q2 2017 - \$(357)).

The Company has loss carry forward amounts in the non-consolidated MIC entity of \$8,250 (December 31, 2017 - \$11,269), the benefit of which has not been recorded in deferred tax assets. Tax loss carry forwards expire after 20 years, as follows:

2033	\$ 2,508
2034	5,535
2036	207
	\$ 8,250

15. Financial Liabilities from Securitization

As at	Note	June 30 2018	December 31 2017
Financial liabilities - Market MBS program	11	\$ 835,036	\$ 868,244
Financial liabilities - CMB program	11	141,733	147,455
		\$ 976,769	\$ 1,015,699

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

As at	June 30 2018	December 31 2017
Financial liabilities - Market MBS program	1.84%	1.83%
Financial liabilities - CMB program	1.64%	1.64%
	1.81%	1.80%

Financial liabilities from securitization mature as follows:

	2018	2019	2020	2021	2022	2023	Total
June 30, 2018	\$ 91,922	\$ 371,363	\$ 334,816	\$ 86,895	\$ 81,661	\$ 10,112	\$ 976,769
December 31, 2017	\$ 99,020	\$ 397,944	\$ 349,519	\$ 90,813	\$ 78,403	\$ -	\$ 1,015,699

16. Share Capital

	Number of Shares		2018	Number of Shares		2017
Balance, January 1	23,377,785	\$	214,664	23,075,227	\$	210,239
Issued						
Dividend reinvestment plan	181,360		3,153	142,019		2,040
Executive Share Purchase Plan	-		-	6,709		100
Balance, March 31	23,559,145		217,817	23,223,955		212,379
Issued						
Dividend reinvestment plan	92,669		1,639	79,334		1,159
Balance, June 30	23,651,814	\$	219,456	23,303,289	\$	213,538

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

Common shares are issued under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%. The DRIP participation rate for the June 30, 2018 dividend was 19% (June 30, 2017 - 16%).

For details on the Executive Share Purchase Plan, refer to Note 22.

The Company had no potentially dilutive instruments as at June 30, 2018 or December 31, 2017.

17. Dividends

Subsequent to the end of the quarter and before the date that these consolidated financial statements were authorized for issuance, the Board declared a quarterly dividend of \$0.37 per share payable on September 28, 2018 to shareholders of record as of September 14, 2018.

18. Accumulated Other Comprehensive Income

Under IAS 39, accumulated other comprehensive income consisted of unrealized gains and losses on available for sale marketable securities and financial investments. Upon the adoption of IFRS 9 on January 1, 2018, all available for sale assets were reclassified to FVPL, therefore as at this date the accumulated other comprehensive income balance was reclassified to retained earnings.

As at	June 30 2018	December 31 2017
To be reclassified to the income statement in subsequent periods:		
Unrealized gain on available for sale marketable securities	\$ -	\$ 3,313
Unrealized gain on available for sale financial investments	-	15,183
Less: deferred taxes	-	(2,058)
	-	13,125
	\$ -	\$ 16,438

19. Unrealized Gain (Loss) on Financial Instruments

Upon the adoption of IFRS 9 on January 1, 2018, marketable securities and financial investments were reclassified to FVPL, with fair value changes recorded through profit and loss. Under IAS 39, fair value changes were recorded through accumulated other comprehensive income.

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Change in unrealized gain on marketable securities	\$ 1,304	\$ -	\$ 729	\$ -
Change in unrealized gain on financial investments	2,037	-	2,556	-
	\$ 3,341	\$ -	\$ 3,285	\$ -

20. Mortgage Expenses

Corporate Assets

For the Periods Ended June 30	Q2 2018	Q2 2017	YTD 2018	YTD 2017
Mortgage servicing expense	\$ 727	\$ 768	\$ 1,432	\$ 1,497
Letter of credit expense	190	137	336	278
Other mortgage expenses	107	90	207	179
	\$ 1,024	\$ 995	\$ 1,975	\$ 1,954

Letter of credit expense relates to outstanding letters of credit in the Company's credit facility, discussed in Note 24.

Securitization Assets

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

21. Provision for Credit Losses

For the Quarters Ended June 30	Note	Q2 2018	Q2 2017	YTD 2018	YTD 2017
IFRS 9 classifications - corporate					
Stage 1 - provisions on performing	8	\$ 215	n/a	\$ 380	n/a
Stage 2 - provisions on performing	8	(29)	n/a	(69)	n/a
Stage 3 - provisions on impaired	8	90	n/a	154	n/a
		276	n/a	465	-
IAS 39 classifications - corporate					
Collective provisions	8	n/a	\$ 216	n/a	\$ 153
Individual provisions	8	n/a	(65)	n/a	29
Other provisions (recoveries), net		(37)	(105)	(52)	(106)
Corporate provision for credit losses		239	46	413	76
IFRS 9 classifications - securitized					
Stage 1 - provisions on performing	12	(7)	n/a	(4)	n/a
Stage 2 - provisions on performing	12	(4)	n/a	8	n/a
Securitized provision for credit losses		(11)	n/a	4	n/a
		\$ 228	\$ 46	\$ 417	\$ 76

22. Related Party Disclosures

In Q2 2018, the Company entered into related party transactions with MCAP as follows:

- Purchase of corporate services of \$0 (Q2 2017 - \$25)
- Purchase of mortgage origination and administration services of \$861 (Q2 2017 - \$955)
- Received mortgage fees of \$1,158 (Q2 2017 - \$1,293)
- Purchase of \$226 of uninsured single family mortgages (Q2 2017 - \$nil)

In Q2 2017, the Company earned interest income of \$6 on certain construction loans for which the borrower was a close family member of a member of the Board. The loans were contracted at market terms and paid out during Q2 2017.

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

Executive Share Purchase Plan

As at June 30, 2018, \$1,088 of loans were outstanding under the Executive Share Purchase Plan (the "Share Purchase Plan") (December 31, 2017 - \$1,141).

The shares are pledged as security for the loans and had a fair value of \$2,500 as at June 30, 2018 (December 31, 2017 - \$2,554).

22. Related Party Disclosures (continued)

In Q2 2018, MCAN recognized \$12 of interest income (Q2 2017 - \$12) on the Share Purchase Plan loans.

Deferred Share Units Plan

The Deferred Share Units Plan (the “DSU Plan”) had 61,458 units outstanding as at June 30, 2018, all of which had vested (December 31, 2017 - 57,790).

The compensation expense recognized related to the DSU Plan for Q2 2018 was \$44 (Q2 2017 - \$18).

As at June 30, 2018, the accrued DSU Plan liability was \$1,108 (December 31, 2017 - \$1,022).

Restricted Share Units Plan

The Restricted Share Units Plan (the “RSU Plan”) had 46,985 units outstanding as at June 30, 2018, (December 31, 2017 - 40,014) of which no units had vested (December 31, 2017 - nil).

The compensation expense recognized related to the RSU Plan for Q2 2018 was \$98 (Q2 2017 - \$72).

As at June 30, 2018, the accrued RSU Plan liability was \$620 (December 31, 2017 - \$453).

Performance Share Units Plan

As at June 30, 2018, 111,985 units were outstanding (December 31, 2017 - 74,791). As at June 30, 2018, no units had vested (December 31, 2017 - nil).

Compensation expense recognized related to the PSU Plan for Q2 2018 was \$152 (Q2 2017 - \$91).

As at June 30, 2018, the accrued PSU Plan liability was \$772 (December 31, 2017 - \$492).

23. Commitments and Contingencies

The Company’s mortgage funding commitments relate primarily to its corporate residential construction loan portfolio. The commitment as noted below represents the undrawn portion of the authorized loan facility for construction and commercial loans. For single family mortgages, the commitment represents irrevocable offers to clients that the Company is contractually obligated to fund. For further information on mortgage funding commitments, refer to Note 8.

For further details on the commitment associated with the KSHYF investment, refer to Note 9.

The Company also has contractual obligations associated with its premises lease.

	Less than one year	One to three years	Three to five years	Over five years	June 30 2018	December 31 2017
Mortgage funding commitments	\$ 219,088	\$ 181,522	\$ -	\$ -	\$ 400,610	\$ 291,204
Commitment - KSHYF	-	22,433	-	-	22,433	26,483
Operating lease	852	1,761	1,769	3,943	8,325	8,652
	\$ 219,940	\$ 205,716	\$ 1,769	\$ 3,943	\$ 431,368	\$ 326,339

The Company incurred \$273 of operating lease expenses during Q2 2018 (Q2 2017 - \$135), included in general and administrative expenses.

The Company outsources the majority of its mortgage servicing and continues to pay servicing expenses as long as the mortgages remain on its consolidated balance sheet.

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

23. Commitments and Contingencies (continued)

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

24. Credit Facilities

The Company has a \$75,000 demand loan revolver facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.75% (4.20%) as at June 30, 2018 (December 31, 2017 - prime plus 0.75% (3.95%)). The facility has a sub limit of \$50,000 for issued letters of credit, and is due and payable upon demand. As at June 30, 2018, the total facility and letter of credit sub-limit have been increased to \$125,000 and \$60,000, respectively, on a temporary basis. As at June 30, 2018, the outstanding overdraft balance was \$nil (December 31, 2017 - \$nil).

The letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. As at June 30, 2018, there were letters of credit in the amount of \$42,236 issued (December 31, 2017 - \$32,164) and additional letters of credit in the amount of \$26,986 committed but not issued (December 31, 2017 - \$31,521).

The Company has an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, the Company may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing. As at June 30, 2018, the outstanding facility balance was \$nil (December 31, 2017 - \$nil).

25. Interest Rate Sensitivity

As at June 30, 2018	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 years	Over 5 years	Non Interest Sensitive	Total
Assets								
Corporate	\$ 558,064	\$ 61,354	\$ 186,581	\$ 190,817	\$ 56,825	\$ 5,884	\$ 152,553	\$ 1,212,078
Securitization	25,740	41,439	213,012	559,893	150,163	-	3,745	993,992
	583,804	102,793	399,593	750,710	206,988	5,884	156,298	2,206,070
Liabilities								
Corporate	-	52,499	303,624	460,146	95,954	-	10,982	923,205
Securitization	-	15,784	199,804	608,454	152,727	-	-	976,769
	-	68,283	503,428	1,068,600	248,681	-	10,982	1,899,974
Shareholders' Equity	-	-	-	-	-	-	306,096	306,096
GAP	\$ 583,804	\$ 34,510	\$ (103,835)	\$ (317,890)	\$ (41,693)	\$ 5,884	\$ (160,780)	\$ -
YIELD SPREAD	4.57%	2.43%	1.74%	1.14%	0.39%	3.11%		

25. Interest Rate Sensitivity (continued)

As at December 31, 2017	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	\$ 611,563	\$ 31,558	\$ 177,465	\$ 168,748	\$ 25,668	\$ 5,250	\$ 162,119	\$ 1,182,371
Securitization	13,441	677	126,688	720,383	168,976	-	4,239	1,034,404
	625,004	32,235	304,153	889,131	194,644	5,250	166,358	2,216,775
Liabilities								
Corporate	-	98,760	314,574	318,321	152,805	-	19,639	904,099
Securitization	-	-	99,020	747,463	169,216	-	-	1,015,699
	-	98,760	413,594	1,065,784	322,021	-	19,639	1,919,798
Shareholders' Equity	-	-	-	-	-	-	296,977	296,977
GAP	\$ 625,004	\$ (66,525)	\$ (109,441)	\$ (176,653)	\$ (127,377)	\$ 5,250	\$ (150,258)	\$ -
YIELD SPREAD	4.43%	3.16%	2.22%	1.52%	0.42%	2.94%		

Certain construction and commercial mortgages are subject to the greater of a minimum interest rate (ranging between 3.75% and 10%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate as at June 30, 2018, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$nil (December 31, 2017 - \$0), 3 months to 1 year - \$8,230 (December 31, 2017 - \$807) and 1 to 5 years - \$651 (December 31, 2017 - \$0).

An immediate and sustained parallel 1% increase to market interest rates as at June 30, 2018 would have an estimated positive effect of \$5,196 (December 31, 2017 - \$4,253) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates as at June 30, 2018 would have an estimated adverse effect of \$4,209 (December 31, 2017 - \$2,061) to net income over the following twelve month period.

26. Capital Management

The Company's primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk-weighted returns for shareholders. Capital growth is achieved through retained earnings, the DRIP, rights offerings and public share offerings. The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI.

Regulatory Capital

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company's capital. For this purpose, OSFI has imposed minimum capital to risk-weighted asset ratios and a minimum leverage ratio.

For further information on the Company's regulatory capital management, refer to the "Regulatory Capital" sub-section of the "Capital Management" section of the MD&A.

Income Tax Capital

As a MIC under the Tax Act, the Company is limited to an income tax liabilities to capital ratio of 5:1 (or an income tax assets to capital ratio of 6:1), based on the non-consolidated balance sheet in the MIC entity measured at its tax value. For further information on the Company's income tax capital management, refer to the "Income Tax Capital" sub-section of the "Capital Management" section of the MD&A.

27. Financial Instruments

The following tables summarize financial assets reported at fair value and financial assets and liabilities for which fair values are disclosed.

As at June 30, 2018	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Cash and cash equivalents	\$ 96,985	\$ -	\$ -	\$ 96,985	\$ 96,985
Marketable securities	58,506	28	-	58,534	58,534
Financial investments - Crown LP ¹	-	-	29,158	29,158	29,158
Financial investments - KSHYF ²	-	-	41,033	41,033	41,033
Securitization program cash held in trust	25,740	-	-	25,740	25,740
	<u>\$ 181,231</u>	<u>\$ 28</u>	<u>\$ 70,191</u>	<u>\$ 251,450</u>	<u>\$ 251,450</u>
Assets for which fair values are disclosed					
Mortgages - corporate ³	\$ -	\$ -	\$ 923,109	\$ 923,109	\$ 919,053
Other loans ⁴	-	-	2,426	2,426	2,426
Mortgages - securitized ³	-	-	971,670	971,670	964,507
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,897,205</u>	<u>\$ 1,897,205</u>	<u>\$ 1,885,986</u>
Liabilities measured at fair value					
Other liabilities - corporate ⁵	\$ -	\$ -	\$ 7,135	\$ 7,135	\$ 7,135
Liabilities for which fair values are disclosed					
Term deposits ⁶	\$ -	\$ -	\$ 911,901	\$ 911,901	\$ 912,223
Financial liabilities from securitization ⁷	-	-	970,950	970,950	976,769
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,882,851</u>	<u>\$ 1,882,851</u>	<u>\$ 1,888,992</u>

¹ Fair value of investment is based on the underlying real estate properties determined by the discounted cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.

² Fair value is based on the redemption value of the fund less a credit allowance based on the nature of the underlying mortgages.

³ Corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For variable rate mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as Level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.

⁴ Fair value is assumed to be the carrying value as underlying mortgages and loans are variable rate.

⁵ The carrying value of the asset/liability approximates fair value.

⁶ As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the term deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.

⁷ Fair value of financial liabilities from securitization is determined using current market rates for CMB and MBS.

27. Financial Instruments (continued)

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

¹ Fair value of investment is based on the underlying real estate properties determined by the discounted cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.

² Fair value is based on the redemption value of the fund less a credit allowance based on the nature of the underlying mortgages.

³ Corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For variable rate mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as Level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.

⁴ Fair value is assumed to be the carrying value as underlying mortgages and loans are variable rate.

⁵ The carrying value of the asset/liability approximates fair value.

⁶ As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the term deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.

⁷ Fair value of financial liabilities from securitization is determined using current market rates for CMB and MBS.

The following table shows the continuity of Level 3 financial assets recorded at fair value:

Balance, December 31, 2017	\$ 68,190
Advances	4,515
Repayments	(5,070)
Changes in fair value, recognized in net income	2,556
Balance, June 30, 2018	\$ 70,191

There were no transfers between levels during the quarters ended June 30, 2018 or June 30, 2017.

Risk Management

The types of risks to which the Company is exposed include but are not limited to interest rate, credit, liquidity and market risk. The Company's enterprise risk management framework includes policies, guidelines and procedures, with oversight by senior management and the Board. These policies are developed and implemented by management and reviewed and approved annually by the Board.

The nature of these risks and how they are managed is provided in the Risk Governance and Management section of the MD&A. Certain disclosures required under IFRS 7, *Financial Instruments: Disclosures*, related to the management of credit, interest rate, liquidity and market risks inherent with financial instruments are included in the MD&A. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of these consolidated financial statements.

27. Financial Instruments (continued)

The management of credit risk associated with the Company's assessment of impairment under IFRS 9 is also discussed in the MD&A section noted above.

28. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current year. There was no impact to the financial position or net income as a result of these reclassifications.

DIRECTORS**Verna Cuthbert**

Corporate Director, MCAN Mortgage Corporation
Member of Enterprise Risk Management and Compliance Committee
Director since September 2013

Susan Doré

Corporate Director, MCAN Mortgage Corporation
Member of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2010

Gordon Herridge

Corporate Director, MCAN Mortgage Corporation
Member of Audit Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2018

William Jandrisits

President and Chief Executive Officer, MCAN Mortgage Corporation
Director since August 2010

Loraine McIntosh

Corporate Director, MCAN Mortgage Corporation
Member of Audit Committee
Chair of Enterprise Risk Management and Compliance Committee
Director since May 2017

Gaelen Morphet

Corporate Director, MCAN Mortgage Corporation
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since January 2018

Derek Sutherland

President, Canadazil Capital Inc.
Member of Enterprise Risk Management and Compliance Committee
Director since May 2017

Ian Sutherland

Chair, MCAN Mortgage Corporation
Director since January 1991

Karen Weaver

Corporate Director, MCAN Mortgage Corporation
Chair of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since November 2011

W. Terrence Wright

Counsel, Pitblado LLP
Chair of Conduct Review, Corporate Governance and Human Resources Committee
Director since September 2013

EXECUTIVE OFFICERS**William Jandrisits**

President and Chief Executive Officer

Jeffrey Bouganin

Senior Vice President and Chief Financial Officer

Leonard Zaidener

Vice President, Investments

Robert Horton

Vice President and Chief Risk Officer

Martin Beaudry

Vice President, Single Family Mortgage Operations

Carl Brown

Vice President, Operations
Business Continuity/Disaster Recovery Coordinator

Jeffrey Lum

Vice President, Treasury and Securitization

Sylvia Pinto

Vice President, Chief Compliance Officer & Corporate Secretary

Emily Randle

Vice President, Credit Risk Monitoring and Management

Dipti Patel

Vice President, Operational Effectiveness

Milica Pejic

Vice President and Chief Audit Officer

CORPORATE INFORMATION

Head Office

200 King Street West, Suite 600
Toronto, Ontario M5H 3T4
Tel: 416-572-4880
Tel: 1-855-213-6226 (toll free)
Fax: 416-598-4142
mcanexecutive@mcanmortgage.com

Term Deposits

Tel: 1-800-387-9096 (toll free)
Fax: 1-877-821-0710
termdeposits@mcanmortgage.com

Stock Listing

Toronto Stock Exchange
Symbol: MKP

Corporate Counsel

Goodmans LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1-800-564-6253

Websites

www.mcanmortgage.com
www.xmcmortgage.com

Dividend Reinvestment Plan (DRIP)

For further information regarding MCAN's Dividend Reinvestment Plan, please visit:
www.mcanmortgage.com/investors/dividends.

An Enrolment Form may be obtained at any time upon written request addressed to the Plan Agent, Computershare. Registered Participants may also obtain Enrolment Forms online at www-us.computershare.com/investor/.

Shareholders

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar, Computershare (see left for contact).

Report Copies

This MCAN Mortgage Corporation 2018 Second Quarter Report is available for viewing/printing on our website at www.mcanmortgage.com, and also on SEDAR at www.sedar.com.

To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, or e-mail spinto@mcanmortgage.com.

General Information

For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary (head office details at left) or e-mail mcanexecutive@mcanmortgage.com



