CONSOLIDATED FINANCIAL STATEMENTS 2016
MCAN MORTGAGE CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including the accounting requirements of our regulator, the Office of the Superintendent of Financial Institutions Canada.

The Company's accounting system and related internal controls are designed, and supporting procedures maintained to provide reasonable assurance that the Company's financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

The Office of the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the Trust and Loan Companies Act are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfils its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

William Jandrisits
President and Chief Executive Officer

Jeff Bouganim
Senior Vice President and Chief Financial Officer

Toronto, Canada,
February 23, 2017

Independent auditors' report

To the Shareholders of MCAN Mortgage Corporation

We have audited the accompanying consolidated financial statements of MCAN Mortgage Corporation, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MCAN Mortgage Corporation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants
Licensed Public Accountants

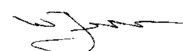
Toronto, Canada
February 24, 2017

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at December 31	Note	2016	2015
Assets			
Corporate Assets			
Cash and cash equivalents	7	$ 111,732	$ 75,762
Marketable securities	8	55,126	40,735
Mortgages	9	904,112	944,109
Financial investments	10	57,264	41,793
Other loans	11	3,584	4,176
Equity investment in MCAP Commercial LP	12	50,805	44,191
Foreclosed real estate	13	529	529
Deferred tax asset	18	1,782	1,125
Other assets	14	3,546	2,626
		1,188,480	**1,155,046**
Securitization Assets			
Cash held in trust	15	15,724	13,112
Mortgages	16	1,071,849	1,075,947
Other assets	14	4,802	2,853
		1,092,375	**1,091,912**
		$ 2,280,855	**$ 2,246,958**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	17	$ 911,866	$ 903,041
Current taxes payable	18	-	100
Deferred tax liabilities	18	3,050	2,299
Other liabilities	19	12,377	12,412
		927,293	**917,852**
Securitization Liabilities			
Financial liabilities from securitization	20	1,071,786	1,070,304
		1,071,786	**1,070,304**
		1,999,079	**1,988,156**
Shareholders' Equity			
Share capital	21	210,239	206,382
Contributed surplus	21	510	510
Retained earnings		55,923	42,617
Accumulated other comprehensive income	23	15,104	9,293
		281,776	**258,802**
		$ 2,280,855	**$ 2,246,958**

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.

On behalf of the Board:



William Jandrisits
President and Chief Executive Officer

Karen Weaver
Director, Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME
(in thousands of Canadian dollars except for per share amounts)

Years Ended December 31	Note	2016	2015
Net Investment Income - Corporate Assets			
Mortgage interest		$ 50,670	$ 50,997
Equity income from MCAP Commercial LP	12	13,509	10,096
Fees	24	2,547	3,231
Marketable securities		3,622	2,076
Financial investments and other loans	10	6,487	3,506
Interest on cash and cash equivalents		604	730
Whole loan gain on sale income	27	324	626
Realized loss on derivatives	28	-	(2,914)
		77,763	**68,348**
Term deposit interest and expenses		22,035	20,671
Mortgage expenses	25	3,993	3,823
Interest on loans payable		244	838
Provision for (recovery of) credit losses	26	(210)	275
		26,062	**25,607**
		51,701	**42,741**
Other Income - Corporate Assets			
Gain on dilution of investment in MCAP Commercial LP	12	-	68
		-	**68**
Net Investment Income - Securitization Assets			
Mortgage interest		28,298	25,564
Other securitization income	6	461	198
		28,759	**25,762**
Interest on financial liabilities from securitization		21,176	19,763
Mortgage expenses	25	1,805	1,461
Fair value adjustment - derivative financial instruments		-	71
		22,981	**21,295**
		5,778	**4,467**
Operating Expenses			
Salaries and benefits		9,406	8,515
General and administrative		8,557	5,993
		17,963	**14,508**
Net Income Before Income Taxes		**39,516**	**32,768**
Provision for (recovery of) income taxes			
Current	18	(100)	-
Deferred	18	(566)	(89)
		(666)	(89)
Net Income		**$ 40,182**	**$ 32,857**
Basic and diluted earnings per share		$ 1.75	$ 1.51
Dividends per share		$ 1.17	$ 1.13
Weighted average number of basic and diluted shares (000's)		22,968	21,830

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
(in thousands of Canadian dollars)

Years Ended December 31	2016	2015
Net income	$ 40,182	$ 32,857
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	3,981	(2,132)
Transfer of gains on sale of marketable securities to net income	(361)	(114)
Change in unrealized gain on available for sale financial investments	6,999	8,466
Transfer of income distribution from available for sale financial investments to net income	(3,181)	(2,509)
Transfer of unrealized gains on available for sale financial investments to net income	(967)	-
Less: deferred taxes	(660)	(791)
	5,811	2,920
Comprehensive income	**$ 45,993**	**$ 35,777**

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

Years Ended December 31	Note	2016	2015
Share capital			
Balance, beginning of period		$ 206,382	$ 183,939
Common shares issued	21	3,857	22,443
Balance, end of period		**210,239**	**206,382**
Contributed surplus			
Balance, beginning of period		510	510
Changes to contributed surplus		-	-
Balance, end of period		**510**	**510**
Retained earnings			
Balance, beginning of period		42,617	34,481
Net income		40,182	32,857
Dividends declared		(26,876)	(24,721)
Balance, end of period		**55,923**	**42,617**
Accumulated other comprehensive income			
Balance, beginning of period		9,293	6,373
Other comprehensive income		5,811	2,920
Balance, end of period		**15,104**	**9,293**
Total shareholders' equity		**$ 281,776**	**$ 258,802**

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
(in thousands of Canadian dollars)

Years Ended December 31	2016	2015
Cash provided by (used for):		
Operating Activities		
Net income	$ 40,182	$ 32,857
Adjustments to determine cash flows relating to operating activities:		
Current taxes	(100)	-
Deferred taxes	(566)	(89)
Equity income from MCAP Commercial LP	(13,509)	(10,096)
Provision for (recovery of) credit losses	(210)	275
Amortization of securitized mortgage and liability transaction costs	5,550	5,403
Amortization of other assets	353	349
Amortization of mortgage discounts	(95)	(246)
Gain on dilution of MCAP Commercial LP	-	(68)
Fair value adjustment - derivative financial instruments	-	71
Changes in operating assets and liabilities:		
Mortgages	39,614	(535,388)
Term deposits	8,825	81,299
Financial liabilities from securitization	517	470,562
Marketable securities	(10,770)	(18,081)
Cash held in trust	(2,612)	3,651
Financial investments	(12,620)	(6,461)
Other loans	592	(2,068)
Other assets	(2,651)	(274)
Other liabilities	(150)	286
Cash flows from operating activities	**52,350**	**21,982**
Investing Activities		
Distributions from MCAP Commercial LP	6,895	4,765
Decrease in foreclosed real estate	-	157
Acquisition of capital and intangible assets	(572)	(735)
Cash flows from investing activities	**6,323**	**4,187**
Financing Activities		
Issue of common shares	3,857	22,443
Dividends paid	(26,560)	(23,940)
Cash flows for financing activities	**(22,703)**	**(1,497)**
Increase in cash and cash equivalents	35,970	24,672
Cash and cash equivalents, beginning of period	75,762	51,090
Cash and cash equivalents, end of period	**$ 111,732**	**$ 75,762**

Supplementary Information		
Interest received	$ 75,969	$ 74,507
Interest paid	40,098	36,911
Distributions received from investments	9,451	5,200

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 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 received by shareholders as capital gains dividends and interest income, respectively.

MCAN's primary wholly owned subsidiary, Xceed Mortgage Corporation ("Xceed"), is an originator of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers. Xceed 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 6.

MCAN is incorporated in Canada. MCAN and Xceed'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 February 24, 2017.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), effective for the Company as at December 31, 2016, as issued by the International Accounting Standards Board ("IASB"), including the accounting guidance of OSFI.

The consolidated financial statements have been prepared on a historical cost basis, except for cash and cash equivalents, marketable securities, foreclosed real estate and certain financial investments designated as available for sale, 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 December 31, 2016.

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 following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements. Certain policies adopted in or relevant to fiscal 2016 and 2015 are also discussed below.

(1) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

(ii) Measurement of financial instruments

All financial instruments are measured initially at their fair value plus, in the case of financial instruments not subsequently recorded at fair value through the consolidated statements of income, directly attributable transaction costs. Subsequent measurement and accounting treatment depends principally on the classification of financial instruments at initial recognition. The classification of an instrument in the measurement categories specified in IFRS depends on a number of factors, including the purpose and management's intention for which the financial instruments were acquired and their contractual characteristics. The Company classifies its financial instruments in the measurement categories noted below:

a. Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading are recorded at fair value. Changes in fair value are recognized in the consolidated statements of income. Interest income or expense is recorded in the consolidated statements of income on the accrual basis.

A financial asset or financial liability is classified as held for trading if:

(a) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;

(b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(c) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

b. Available for sale financial investments

Available for sale investments include marketable securities, an equity investment in commercial real estate and an equity investment in a mortgage fund. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through the consolidated statements of income.

Certain marketable securities are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or in response to changes in the market conditions.

c. Loans and receivables

The loans and receivables category includes mortgages, other loans, non-derivative financial assets and certain financial investments with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company upon initial recognition designates at fair value;
- Those that the Company, upon initial recognition, designates as available for sale; or
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, financial assets classified as loans and receivables are subsequently measured at amortized cost using the effective interest rate method ("EIM"), less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIM. The amortization is included in mortgage interest income or interest on financial investments and other loans in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income.

d. Financial liabilities

After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIM.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs using the EIM. The amortization is included in the related line in the consolidated statements of income. Unamortized premiums and discounts are recognized in the consolidated statements of income upon extinguishment of the liability.

(iii) Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are capitalized and amortized over the expected life of the instrument using the EIM, except for transaction costs which are related to financial assets or financial liabilities classified as held for trading or designated at fair value, which are expensed.

4. Summary of Significant Accounting Policies (continued)

(2) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a qualifying "pass-through" arrangement; and either:
  - the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or
  - the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the financial asset.

When substantially all the risks and rewards of ownership of the financial asset have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer. When substantially all the risks and rewards of ownership of the financial asset have been retained, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received. Certain transaction costs incurred are also capitalized and amortized using the EIM. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. In that case, the Company also recognizes an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

(3) Determination of fair value

Per IFRS 13, *Fair Value Measurement*, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities are classified into three levels, as follows: quoted prices in an active market (Level 1), fair value based on observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Where available, their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. The fair value of certain real estate assets is determined using independent appraisals. Models and valuations are adjusted to reflect counterparty credit and liquidity spread and limitations in the models.

4. Summary of Significant Accounting Policies (continued)

(4) Foreclosed assets held for sale

Foreclosed assets are repossessed non-financial assets where the Company gains title, ownership or possession of individual properties, such as real estate properties, which are managed for sale in an orderly manner with the proceeds, used to reduce or repay any outstanding debt. The Company holds foreclosed properties for sale rather than for its business use.

Held-for-sale foreclosed assets are initially carried at fair value less costs to sell. In subsequent measurements, the asset is carried at the lower of its carrying amount and fair value less the estimated cost to sell at the date of foreclosure. Any difference between the carrying value of the asset before foreclosure and the initially estimated realizable amount of the asset is recorded in the provision for credit losses line in the consolidated statements of income. The Company predominantly relies on third-party appraisals to determine the carrying value of foreclosed assets.

(5) Impairment of financial assets

The Company assesses at each consolidated financial statement date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Impaired mortgages include uninsured mortgages that are more than 90 days in arrears or are less than 90 days in arrears but for which management does not have reasonable assurance that the full amount of principal and interest will be collected in a timely manner. An insured mortgage is considered to be impaired when the mortgage is 365 days past due, whether or not collection is in doubt.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Interest income continues to be accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of the related interest income component. Mortgages, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the provision for credit losses.

4. Summary of Significant Accounting Policies (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("EIR"). If a mortgage has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of estimated future cash flows reflects the projected cash flows less costs to sell.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, risk rating, past-due status and other relevant factors. Risk ratings are mapped to rating agency assessments of corporate bonds. Corporate bond historical default rates are used for an actual historical period similar to the environment at the time of measurement, using factors such as housing starts, unemployment rate, and GDP growth.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available for sale financial investments

For available for sale financial investments, the Company assesses at the consolidated financial statement date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, one of the indications of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income - is removed from other comprehensive income and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded to the related interest income component. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

(6) Offsetting financial instruments

Financial assets and financial liabilities where the Company is considered the principal to the underlying transactions are offset and the net amount reported in the consolidated financial statements if, and only if, the Company currently has an enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

As at December 31, 2016, the Company did not have any outstanding transactions that are subject to netting contracts with third parties.

4. Summary of Significant Accounting Policies (continued)

(7) Taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the consolidated financial statement date.

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 taxes within the MIC entity, however provisions are recorded as applicable in all subsidiaries of MCAN.

Current tax relating to items recognized directly to shareholders' equity is recognized in equity and not in the consolidated statements of income. Management periodically evaluates positions taken in the Company's tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and establishes provisions where appropriate.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the consolidated financial statement date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- In respect of taxable temporary differences associated with investments in subsidiaries or associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used, except in the following instances:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and

- In respect of deductible temporary differences associated with investments in subsidiaries or associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated financial statement date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated financial statement date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated financial statement date.

Deferred tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4. Summary of Significant Accounting Policies (continued)

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 deferred taxes within the MIC entity, however provisions are recorded as applicable in all subsidiaries of MCAN.

(8) Dividends on common shares

Dividends on common shares are deducted from shareholders' equity in the quarter that they are approved. Dividends that are approved after the consolidated financial statement date are not recognized as a liability in the consolidated financial statements but are disclosed as an event after the consolidated financial statement date.

(9) Investment in associate

The Company's investment in its associate, MCAP Commercial LP ("MCAP"), is accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried on the consolidated balance sheets at cost plus post acquisition changes in the Company's share of net assets of the associate.

The consolidated statements of income reflect the Company's proportionate share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this change, when applicable, in the consolidated statements of changes in shareholders' equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The most recent available financial statements of the associate are used by the investor in applying the equity method. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

Where necessary, adjustments are made to harmonize the accounting policies of the associate with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in its associate. The Company determines at each consolidated financial statement date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company then calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statements of income, thus reducing the carrying value by the amount of impairment.

(10) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and that the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

Interest income or expense

For all financial investments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the EIM, which reflects the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account the contractual interest rate, along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts. Interest income or expense is included in the appropriate component of the consolidated statements of income.

4. Summary of Significant Accounting Policies (continued)

(11) Cash and cash equivalents

Cash and cash equivalents (including cash held in trust) on the consolidated balance sheets comprise cash held at banks and short-term deposits with original maturity dates of less than 90 days.

(12) Share-based payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date, further details of which are discussed in Note 29. The obligations are adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statements of income with a corresponding change to other liabilities. The liability is re-measured at fair value at each consolidated financial statement date up to and including the settlement date.

(13) Capital assets and intangible assets

Capital assets and intangible assets are recorded at cost less accumulated amortization. Amortization is recorded at the following rates:

Capital assets

Furniture and fixtures	Five years straight line
Computer hardware	Three to five years straight line
Leasehold improvements	Lease term and one renewal straight line

Intangible assets

Computer software	One year to five years straight line

The amortization expense is included in the general and administrative operating expense category in the consolidated statements of income.

The amortization period and the amortization method for capital assets and intangible assets are reviewed at least at the end of each reporting period.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

(14) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the share are either cancelled or re-issued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transactions costs, is included in equity.

4. Summary of Significant Accounting Policies (continued)

(15) Contingent liabilities

Provisions for legal claims are recognized when the group (a) has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is included in interest expense.

(16) Standards issued but not 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 9, *Financial Instruments*

In July 2014, the IASB issued a final revised IFRS 9 standard, which addresses impairment, classification and measurement, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Project Plan/Implementation
The Company has established an IFRS 9 Committee which includes representatives of finance, risk and other executives. The Committee is responsible for the overall implementation of IFRS 9, ensuring proper integration throughout the Company and providing review and approval of key decisions. The Company continues to analyze the impact of the IFRS 9 changes on its consolidated financial statements and will continue to provide details as the project progresses.

Impairment
IFRS 9 introduces a new expected credit loss ("ECL") impairment model for all financial assets, with the most significant impact on the Company's mortgage portfolio. The new ECL model will result in a collective allowance being recorded on financial assets regardless of whether there has been an actual loss event. The expected credit loss model requires the recognition of 12-month expected credit losses at origination and the recognition of expected lifetime losses on financial assets that have experienced a significant increase in credit risk since origination. IFRS 9 requires consideration of past events, current market conditions and reasonable supportable information about future economic conditions in determining whether there has been a significant increase in credit risk, and in calculating the amount of expected losses. The Company is in the process of developing its IFRS 9 models and it has not yet quantified the impact on the collective allowance.

Classification and Measurement
IFRS 9 requires that debt instruments are classified based on the business model for managing the assets and the contractual cash flow characteristics of the asset. The business model test determines classification based on the business purpose for holding the asset. The Company's debt instruments that have contractual cash flows representing only payments of principal and interest will be eligible for classification as fair value reported through other comprehensive income ("FVOCI") or amortized cost. The Company's equity instruments would generally be measured at FVOCI with unrealized gains and losses recognized in other comprehensive income. The Company is currently analyzing its business models and contractual cash flow characteristics.

Hedge Accounting
IFRS 9 has new hedge accounting principles that are aimed 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 does not expect any impact from the introduction of IFRS 9 hedge accounting rules.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of assessing the impact of IFRS 15 on its consolidated financial statements.

4. Summary of Significant Accounting Policies (continued)

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 income statement. The Company has not yet determined the impact of IFRS 16 on its consolidated financial statements.

IFRS 2, *Share-based Payment Transactions*

In June 2016, the IASB issued amendments to IFRS 2, which clarify how to classify and measure certain types of share-based payment transactions. These amendments are effective for annual periods beginning on or after January 1, 2018 and can be applied prospectively. The Company has not yet determined the impact of IFRS 2 on its 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

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.

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 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.

Impairment losses on mortgages

The Company reviews its individually significant mortgage balances 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 when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors, and actual results may differ, resulting in future changes to the allowance.

Mortgages that have been assessed individually and found not to be impaired and all individually insignificant mortgages are then assessed collectively, in groups of mortgages with similar risk characteristics, to determine whether a provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the mortgage portfolio (such as credit quality, levels of arrears, credit utilization, loan to value ratios, etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices and the performance of different individual groups).

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

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 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.

6. 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") Canada Mortgage Bonds ("CMB") program. In both programs, the Company originates or purchases mortgages for securitization.

Pursuant to the NHA MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. Canada Mortgage and Housing Corporation ("CMHC") makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, the Company has sold MBS as part of the market MBS program and the CMB program, which are discussed below.

Market MBS Program

MCAN originates and purchases insured single family mortgages to sell as MBS as part of the market MBS program. The Company may sell MBS to third parties and may also sell the net economics and cash flows from the underlying mortgages ("interest-only strips") to third parties. The MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing.

During 2016, MCAN pooled and sold $41,728 of MBS to third parties (2015 - $589,148). When the MBS is sold to third parties and the interest-only strip is retained by MCAN, the securitized mortgages remain on MCAN's consolidated balance sheet while a corresponding financial liability from securitization is incurred (Notes 16 and 20), due to the fact that MCAN retains significant continuing involvement with the assets.

During 2015, MCAN sold the interest-only strips associated with $147,219 of mortgages securitized through the market MBS program to third parties. Subsequent to sale, MCAN derecognized the securitized mortgages and associated financial liabilities from securitization from its consolidated balance sheet as a result of the transfer of substantially all risks and rewards of ownership to the purchaser of the interest-only strip. As part of the transaction, MCAN recognized a loan receivable from the third party purchaser (Note 11) and recognized a gain on sale net of unamortized transaction costs, which is included in other securitization income. The Company did not sell any interest-only strips in 2016.

CMB Program

The Company recommenced its participation in the CMB program in 2016 by securitizing both insured single family and insured multi family loans (e.g. loans secured by apartment buildings). The CMB program involves the sale of MBS to CHT who in turn issues a non-amortizing bullet bond to external investors. The CMB program generally includes the reinvestment of mortgage principal repayments by the issuer into certain permitted assets, however the Company has transferred the benefits and obligations associated with the principal reinvestment function to a third party such that it only earns spread income on the amortizing mortgage balance.

During 2016, the Company securitized $100,377 of insured single family mortgages (2015 - $nil). Similar to the market MBS program transaction, the Company did not derecognize the mortgages from its consolidated balance sheet as it retained significant continuing involvement with the assets such that the associated mortgages remained on the consolidated balance sheet while a corresponding liability was incurred. The mortgage interest income and interest on the financial liability from securitization associated with these mortgages are recognized on the accrual basis over the term of the mortgages.

During 2016, the Company securitized $85,526 of insured multi family loans (2015 - $nil). The Company derecognized the mortgages from its consolidated balance sheet as control over the assets was transferred on securitization. In achieving derecognition, the Company recognized upfront gains of $394 (2015 - $nil), which is included in other securitization income, and recognized receivables in the amount of the estimated discounted spread income to be earned over the term of the securitized mortgages.

Other Accounting Considerations

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment (discussed below).

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on MCAN's consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio (Note 33). For income tax purposes, mortgage securitizations by MCAN are considered to be true mortgage sales and therefore are not included in income tax assets (Note 33).

6. Securitization Activities (Continued)

MCAN has capitalized certain mortgage acquisition costs. These costs are amortized using the EIM, which incorporates mortgage prepayment assumptions.

Timely Payment

Consistent with all issuers of MBS, the Company is required to remit scheduled mortgage principal and interest payments to CMHC, even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to CMHC. If the Company fails to make a scheduled principal and interest payment to CMHC, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued.

As part of its participation in the market MBS program and CMB program, the Company is required to fund 100% of any cash shortfall unless it has sold the interest-only strip, in which case the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall.

In the case of mortgage defaults, MCAN is required to make scheduled principal and interest payments to investors as part of the Timely Payment and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

Transferred financial assets that are not derecognized in their entirety

Since MCAN neither transferred nor retained risks and rewards of ownership on sale and retained significant continuing involvement through the provision of the Timely Payment obligation, the majority of the market MBS program and single family CMB program sale transactions have resulted in MCAN continuing to recognize the securitized mortgages and financial liabilities from securitization on its consolidated balance sheet. The securitized mortgage balance as at December 31, 2016 was $1,071,849 (December 31, 2015 - $1,075,947) (Note 16). The financial liabilities from securitization balance as at December 31, 2016 was $1,071,786 (December 31, 2015 - $1,070,304) (Note 20).

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

MCAN sells MBS and the associated interest only strips to third parties and derecognizes the mortgages from its consolidated balance sheet as a result of the transfer of control of the asset or substantially all risks and rewards on sale. The Company'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 as at December 31, 2016 was not reflected as an asset or liability on MCAN's consolidated balance sheet. The MBS mature as follows:

	2016	2017	2020	2021	2026	Total
December 31, 2016	$ -	$ 122,016	$ 132,075	$ 75,142	$ 9,911	$ 339,144
December 31, 2015	$ 29,272	$ 157,741	$ 147,219	$ -	$ -	$ 334,232

7. Cash and Cash Equivalents

Cash and cash equivalents include balances with banks and certain short-term investments with original maturity dates of less than 90 days.

Refer to Note 31 for an analysis of the Company's available credit facilities.

8. Marketable Securities

As at December 31	2016	2015
Real estate investment trusts	$ 53,953	$ 37,958
Corporate bonds	1,173	2,777
	$ 55,126	**$ 40,735**

Marketable securities are designated as available for sale. Corporate bonds mature between 2017 and 2022 while real estate investment trusts have no specific maturity date. Fair values are based on bid prices quoted in active markets (real estate investment trusts) and observable inputs other than quoted prices (corporate bonds), and changes in fair value are recognized in the consolidated statements of comprehensive income.

9. Mortgages - Corporate

(a) Summary

As at December 31, 2016	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 249,296	$ 1,061	$ 170	$ 1,231	$ 248,065
- Insured	108,334	-	-	-	108,334
- Uninsured - completed inventory	18,240	78	-	78	18,162
Construction loans					
- Residential	381,904	2,472	220	2,692	379,212
- Non-residential	7,902	51	-	51	7,851
Commercial loans					
- Uninsured	143,685	1,197	-	1,197	142,488
	$ 909,361	**$ 4,859**	**$ 390**	**$ 5,249**	**$ 904,112**

As at December 31, 2015	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 361,107	$ 1,523	$ 119	$ 1,642	$ 359,465
- Insured	83,619	-	-	-	83,619
- Uninsured - completed inventory	31,415	135	-	135	31,280
Construction loans					
- Residential	352,314	2,286	220	2,506	349,808
- Non-residential	5,632	37	-	37	5,595
Commercial loans					
- Uninsured	115,281	939	-	939	114,342
	$ 949,368	**$ 4,920**	**$ 339**	**$ 5,259**	**$ 944,109**

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

MCAN's corporate mortgage portfolio includes insured and uninsured single family mortgages. The Company does not invest in the United States mortgage market. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Uninsured completed inventory loans are credit facilities extended to developers to provide interim mortgage financing on residential units (condominium or freehold) where all construction has been completed and therefore no further construction risk exists.

Residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating interest rate and terms of one to two years.

9. Mortgages - Corporate (continued)

Commercial loans include commercial term mortgages (e.g. loans secured by apartment buildings) and high ratio mortgage loans (e.g. second mortgages on residential construction projects).

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

As at December 31	2016	2015
Single family - uninsured	4.57%	4.42%
Single family - uninsured completed inventory	5.23%	5.10%
Single family - insured	3.14%	3.52%
Construction - residential	5.16%	5.52%
Construction - non residential	5.41%	5.59%
Commercial	6.35%	7.22%
Total	**4.90%**	**5.12%**

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

As at December 31	2016	2015
Single family - insured	$ 32,139	$ 30,691
Single family - uninsured	3,026	10,396
Single family - uninsured completed inventory	1,229	789
Construction - residential	311,653	259,684
Construction - non-residential	203	1,593
Commercial	15,911	5,089
Total	**$ 364,161**	**$ 308,242**

The fair value of the corporate mortgage portfolio as at December 31, 2016 was $913,016 (December 31, 2015 - $958,772). 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 32.

As at December 31, 2016, single family insured mortgages included $36,606 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, 2015 - $21,250).

(b) Geographic Analysis

As at December 31, 2016	Single Family	Construction	Commercial	Total	
Ontario	$ 241,780	$ 164,649	$ 73,064	$ 479,493	53.0%
Alberta	67,674	90,583	22,587	180,844	20.0%
British Columbia	27,942	108,746	35,899	172,587	19.1%
Quebec	12,272	-	-	12,272	1.4%
Atlantic Provinces	16,719	-	-	16,719	1.8%
Other	8,174	23,085	10,938	42,197	4.7%
	$ 374,561	**$ 387,063**	**$ 142,488**	**$ 904,112**	**100.0%**

As at December 31, 2015	Single Family	Construction	Commercial	Total	
Ontario	$ 307,061	$ 154,006	$ 72,275	$ 533,342	56.5%
Alberta	74,301	76,743	17,991	169,035	17.9%
British Columbia	45,514	104,855	12,430	162,799	17.2%
Quebec	15,575	-	-	15,575	1.6%
Atlantic Provinces	20,151	-	11,500	31,651	3.4%
Other	11,762	19,799	146	31,707	3.4%
	$ 474,364	**$ 355,403**	**$ 114,342**	**$ 944,109**	**100.0%**

9. Mortgages - Corporate (continued)

(c) Mortgage Allowances

Details of the allowances for mortgage credit losses for the current and prior years are as follows:

	Collective	Individual	2016 Total	Collective	Individual	2015 Total
Balance, beginning of year	$ 4,920	$ 339	$ 5,259	$ 4,332	$ 642	$ 4,974
Provisions	(58)	364	306	647	721	1,368
Reversals of provisions	-	(77)	(77)	-	(698)	(698)
Write-offs, net	(3)	(236)	(239)	(59)	(326)	(385)
Balance, end of year	**$ 4,859**	**$ 390**	**$ 5,249**	**$ 4,920**	**$ 339**	**$ 5,259**

(d) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 3,992	$ 1,083	$ 1,044	$ -	$ 6,119
Single family - insured	2,081	76	-	888	3,045
	$ 6,073	**$ 1,159**	**$ 1,044**	**$ 888**	**$ 9,164**

As at December 31, 2015	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 8,132	$ 3,374	$ 1,124	$ -	$ 12,630
Single family - insured	2,269	273	-	1,990	4,532
	$ 10,401	**$ 3,647**	**$ 1,124**	**$ 1,990**	**$ 17,162**

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

	December 31, 2016			December 31, 2015		
As at	SF Insured	SF Uninsured	Total	SF Insured	SF Uninsured	Total
Ontario	$ 129	$ 1,079	$ 1,208	$ 98	$ 873	$ 971
Alberta	623	1,228	1,851	-	322	322
Quebec	366	333	699	364	614	978
Atlantic Provinces	-	119	119	69	143	212
Other	-	-	-	-	244	244
	$ 1,118	**$ 2,759**	**$ 3,877**	**$ 531**	**$ 2,196**	**$ 2,727**

10. Financial Investments

As at December 31	2016	2015
Investment - Crown Realty II Limited Partnership	$ 33,207	$ 31,102
Investment - KingSett High Yield Fund	24,057	10,691
	$ 57,264	**$ 41,793**

The Company holds an investment in Crown Realty II Limited Partnership ("Crown LP"), in which it has a 14.1% equity interest. Crown LP invests primarily in commercial office buildings and classifies them into its core fund, which represents buildings expected to provide stable cash flows over a longer time horizon, and its opportunity fund, which represents buildings with medium-term capital appreciation. Its fair value is driven primarily by independent appraisals of the buildings. As property acquisitions are made by Crown LP, the Company advances its proportionate share to finance the acquisitions.

10. Financial Investments (continued)

During 2016, the Company recorded a $7,242 gross increase in the unrealized gain on the investment (2015 - $8,466), which is recognized in the consolidated statements of comprehensive income net of deferred taxes. Additionally, the Company recognized $4,148 of income from the Crown LP investment in 2016 (2015 - $2,509). The receipt of partnership distributions from Crown LP generates a transfer from accumulated other comprehensive income to net income, where it is reflected in income on financial investments and other loans.

The Company holds an investment in the KingSett High Yield Fund, in which it has a 9% equity interest. The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the fund, the Company advances its proportionate share. The fund pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. The Company's total funding commitment is $63,000, which consists of $42,000 of capital advances for the fund and $21,000 that supports credit facilities. As at December 31, 2016, the Company's unfunded commitment was $38,700 (December 31, 2015 - $25,425).

Both investments noted above are designated as available for sale, with changes in fair value recognized in the consolidated statements of comprehensive income.

11. Other Loans

As at December 31	Note	2016	2015
Loans receivable - Executive Share Purchase Plan	29	$ 1,535	$ 1,559
Loans receivable - other	6	2,049	2,617
		$ 3,584	**$ 4,176**

All other loans are classified as loans and receivables.

12. Equity Investment in MCAP Commercial LP

As at December 31, 2016, the Company held a 14.74% equity interest in MCAP Commercial LP ("MCAP") (December 31, 2015 - 14.70%), consisting of 15.0% of voting class A units (December 31, 2015 - 15.0%), 0% of non-voting class B units (December 31, 2015 - 0%) and 17.0% of non-voting class C units (December 31, 2015 - 17.0%). The equity interest represents 4.3 million units held by MCAN of the 29.2 million total outstanding MCAP partnership units. MCAN holds a 15.0% voting interest in MCAP through its class A units (December 31, 2015 - 15.0%).

Since MCAP's fiscal year end is November 30th, MCAN records equity income from MCAP on a one-month lag. To the extent that MCAP has a material transaction during the one-month lag, MCAN is required to reflect the transaction in the month in which it occurred instead of the subsequent month.

MCAP's head office is located at 200 King Street West, Suite 400, Toronto, Ontario, Canada. Although MCAN's voting interest in MCAP was less than 20% as at December 31, 2016, MCAN uses the equity basis of accounting for the investment as it has significant influence in MCAP per IAS 28, *Investments in Associates and Joint Ventures*, as a result of its entitlement to a position on MCAP's Board of Directors.

12. Equity Investment in MCAP Commercial LP (continued)

Years Ended December 31	2016	2015
Balance, beginning of year	$ 44,191	$ 38,792
Equity income	13,509	10,096
Dilution gain	-	68
Distributions received	(6,895)	(4,765)
Balance, end of year	**$ 50,805**	**$ 44,191**

Selected MCAP financial information is as follows:

As at November 30	2016	2015
MCAP's balance sheet:		
Assets	$ 28,436,501	$ 21,081,191
Liabilities	28,060,296	20,748,503
Equity	376,205	332,688

Years Ended November 30	2016	2015
MCAP revenue and net income:		
Revenue	$ 516,896	$ 470,053
Net income	$ 91,678	$ 68,660

13. Foreclosed Real Estate

The Company holds a real estate investment which is a previously impaired residential construction loan that was foreclosed upon. The investment is carried at the lower of its carrying amount and fair value less estimated costs to sell.

14. Other Assets

As at December 31	2016	2015
Corporate assets:		
Intangible assets, net	$ 1,020	$ 668
Capital assets, net	811	945
Prepaid expenses	778	569
Related party receivable - MCAP	876	21
Receivables	61	219
Other	-	204
	$ 3,546	**$ 2,626**

Other securitization assets, totalling $4,802 as at December 31, 2016 (December 31, 2015 - $2,853), consist of interest-only strips from CMB program multi-family securitizations (Note 6) and prepaid expenses. Other assets are carried at cost.

14. Other Assets (continued)

The capital assets and intangible assets continuity is as follows:

	Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Capital Assets Total	Intangible Assets
Cost					
At January 1, 2015	$ 793	$ 1,554	$ 1,574	$ 3,921	$ 4,386
Additions	23	147	263	433	304
At December 31, 2015	816	1,701	1,837	4,354	4,690
Additions	-	15	-	15	556
At December 31, 2016	**816**	**1,716**	**1,837**	**4,369**	**5,246**
Amortization					
At January 1, 2015	792	1,291	1,171	3,254	3,831
Amortization for the year	3	98	54	155	191
At December 31, 2015	795	1,389	1,225	3,409	4,022
Amortization for the year	5	93	51	149	204
At December 31, 2016	**800**	**1,482**	**1,276**	**3,558**	**4,226**
Net Book Value					
At December 31, 2015	21	312	612	945	668
At December 31, 2016	**$ 16**	**$ 234**	**$ 561**	**$ 811**	**$ 1,020**

15. Cash Held in Trust

Cash held in trust represents securitized mortgage principal collections from borrowers payable to MBS holders. It includes balances with banks and certain short-term investments with original maturity dates of less than 90 days.

16. Mortgages - Securitized

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the market MBS program and CMB program. These mortgages are held as collateral against the related securitization liabilities (Notes 6 and 20).

(a) Summary

As at December 31	2016	2015
Single family insured - Market MBS program	$ 971,548	$ 1,075,947
Single family insured - CMB program	100,301	-
	$ 1,071,849	**$ 1,075,947**

Certain capitalized transaction costs are included in mortgages and are amortized using the EIM. As at December 31, 2016, the unamortized capitalized cost balance was $10,110 (December 31, 2015 - $13,563). The amortization of these transaction costs incorporates a 12% annual mortgage prepayment rate.

All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance. The fair value of the securitized mortgage portfolio as at December 31, 2016 was $1,106,997 (December 31, 2015 - $1,107,168).

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

As at December 31	2016	2015
Single family - Market MBS program	2.50%	2.48%
Single family - CMB program	2.21%	-
Total	**2.47%**	**2.48%**

16. Mortgages - Securitized (continued)

(b) Geographic Analysis

As at	December 31, 2016			December 31, 2015		
Ontario	$	613,036	57.2%	$	589,912	54.8%
Alberta		231,027	21.6%		239,192	22.2%
British Columbia		107,980	10.1%		121,811	11.3%
Quebec		42,715	4.0%		43,960	4.1%
Atlantic Provinces		41,407	3.9%		43,712	4.1%
Other		35,684	3.2%		37,360	3.5%
	$	**1,071,849**	**100.0%**	**$**	**1,075,947**	**100.0%**

Mortgages past due but not impaired are as follows:

As at December 31, 2016	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS Program	$ 6,922	$ 2,948	$ 769	$ 1,398	$ 12,037
Single family - CMB Program	336	649	-	-	985
	$ 7,258	**$ 3,597**	**$ 769**	**$ 1,398**	**$ 13,022**

As at December 31, 2015	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - Market MBS program	$ 10,651	$ 1,849	$ 1,356	$ 505	$ 14,361

Impaired mortgages are as follows:

	December 31, 2016			December 31, 2015		
As at	CMB	Market MBS	Total	CMB	Market MBS	Total
Quebec	$ -	$ 587	$ 587	-	-	-
	$ -	**$ 587**	**$ 587**	**$ -**	**$ -**	**$ -**

17. Term Deposits

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years. The weighted average term deposit interest rate as at December 31, 2016 was 2.21% (December 31, 2015 - 2.26%). The Company's term deposits are eligible for CDIC deposit insurance.

Term deposits mature as follows:

	Within 3 Months	3 Months to 1 Year	One to three years	Three to five years	Total
December 31, 2016	$ 119,472	$ 327,739	$ 336,926	$ 127,729	$ 911,866
December 31, 2015	$ 86,895	$ 489,020	$ 289,175	$ 37,951	$ 903,041

Term deposits are classified as other financial liabilities and are recorded at amortized cost. The estimated fair value of term deposits as at December 31, 2016 was $913,071 (December 31, 2015 - $905,167), and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

18. Income Taxes

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

Years Ended December 31		2016		2015
Income before income taxes	$	39,516	$	32,768
Statutory rate of tax		0%		0%
Tax provision (recovery) before the following:		-		-
Income subject to tax in subsidiaries		(666)		(89)
	$	**(666)**	**$**	**(89)**

Years Ended December 31		2016		2015
Current tax				
Current tax provision	$	(100)	$	-
Deferred tax provision (recovery)				
Financial investment		91		330
Relating to loss carry forward benefit		(568)		(328)
Other		(89)		(91)
	$	**(666)**	**$**	**(89)**

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

As at December 31		2016		2015
Deferred tax asset				
Loss carry forward benefit	$	1,478	$	910
Other		304		215
	$	**1,782**	**$**	**1,125**
Deferred tax liability				
Financial investments	$	3,050	$	2,299
	$	**3,050**	**$**	**2,299**

Deferred taxes recorded in accumulated other comprehensive income relating to financial investments were $660 in 2016 (2015 - $791).

The Company has loss carry forward amounts in the non-consolidated MIC entity of $11,052 (December 31, 2015 - $11,710), the benefit of which has not been recorded to deferred taxes. Tax activity for 2016 has not been reflected in the table below as the Company's 2016 tax position has not yet been finalized. Tax loss carry forwards expire after 20 years, as follows:

2033	$	5,517
2034		5,535
	$	**11,052**

19. Other Liabilities

As at December 31		2016		2015
Accounts payable and accrued charges	$	5,454	$	5,805
Dividends payable		6,923		6,607
	$	**12,377**	**$**	**12,412**

20. Financial Liabilities from Securitization

Financial liabilities from securitization consist of liabilities relating to the Company's participation in the market MBS program and the CMB program.

As at December 31	Note	2016	2015
Financial liabilities - Market MBS program	6	$ 972,263	$ 1,070,304
Financial liabilities - CMB program	6	99,523	-
		$ 1,071,786	**$ 1,070,304**

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

As at December 31	2016	2015
Financial liabilities - Market MBS program	1.84%	1.87%
Financial liabilities - CMB program	1.42%	-
	1.80%	**1.87%**

Financial liabilities from securitization mature as follows:

	2018	2019	2020	2021	Total
December 31, 2016	$ 120,825	$ 468,304	$ 383,134	$ 99,523	$ 1,071,786
December 31, 2015	$ 137,731	$ 504,041	$ 428,532	$ -	$ 1,070,304

21. Share Capital and Contributed Surplus

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

	Number of Shares	2016	Number of Shares	2015
Balance, beginning of year	22,782,433	$ 206,382	20,807,761	$ 183,939
Issued				
Dividend reinvestment plan	280,376	3,680	568,588	7,332
Executive Share Purchase Plan	12,418	177	-	-
Rights offering	-	-	1,406,084	15,111
Balance, end of year	**23,075,227**	**$ 210,239**	**22,782,433**	**$ 206,382**

During 2016, the Company issued 280,376 (2015 - 568,588) shares under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%. The DRIP participation rate for the 2016 fourth quarter dividend was 15% (2015 fourth quarter - 14%).

During 2015, the Company completed a rights offering to its common shareholders. The rights offering raised net proceeds of $15,111 with 1,406,084 new common shares issued.

For details on the Executive Share Purchase Plan, refer to Note 29.

The Company had no potentially dilutive instruments as at December 31, 2016 or December 31, 2015.

Contributed surplus of $510 represents the discount on the repurchase of warrants in 2004.

22. Dividends

Subsequent to the end of the year and before the date that these consolidated financial statements were authorized for issuance, the Board declared a quarterly dividend of $0.30 per share payable on March 30, 2017 to shareholders of record as of March 15, 2017.

23. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains and losses on available for sale marketable securities and financial investments.

As at December 31	2016	2015
To be reclassified to the income statement in subsequent periods:		
Unrealized gain (loss) on available for sale marketable securities	$ 1,049	$ (2,571)
Unrealized gain on available for sale financial investments	16,526	13,675
Less: deferred taxes	(2,471)	(1,811)
	14,055	11,864
	$ 15,104	**$ 9,293**

24. Fees

Fees include extension, renewal and letter of credit fees earned on the Company's corporate mortgage portfolio.

25. Mortgage Expenses

Corporate Assets

Years Ended December 31	2016	2015
Mortgage servicing expense	$ 3,109	$ 3,016
Letter of credit expense	605	623
Other mortgage expenses	279	184
	$ 3,993	**$ 3,823**

Letter of credit expense relates to outstanding letters of credit in the Company's credit facility, discussed in Note 31.

Securitization Assets

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

26. Provision for Credit Losses

Years Ended December 31	Note	2016	2015
Mortgages - collective provisions (recoveries), net	9	$ (58)	$ 647
Mortgages - individual provisions (reversals), net	9	287	23
Other provisions (recoveries), net		(439)	(395)
		$ (210)	**$ 275**

27. Whole Loan Gain on Sale Income

The Company regularly sells mortgages to third party mortgage aggregators on a whole-loan basis with mortgage premiums received at the time of sale. The Company maintains renewal rights on these sales.

During 2016, the Company sold $13,343 of insured mortgages (2015 - $26,215) and recorded a gain on sale of $324 (2015 - $626).

28. Realized Loss on Derivatives

During 2015, the Company incurred net realized losses of $2,914 on interest rate swaps used to hedge interest rate risk on mortgage funding commitments. The Company did not apply hedge accounting. The hedge positions were closed before the end of 2015 such that there was no impact to the consolidated statement of income in 2016.

29. Related Party Disclosures

The consolidated financial statements include the financial statements of the Company and its equity-accounted associate, MCAP. The Company holds a 14.74% equity interest in MCAP (December 31, 2015 - 14.70%), a non-public entity. MCAP's principal activities include the origination and servicing of mortgages. The Company holds one of six seats on MCAP's Board of Directors.

Transactions between the Company and its subsidiaries meet the definition of related party transactions. If these transactions are eliminated on consolidation, they are not disclosed as related party transactions.

In 2016, the Company purchased certain corporate services from MCAP in the amount of $144 (2015 - $231) and purchased certain mortgage origination and administration services from MCAP in the amount of $3,904 (2015 - $3,765). The Company received $3,823 of mortgage fees from MCAP in 2016 (2015 - $4,851). Related party balances with MCAP are reflected in other assets and other liabilities on the consolidated balance sheet where applicable.

In 2015, the Company paid $5,346 in mortgage premiums to MCAP as part of the acquisition of mortgages securitized through the market MBS program.

The Company holds construction loans totalling $638 as at December 31, 2016 for which the borrower is a close family member of a member of the Board (December 31, 2015 - $3,971). In 2016, the Company earned interest income of $110 (2015 - $222) on these loans. The outstanding commitment for future fundings of these loans as at December 31, 2016 was $1,998 (December 31, 2015 - $1,100). The loans were contracted at market terms.

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

Key management personnel of the Company consists of individuals that have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel includes the members of the Board.

The compensation of key management personnel is as follows:

Years Ended December 31	**2016**	**2015**
Short term employee benefits (salaries, benefits and director fees)	$ 3,337	$ 2,630
Share-based payments (DSU, RSU, PSU)	424	60
	$ 3,761	**$ 2,690**

Executive Share Purchase Plan

The Company has an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to senior management for the purpose of purchasing the Company's common shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

Dividend distributions on the common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions; 75% of capital gain distributions. Common shares are issued out of treasury for the Share Purchase Plan at the weighted average trading price for the 20 days preceding such issue.

In 2016, the Company advanced $177 of new loans under the Share Purchase Plan (2015 - $185). As at December 31, 2016, $1,535 of loans were outstanding (December 31, 2015 - $1,559). The loans under the Share Purchase Plan bear interest at prime plus 1% (3.7%) as at December 31, 2016 (December 31, 2015 - prime plus 1% (3.7%) and have a five-year term. The shares are pledged as security for the loans and had a fair value of $2,753 as at December 31, 2016 (December 31, 2015 - $2,469).

In 2016, MCAN recognized $56 of interest income (2015 - $58) on the Share Purchase Plan loans.

29. Related Party Disclosures (continued)

Deferred Share Units Plan

The Company has a Deferred Share Units Plan (the "DSU Plan") whereby the Board granted units under the DSU Plan to the President and Chief Executive Officer (the "DSU Participant"). Each unit is equivalent in value to one common share of the Company. Following his retirement/termination date, the DSU Participant is entitled to receive cash for each unit. The individual unit value is based on the average market value of the Company's common shares for the five days preceding the retirement/termination date. The DSU Participant was initially granted 30,000 units under the DSU Plan and is entitled to receive dividend distributions in the form of additional units. All dividends paid after July 6, 2014 vest immediately such that as at December 31, 2016, all 53,234 units issued had vested (December 31, 2015 - 48,890).

The Company recognizes compensation expenses associated with the DSU Plan over the vesting period. The compensation expense recognized related to the DSU Plan for 2016 was $184 (2015 - recovery of $61). As at December 31, 2016, the accrued DSU Plan liability was $766 (December 31, 2015 - $581).

Restricted Share Units Plan

The Company has a Restricted Share Units Plan (the "RSU Plan") whereby the Board granted units under the RSU Plan to certain members of senior management of the Company (the "RSU Participants"). Each unit is equivalent in value to one common share of the Company. The RSU Participants are entitled to receive cash for each unit three years subsequent to the awarding of the units subject to continued employment with the Company. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years.

During 2016, the RSU Participants were granted 3,808 units under the RSU Plan (2015 - 35,120). Additionally, 9,452 units vested during 2016 (2015 - nil). At the time of vesting, the Company paid the RSU Participants $133 (2015 - $nil).

As at December 31, 2016, 46,785 units were outstanding (December 31, 2015 - 65,802), of which no units had vested (December 31, 2015 - nil).

The Company recognizes compensation recoveries or expenses associated with the RSU Plan over the vesting period. The compensation expense (recovery) recognized related to the RSU Plan for 2016 was $231 (2015 - $152). As at December 31, 2016, the accrued RSU Plan liability was $326 (December 31, 2015 - $229).

Performance Share Units Plan

In 2016, the Company established a Performance Share Units Plan (the "PSU Plan") whereby the Board granted units under the PSU Plan to certain members of senior management of the Company (the "PSU Participants"). Each unit is equivalent in value to one common share of the Company and vests three years subsequent to the awarding of the units subject to continued employment with the Company. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the PSU Participants are entitled to receive dividend distributions in the form of additional units. At the time of vesting, a "Performance Factor" of 0-150% is applied to the number of units awarded which is based on earnings per share and other adjustments in the fiscal year two years subsequent to the grant date.

The units granted under the PSU Plan may be either PSU units or Performance Deferred Share Units ("PDSU" units). Holders of PSU units are paid in cash at the time of vesting. Holders of PDSU units are paid in cash at their retirement/termination date, provided that the units have vested. Additionally, the PDSU units earn dividends subsequent to vesting until the retirement/termination date.

In 2016, the PSU Participants were granted 26,796 units under the PSU Plan (2015 - n/a). As at December 31, 2016, 27,328 units were outstanding (December 31, 2015 - n/a). As at December 31, 2016, no units had vested (December 31, 2015 - n/a).

The Company recognizes compensation recoveries or expenses associated with the PSU Plan over the vesting period. The compensation expense (recovery) recognized related to the PSU Plan for 2016 was $56 (2015 - n/a). As at December 31, 2016, the accrued PSU Plan liability was $56 (December 31, 2015 - n/a).

30. 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 details on the commitment associated with the KingSett High Yield Fund investment, refer to Note 10.

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	December 31 2016	December 31 2015
Mortgage funding commitments	$ 364,161	$ -	$ -	$ -	$ 364,161	$ 308,242
Commitment - KingSett High Yield Fund	-	-	-	38,700	38,700	25,425
Operating lease	575	1,158	1,194	1,642	4,569	5,145
	$ 364,736	**$ 1,158**	**$ 1,194**	**$ 40,342**	**$ 407,430**	**$ 338,812**

The Company incurred $548 of operating lease expenses during 2016 (2015 - $492), 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.

To the best of its knowledge, the Company's management does not expect the outcome of any existing proceedings to have a material effect on the consolidated financial position or results of operations of the Company.

31. Credit Facilities

The Company has a $75,000 line of credit facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.75% (3.45%) as at December 31, 2016 (December 31, 2015 - prime plus 0.75% (3.45%)). The facility has a sub limit of $50,000 for issued letters of credit and $50,000 for overdrafts, and is due and payable upon demand. As at December 31, 2016, the outstanding overdraft balance was $nil (December 31, 2015 - $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 December 31, 2016, there were letters of credit in the amount of $30,537 issued (December 31, 2015 - $35,863) and additional letters of credit in the amount of $26,138 committed but not issued (December 31, 2015 - $22,936).

Subsequent to year end, the Company entered into 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.

32. Interest Rate Sensitivity

Interest rate risk, or sensitivity, is the potential impact of changes in interest rates on financial assets and liabilities. Interest rate risk arises when principal and interest cash flows have mismatched repricing and maturity dates.

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice/mature within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing/maturing. The former provides a positive earnings impact in the event of an increase in interest rates during the time period. Conversely, negative gaps are positively positioned for decreases in interest rates during that particular time period. The determination of the interest rate sensitivity or gap position is based upon the earlier of the repricing or maturity date of each asset and liability, and includes numerous assumptions.

32. Interest Rate Sensitivity (continued)

The interest rate sensitivity analysis is based on the Company's consolidated balance sheets as at December 31, 2016 and December 31, 2015 and does not incorporate mortgage and loan prepayments. The Company currently cannot reasonably estimate the impact of prepayments on its interest rate sensitivity analysis. The analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies.

Floating rate assets and liabilities are immediately sensitive to a change in interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest rate sensitive assets and liabilities are not directly affected by changes in interest rates.

The Company manages interest rate risk by matching the terms of corporate assets and term deposits. To the extent that the two components offset each other, the risks associated with interest rate changes are reduced. The Asset and Liability Management Committee ("ALCO") reviews the Company's interest rate exposure on a monthly basis using interest rate spread and gap analysis as well as interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Risk Committee of the Board each quarter.

The following tables present the assets and liabilities of the Company by interest rate sensitivity. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

As at December 31, 2016	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	$ 492,842	$ 88,766	$ 240,380	$ 146,335	$ 39,973	$ 36,362	$ 143,822	$ 1,188,480
Securitization	-	15,724	-	609,883	461,967	-	4,801	1,092,375
	492,842	104,490	240,380	756,218	501,940	36,362	148,623	2,280,855
Liabilities								
Corporate	-	119,472	327,739	336,926	127,729	-	15,427	927,293
Securitization	-	-	-	589,129	482,657	-	-	1,071,786
	-	119,472	327,739	926,055	610,386	-	15,427	1,999,079
Shareholders' Equity	-	-	-	-	-	-	281,776	281,776
GAP	**$ 492,842**	**$ (14,982)**	**$ (87,359)**	**$ (169,837)**	**$ (108,446)**	**$ 36,362**	**$ (148,580)**	**$ -**
YIELD SPREAD	**4.05%**	**2.45%**	**2.62%**	**1.26%**	**1.00%**	**6.71%**		

As at December 31, 2015	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	$ 341,705	$ 66,107	$ 325,826	$ 252,821	$ 32,992	$ 18,063	$ 117,532	$ 1,155,046
Securitization	-	13,112	-	179,577	896,370	-	2,853	1,091,912
	341,705	79,219	325,826	432,398	929,362	18,063	120,385	2,246,958
Liabilities								
Corporate	-	86,895	489,020	289,175	37,951	-	14,811	917,852
Securitization	-	-	-	137,731	932,573	-	-	1,070,304
	-	86,895	489,020	426,906	970,524	-	14,811	1,988,156
Shareholders' Equity	-	-	-	-	-	-	258,802	258,802
GAP	**$ 341,705**	**$ (7,676)**	**$ (163,194)**	**$ 5,492**	**$ (41,162)**	**$ 18,063**	**$ (153,228)**	**-**
YIELD SPREAD	**4.08%**	**2.42%**	**2.98%**	**1.95%**	**1.02%**	**6.47%**		

32. Interest Rate Sensitivity (continued)

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 3.75% and 9%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate as at December 31, 2016, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $41,304 (December 31, 2015 - $33,005), 3 months to 1 year - $60,947 (December 31, 2015 - $75,877) and 1 to 5 years - $28,973 (December 31, 2015 - $85,065).

An immediate and sustained 1% increase to market interest rates as at December 31, 2016 would have an estimated positive effect of $1,478 (December 31, 2015 - $1,508) to net income over the following twelve month period. An immediate and sustained 1% decrease to market interest rates as at December 31, 2016 would have an estimated adverse effect of $1,835 (December 31, 2015 - $720) to net income over the following twelve month period. An immediate and sustained 1% increase (decrease) to market interest rates as at December 31, 2016 would have an estimated adverse (positive) effect of $9 (December 31, 2015 - $27) on accumulated other comprehensive income.

When calculating the effect of an immediate and sustained 1% change in market interest rates on net investment income, the Company determines which assets and liabilities reprice over the following twelve months and applies a 1% change to their respective yields at the time of repricing to determine the change in net investment income for the duration of the twelve month period.

33. 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. Through its risk management and corporate governance framework, the Company assesses current and projected economic, housing market, interest rate and credit conditions to determine appropriate levels of capital. The Company typically pays out all of its taxable income by way of dividends. Capital growth is achieved through retained earnings, public share offerings, rights offerings and the DRIP. 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 which is calculated on a different basis from the aforementioned MIC leverage ratio.

In order to promote a more resilient banking sector and strengthen global capital standards, the Basel Committee on Banking Supervision (“BCBS”) has issued a revised capital framework, referred to as Basel III. Further details on Basel III are available in the Capital Management section of the Management’s Discussion and Analysis (“MD&A”) or on the Company’s website at www.mcanmortgage.com.

33. Capital Management (continued)

As at December 31	2016	2015
Regulatory Ratios (OSFI)		
Share capital	$ 210,239	$ 206,382
Contributed surplus	510	510
Retained earnings	55,923	42,617
Accumulated other comprehensive income	15,104	9,293
Deduction for equity investment in MCAP (Transitional adjustment) [1]	(13,576)	(7,324)
Common Equity Tier 1, Tier 1 and Total Capital (Transitional)	268,200	251,478
Deduction for equity investment in MCAP (All-in adjustment) [1]	(9,051)	(10,986)
Common Equity Tier 1, Tier 1 and Total Capital (All-in)	$ 259,149	$ 240,492
Total Exposures/Regulatory Assets		
Consolidated assets	$ 2,280,855	$ 2,246,958
Less: deductions from all-in Tier 1 Capital [1]	(22,627)	(18,310)
Other adjustments [2]	1,489	2,229
Total On-Balance Sheet Exposures	2,259,717	2,230,877
Mortgage and investment funding commitments	402,861	333,667
Less: conversion to credit equivalent amount (50%)	(201,431)	(166,834)
Letters of credit	30,537	35,863
Less: conversion to credit equivalent amount (50%)	(15,269)	(17,932)
Off-Balance Sheet Items	216,698	184,764
Total Exposures/Regulatory Assets	$ 2,476,415	$ 2,415,641
Leverage ratio	10.46%	9.96%

[1] 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. In 2016, the deduction on the transitional basis is equal to 60% of the all-in adjustment (2015 - 40%). The adjustment factor will increase by 20% annually over the phase-in period until it is fully deductible by 2018.
[2] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.

As at December 31, 2016 and December 31, 2015, the Company was in compliance with the capital guidelines issued by OSFI under Basel III.

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.

34. Financial Instruments

The majority of the Company's 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.

All financial instruments that are carried at fair value on the consolidated balance sheets (marketable securities and certain financial investments) or for which fair value is disclosed are estimated using valuation techniques based on observable market data such as market interest rates currently charged for similar financial investments to expected maturity dates.

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

As at December 31, 2016	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Cash and cash equivalents	$ 111,732	$ -	$ -	$ 111,732	$ 111,732
Marketable securities	53,953	1,173	-	55,126	55,126
Financial investments - Crown Realty II Limited Partnership [1]	-	-	33,207	33,207	33,207
Financial investments - KingSett High Yield Fund [2]	-	-	24,057	24,057	24,057
Securitization program cash held in trust	15,724	-	-	15,724	15,724
	$ 181,409	$ 1,173	$ 57,264	$ 239,846	$ 239,846
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 913,016	$ 913,016	$ 904,112
Other loans [4]	-	-	3,584	3,584	3,584
Mortgages - securitized [3]	-	-	1,106,997	1,106,997	1,071,849
	$ -	$ -	$ 2,023,597	$ 2,023,597	$ 1,979,545
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 12,377	$ 12,377	$ 12,377
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 913,071	$ 913,071	$ 911,866
Financial liabilities from securitization [7]	-	-	1,086,583	1,086,583	1,071,786
	$ -	$ -	$ 1,999,654	$ 1,999,654	$ 1,983,652

[1] Fair value of investment is based on the underlying real estate properties determined by the discount 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 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.

34. Financial Instruments (continued)

As at December 31, 2015	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Cash and cash equivalents	$ 75,762	$ -	$ -	$ 75,762	$ 75,762
Marketable securities	37,958	2,777	-	40,735	40,735
Financial investments - Crown Realty II Limited Partnership [1]	-	-	31,102	31,102	31,102
Financial investments - KingSett High Yield Fund [2]	-	-	10,691	10,691	10,691
Securitization program cash held in trust	13,112	-	-	13,112	13,112
	$ 126,832	$ 2,777	$ 41,793	$ 171,402	$ 171,402
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 958,772	$ 958,772	$ 944,109
Other loans [4]	-	-	4,176	4,176	4,176
Mortgages - securitized [3]	-	-	1,107,168	1,107,168	1,075,947
	$ -	$ -	$ 2,070,116	$ 2,070,116	$ 2,024,232
Liabilities measured at fair value					
Other liabilities - corporate [5]	$ -	$ -	$ 12,412	$ 12,412	$ 12,412
Liabilities for which fair values are disclosed					
Term deposits [6]	$ -	$ -	$ 905,167	$ 905,167	$ 903,041
Financial liabilities from securitization [7]	-	-	1,103,339	1,103,339	1,070,304
	$ -	$ -	$ 2,008,506	$ 2,008,506	$ 1,973,345

[1] Fair value of investment is based on the underlying real estate properties determined by the discount 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 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, 2015	$ 41,793
Advances	13,611
Repayments	(2,975)
Changes in fair value, recognized in other comprehensive income	4,835
Balance, December 31, 2016	**$ 57,264**

An increase of 0.25% to capitalization rates as at December 31, 2016 would result in a decrease to the fair value of the investment in Crown LP by $1,144 (December 31, 2015 - $1,099). A decrease of 0.25% to capitalization rates as at December 31, 2016 would result in an increase to the fair value of the investment in Crown LP by $1,123 (December 31, 2015 - $1,085).

There were no transfers between levels during the years ended December 31, 2016 or December 31, 2015.

34. Financial Instruments (continued)

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.

35. 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.