



ANNUAL REPORT 2013
MCAN MORTGAGE CORPORATION

DESCRIPTION OF BUSINESS



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

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

Our term deposits are sourced through a network of independent financial agents. As a MIC, we are entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of non-capital gains dividends that we pay to shareholders. Such dividends are received by our shareholders as capital gains dividends and interest income, respectively.

MCAN’s wholly-owned subsidiary, Xceed Mortgage Corporation (“Xceed”), focuses on the origination and sale to third party mortgage aggregators of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers.

TABLE OF CONTENTS

PRESIDENT AND CEO’S MESSAGE TO SHAREHOLDERS	2
MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATIONS	4
CONSOLIDATED FINANCIAL STATEMENTS	54
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	60
DIRECTORS, OFFICERS AND MANAGEMENT	100
CORPORATE INFORMATION.....	101

MESSAGE TO SHAREHOLDERS

We reported net income for the year ended December 31, 2013 of \$30.2 million, an increase of 41% over 2012 net income of \$21.5 million. Earnings per share were \$1.54 per share for the year, up from \$1.22 per share in 2012. Return on average shareholders' equity was 15.79% in 2013 compared to 13.03% in 2012. Taxable income (please refer to the "Non-IFRS Measures" section of the MD&A) was \$0.78 per share in 2013 compared to \$1.17 per share in 2012.

Corporate assets were \$1.02 billion at December 31, 2013, up 7% from \$951 million at December 31, 2012. Mortgage interest income increased by \$9.1 million from the prior year as a result of a \$93 million increase in the average mortgage portfolio (from \$691 million in 2012 to \$784 million in 2013) and an increase in the average mortgage yield from 5.81% in 2012 to 6.40% in 2013.

Corporate mortgage arrears were \$28 million as at December 31, 2013, down from \$39 million as at December 31, 2012. The decrease relates primarily to single family mortgages. Securitized mortgage arrears were \$11 million as at December 31, 2013, down from \$24 million as at December 31, 2012. There were no other assets in arrears at year end. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts.

The net investment income from securitization assets before fair market value adjustments was \$141,000 in 2013 compared to \$2.8 million in 2012. Including fair market value adjustments on derivative financial instruments, there was a net investment loss on securitization assets of \$3.1 million in 2013 compared to a loss of \$5.9 million in 2012. Gross securitization revenues and expenses decreased significantly from 2012 from a substantial decline in average securitization asset and liability balances, which was due to the maturity of \$970 million of CMB-related assets and liabilities during 2013.

As we described in previous quarterly results, we completed a transformational milestone in 2013. On July 4, 2013, we announced the successful completion of the acquisition of Xceed Mortgage Corporation ("Xceed"). We paid consideration of \$51.8 million, consisting of \$30.3 million in cash and 1,531,903 MCAN common shares (valued at \$14.05 per share, for a total of \$21.5 million). Historically, Xceed has focused primarily on originating insured and uninsured residential single family mortgages. Once originated, Xceed would then sell its insured mortgages to third parties earning whole loan gain on sale income or providing on-balance sheet interest income for mortgages held.

Following the close of the transaction, we began to consolidate Xceed's operating results from July 4, 2013 onwards. Our purchase of Xceed occurred at a discount to Xceed's fair value, resulting in a bargain purchase gain of \$2.1 million. In addition, the acquisition enabled us to raise \$21.5 million of new share capital. We incurred \$2.0 million in transaction and restructuring costs relating to the costs of completing the acquisition and consolidation and reduction of certain key employees, which largely offset the bargain purchase gain. As a result of the acquisition, in October we were able to launch a new uninsured single family mortgage product funded by MCAN and originated by Xceed. Xceed also brought \$683 million of renewal rights on insured single family mortgages on which we continue to offer renewals, which provides us with a new source of revenue.

In the fourth quarter, we also announced a significant change to our investment in MCAP Commercial LP ("MCAP"). On November 30, 2013, MCAP issued 5,080,802 new class A units and 3,452,829 new class C units to other partners of MCAP at a cost of \$11.72 per unit, raising \$100 million of new unitholder equity. As a result of the issuance of the new units at a price in excess of the carrying value per unit, we recorded a \$4.5 million gain on the dilution of the investment in MCAP. Subsequent to the issuance of the new class A and class C units, we sold 237,880 class A units to another partner of MCAP at a price of \$11.72 per unit, recognizing a gain on sale of \$736,000. The combination of the two transactions reduced our equity interest in MCAP from 23.4% to 15.7%. Subsequent to year end, we sold 250,000 class C units, reducing our equity interest to 14.8%. Our primary objective in reducing our investment level in MCAP was to minimize capital deductions associated with the investment under new Basel III capital requirements (refer to the "Capital Management" section of the MD&A for additional information).

In the fourth quarter, we also obtained approval from CMHC to commence selling interest-only strips, which represent the residual spread interest earned from insured mortgages that are securitized through the market MBS program (for additional information, refer to the "Securitization Programs" section of the MD&A). This approval enables us to originate or purchase insured mortgages which can then be securitized for an up-front gain on sale that is realized through the derecognition of mortgages from our balance sheet. Previous forms of securitization such as the Canada Mortgage Bonds ("CMB") program or sales through the previous market MBS program were punitive to us, as we were unable to obtain balance sheet derecognition and thus kept the securitized mortgages on our balance sheet. Consequently, insured mortgages resulted in a utilization of available asset room under existing capital standards. The new market MBS securitization program provides for the sale of interest-only strips and subsequent balance sheet derecognition. We expect to be able to meet OSFI's Basel III requirements, both implemented during 2013 and to be phased in through 2019.

Since MCAN is a Mortgage Investment Corporation ("MIC") under the *Income Tax Act* (Canada), we are not subject to corporate taxes as long as we pay out all of our taxable income within 90 days after our year end. Over the years, we have endeavored to pay dividends equal to our taxable income and maximize returns to you as our shareholder. The alternative to paying a dividend is to retain our income, which increases our capital base and the ability for us to leverage our capital into new asset growth. Taxable income is not an IFRS accounting measure (please refer to the "Non-IFRS Measures" section of the MD&A). Taxable income, being the income calculated for tax purposes when we prepare our tax returns, is subject to different timing in the

2013 ANNUAL REPORT / MCAN MORTGAGE CORPORATION

recognition of income compared to income for accounting purposes. As such, we may run into situations as we experienced in 2013, where we generate significant accounting income yet realize much lower taxable income.

One of the causes of timing differences between accounting income and taxable income this year relates to our strategic investment in MCAP. MCAP continued to yield solid results in 2013, as equity income from the investment was \$6.6 million in 2013 compared to \$6.9 million in 2012 (representing our share of MCAP's accounting income).

Our investment in MCAP was \$39 million at December 31, 2013 on an equity-accounted basis compared to \$36 million at December 31, 2012. As a result of the tax treatment of MCAP's securitization activities whereby origination costs are expensed at the time of origination, MCAP's earnings are largely tax deferred. As the revenue earned on mortgages accretes into income, the timing differences associated with income for accounting and tax purposes will reverse over future periods. As a result of these differences, we recognized a tax loss of \$0.4 million from our investment in MCAP in 2013.

Based on most recent projections from MCAP, we expect positive taxable income in future periods. The Board of Directors is confident that our investment in MCAP is strategic and the opportunity to participate in the growth in earnings and appreciation in the enterprise value of MCAP is prudent. We are also currently in the process of evaluating alternative tax structures to hold the MCAP investment more efficiently.

2013 was clearly a transformative year that will benefit MCAN's future strategic direction. We produced strong net income and return on equity in 2013, albeit with lower taxable income. We reached \$1 billion in corporate assets. We acquired Xceed, creating mortgage origination capability through a CMHC-approved lender. We re-entered the MBS market with a significant MBS sale in December. We expect that several of the initiatives executed in 2013 will contribute to future net income and improved taxable income.

The Board of Directors has declared a dividend of \$0.28 per share payable on March 31, 2014 to shareholders of record as at March 17, 2014.



William Jandrisits
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes as at December 31, 2013 and December 31, 2012 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and have been presented in Canadian currency. This MD&A has been prepared as at February 23, 2014.

Additional information regarding MCAN Mortgage Corporation (the "Company", "MCAN" or "we"), including copies of our continuous disclosure materials such as the Annual Information Form, is available on our website at www.mcanmortgage.com or through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This MD&A contains "forward-looking statements" within the meaning of applicable Canadian securities laws. The words "may," "believe," "will," "anticipate," "expect," "planned," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in the MD&A include, among others, statements and assumptions with respect to:

- the current business environment and outlook;
- possible or assumed future results;
- ability to create shareholder value;
- business goals and strategy;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the housing markets;
- sufficiency of our access to capital resources; and
- the timing of the effect of interest rate changes on our cash flows.

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

- global market activity;
- worldwide demand for and related impact on commodity prices;
- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- changes in interest rates;
- mortgage rate and availability changes;
- adverse legislation or regulation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- ability to retain our executive officers and other employees;
- litigation risk;
- relationships with our mortgage originators;
- ability to realize anticipated benefits from the acquisition of Xceed Mortgage Corporation ("Xceed"); and
- additional risks and uncertainties, many of which are beyond our control, referred to in the MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports should be consulted.

TABLE OF CONTENTS - MD&A

SELECTED FINANCIAL INFORMATION	6
HIGHLIGHTS	7
OUTLOOK	8
NON-IFRS MEASURES	8
PERFORMANCE CHARTS	10
RESULTS OF OPERATIONS	11
FINANCIAL POSITION	20
SUMMARY OF FOURTH QUARTER RESULTS	28
SELECTED QUARTERLY FINANCIAL DATA	33
SECURITIZATION PROGRAMS	34
DESCRIPTION OF CAPITAL STRUCTURE	36
DIVIDEND POLICY AND RECORD	37
CONTRACTUAL OBLIGATIONS	37
TRANSACTIONS WITH RELATED PARTIES	37
ACQUISITION OF XCEED	38
CAPITAL MANAGEMENT	40
FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS	42
LIQUIDITY	42
RISK FACTORS	43
RISK GOVERNANCE AND MANAGEMENT	45
PEOPLE	50
REGULATORY COMPLIANCE	50
INTERNAL AUDIT	50
CRITICAL ACCOUNTING POLICIES AND ESTIMATES	51
STANDARDS ISSUED BUT NOT EFFECTIVE	52
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING	52

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)	2013	2012	2011	Change from 2012	
				(\$)	(%)
Operating Results					
Net investment income - corporate assets	\$ 38,956	\$ 31,135	\$ 25,650	\$ 7,821	25.1%
Other income - corporate assets	5,363	-	-	5,363	0.0%
Net investment income - securitization assets before market value adjustment	141	2,778	5,830	(2,637)	(94.9%)
Fair market value adjustment	(3,218)	(8,682)	228	5,464	(62.9%)
Net investment income - securitization assets	<u>(3,077)</u>	<u>(5,904)</u>	<u>6,058</u>	<u>2,827</u>	<u>(47.9%)</u>
Operating expenses	11,290	8,993	6,860	2,297	25.5%
Net income before income taxes	29,952	16,238	24,848	13,714	84.5%
Provision for (recovery of) income taxes	(251)	(5,255)	(2,255)	5,004	(95.2%)
Net income	<u>\$ 30,203</u>	<u>\$ 21,493</u>	<u>\$ 27,103</u>	<u>\$ 8,710</u>	<u>40.5%</u>
Average mortgage portfolio yield - corporate ^{2,3}	5.83%	5.81%	6.53%		0.02%
Term deposit average interest rate ²	2.46%	2.44%	2.36%		0.02%
Average mortgage portfolio yield - securitized ²	3.62%	4.00%	4.23%		(0.38%)
Financial liabilities from securitization - average interest rate ²	3.03%	3.54%	3.66%		(0.51%)
Basic and diluted earnings per share	\$ 1.54	\$ 1.22	\$ 1.68	\$ 0.32	26.2%
Dividends per share	\$ 1.15	\$ 1.42	\$ 1.81	\$ (0.27)	(19.0%)
Taxable income ¹	\$ 15,301	\$ 20,518	\$ 22,879	\$ (5,217)	(25.4%)
Taxable income per share ¹	\$ 0.78	\$ 1.17	\$ 1.42	\$ (0.39)	(33.3%)
Return on average shareholders' equity ¹	15.79%	13.03%	18.52%		2.76%

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

² Refer to "Average Interest Rate" in the "Non-IFRS Measures" section of this MD&A.

³ For the purposes of this table, Xceed mortgages are excluded for the average mortgage portfolio yield. Including Xceed mortgages, the yield was 6.40% (2012 and 2011 - n/a).

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	December 31 2013	December 31 2012	December 31 2011	Change from 2012 (\$) (%)	
Balance Sheet Highlights					
Assets					
Corporate	\$ 1,018,938	\$ 950,686	\$ 753,799	\$ 68,252	7.2%
Securitization	1,073,348	2,035,935	3,140,359	(962,587)	(47.3%)
Total assets	\$ 2,092,286	\$ 2,986,621	\$ 3,894,158	\$ (894,335)	(29.9%)
Mortgages - corporate	\$ 861,613	\$ 739,812	\$ 640,351	\$ 121,801	16.5%
Mortgages - securitized	\$ 592,416	\$ 936,947	\$ 1,499,016	\$ (344,531)	(36.8%)
Liabilities					
Corporate	\$ 824,882	\$ 790,526	\$ 618,277	\$ 34,356	4.3%
Securitization	1,057,008	2,018,314	3,117,416	(961,306)	(47.6%)
Total liabilities	\$ 1,881,890	\$ 2,808,840	\$ 3,735,693	\$ (926,950)	(33.0%)
Shareholders' equity	\$ 210,396	\$ 177,781	\$ 158,465	\$ 32,615	18.3%
Capital Ratios ²					
Tax Assets to Capital Ratio	5.35	5.70	4.91		(6.1%)
Common Equity Tier 1 Capital Ratio (transitional)	20.92%	n/a	n/a		n/a
Common Equity Tier 1 Capital Ratio (all-in)	19.83%	n/a	n/a		n/a
Tier 1 Capital Ratio (transitional)	20.92%	n/a	n/a		n/a
Tier 1 Capital Ratio (all-in) ¹	19.83%	21.74%	22.21%		(1.91%)
Total Capital Ratio (transitional)	20.92%	n/a	n/a		n/a
Total Capital Ratio (all-in) ¹	19.83%	21.84%	22.26%		(2.01%)
Regulatory Assets to Capital ratio (transitional)	5.91	n/a	n/a		n/a
Regulatory Assets to Capital ratio (all-in) ^{1,3}	6.47	5.70	5.21		13.5%
Credit Quality					
Impaired mortgage ratio	0.51%	0.51%	0.67%		-
Total mortgage arrears	\$ 38,456	\$ 63,489	\$ 76,279	\$ (25,033)	(39.4%)
Share Information (end of period)					
Number of common shares outstanding	20,461	18,729	16,862		9.2%
Book value per common share	\$ 10.28	\$ 9.49	\$ 9.40	\$ 0.79	8.3%
Common share price - close	\$ 13.00	\$ 14.01	\$ 13.40	\$ (1.01)	(7.2%)
Market capitalization	\$ 265,993	\$ 262,393	\$ 225,951	\$ 3,600	1.4%

¹ December 31, 2012 and December 31, 2011 amounts are presented using Basel II, which did not have a "transitional" or "all-in" approach applicable under Basel III effective January 1, 2013.

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

³ Mortgages sold through the market MBS program for which derecognition has not been achieved are included as assets in the Regulatory Assets to Capital Ratio.

HIGHLIGHTS

- Net income for the year was \$30.2 million (\$1.54 per share), up 41% from \$21.5 million in the prior year (\$1.22 per share). Our return on equity was 15.79% for the year compared to 13.03% in 2012.
- Corporate assets were \$1.02 billion at December 31, 2013, up 7% from \$951 million at December 31, 2012. 2013 was the first year in which we surpassed the \$1 billion level of corporate assets.
- Impaired corporate mortgages as a percentage of the corporate portfolio were 0.85% at December 31, 2013, down from 1.17% at December 31, 2012. Impaired mortgages as a percentage of total mortgages were 0.51% at December 31, 2013, unchanged from 0.51% at December 31, 2012.
- As at December 31, 2013, we had \$76 million of remaining asset capacity based on our target assets to capital ratio of 5.75, which is measured on a tax basis.
- Total mortgage arrears were \$38 million at December 31, 2013, down from \$63 million at December 31, 2012.
- Our Common Equity Tier 1 risk-weighted assets to capital ratio (for further details, refer to the "Non-IFRS Measures" section of this MD&A) was 20.92% at December 31, 2013 on the transitional basis and 19.83% on the "all-in" basis.

- On July 4, 2013, we completed the acquisition of Xceed. The acquisition resulted in an increase of \$21.5 million to share capital, and in purchasing Xceed at a discount to its fair value we recorded a non-taxable bargain purchase gain of \$2.1 million. In addition, we acquired the renewal rights to \$683 million of insured single family mortgages previously originated and sold by Xceed to third parties.
- We earned \$6.6 million from our equity investment in MCAP Commercial LP ("MCAP") during the year, although we incurred a loss of \$375,000 during the year for tax purposes. We expect the timing difference between accounting and taxable income to reverse over the next 4 years. We also sold a portion of the investment, recognizing a gain of \$736,000, and recognized a dilution gain of \$4.5 million. The carrying value of our equity investment in MCAP was \$39 million at December 31, 2013.
- During the fourth quarter, we gained approval from CMHC to re-commence the sale of interest-only strips associated with the market MBS program. Accordingly, we re-commenced our participation in the market MBS program and sold \$168 million of MBS to a third party.
- Taxable income per share (refer to the "Non-IFRS Measures" section of this MD&A) was \$0.78, down from \$1.17 in the prior year. Although the decrease was primarily due to negative taxable income (refer to the "Non-IFRS Measures" section of the MD&A) from MCAP, we expect to earn future taxable income from our investment in MCAP given the timing differences between income for accounting and tax purposes. For further details, refer to the "Income Taxes" sub-section of the "Results of Operations" section of this MD&A.
- The Board of Directors (the "Board") declared a 2014 first quarter dividend of \$0.28 per share to be paid on March 31, 2014 to shareholders of record as of March 17, 2014.

OUTLOOK

Canada's housing markets remain balanced and current demand and supply fundamentals appear positive for stability in price points and housing sales for the coming year. The reduction in housing demand as a result of regulatory changes has stabilized markets. Development approvals continue to be constrained in several Canadian markets, limiting the supply of single family housing and creating price inflation. Housing markets will benefit from low mortgage rates, stable employment, a stable supply of new and resale listings and reasonable housing affordability within our core lending markets.

We expanded our mortgage lending activities through captive and external origination in 2013. Xceed's origination platform allowed the Company to take advantage of attractive returns available in its single family lending markets in the fourth quarter. We expect to continue to capitalize upon these opportunities with enhanced returns in 2014.

Asset growth has been in line with expectations, however increased competition has resulted in some spread compression within our single family residential mortgage business. In Q4 2013 we successfully completed our first new MBS issuance through the market MBS program since Q3 2012. We expect to continue with new issuances throughout 2014. Our focus will be on single family originations for both our corporate balance sheet and market MBS securitization portfolios throughout 2014. We expect growth within the corporate mortgage portfolio to remain in line with past years at 15 to 20%.

Our corporate asset portfolio continues to generate an acceptable return on capital, which we expect to improve over the next twelve months as we grow the acquired origination and underwriting operations to scale and complete the implementation of further technology enhancements to improve efficiencies. We continue to see good opportunities in our residential construction and mezzanine lending activities which enhance the overall return to our shareholders, while maintaining portfolio diversification within our risk appetite.

Financial results for the second half of 2013 contained several one-time items that contributed to net income. While we expect to see the benefits of the Xceed acquisition in future periods through the realization of mortgages acquired at discounts, mortgage renewals and increased single family origination, the magnitude of gains realized in 2013 may be difficult to repeat.

We will continue to maintain relatively high levels of liquidity to support our lending activities and depositors. We continue to actively solicit new sources of deposits to diversify our network of deposits. As we approach full investment, the portfolio will be adjusted to optimize overall returns on a risk adjusted basis.

NON-IFRS MEASURES

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

Return on Average Shareholders' Equity

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

Taxable Income Measures

We typically pay out all taxable income to shareholders through dividends. Taxable Income Measures include taxable income, estimated taxable income and estimated taxable income per share.

Average Interest Rate

The average interest rate is a profitability measure that presents the average annualized yield of an asset or liability.

Net Interest Income

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

Common Equity Tier 1, Tier 1, Total Capital and Regulatory Assets to Capital Ratios and Risk Weighted Assets

These measures provided in this MD&A are in accordance with guidelines issued by the Office of the Superintendent of Financial Institutions ("OSFI") and are located on Table 31 of this MD&A and Note 35 to the consolidated financial statements.

Income Tax Capital Measures

Income tax assets, income tax liabilities and income tax capital represent MCAN's assets, liabilities and capital as calculated using the provisions of the *Income Tax Act* (Canada) (the "Tax Act") applicable to a mortgage investment corporation ("MIC"). The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts.

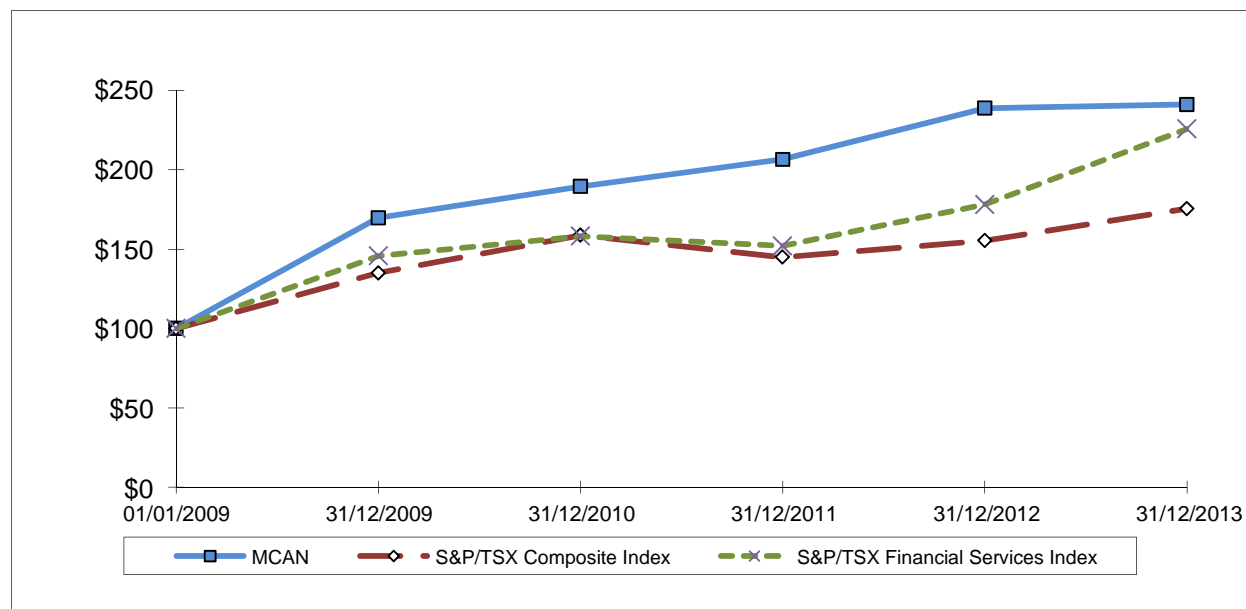
Limited Partner's At-Risk Amount

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

PERFORMANCE CHARTS

The following graph compares MCAN's cumulative total shareholder return (assuming an investment of \$100 on December 31, 2008) on its common shares during the period from January 1, 2009 to December 31, 2013, with the S&P/TSX Composite Index (Total Return) and the S&P/TSX Financial Services Index (Total Return), assuming reinvestment of all dividends.

Figure 1: Shareholder Return



	Jan 1 2009	Dec 31 2009	Dec 31 2010	Dec 31 2011	Dec 31 2012	Dec 31 2013	Compound Annual Growth
MCAN	100	169.79	189.51	206.64	238.89	241.21	19.26%
S&P/TSX Composite Total Return Index	100	135.05	158.83	145	155.42	175.61	11.92%
S&P/TSX Capped Financial Index	100	145.77	158.18	152.1	178.16	225.87	17.70%

Note: Dividends declared on MCAN's common shares are assumed to be reinvested at the closing price on the payment date.

Figure 2: Dividend History

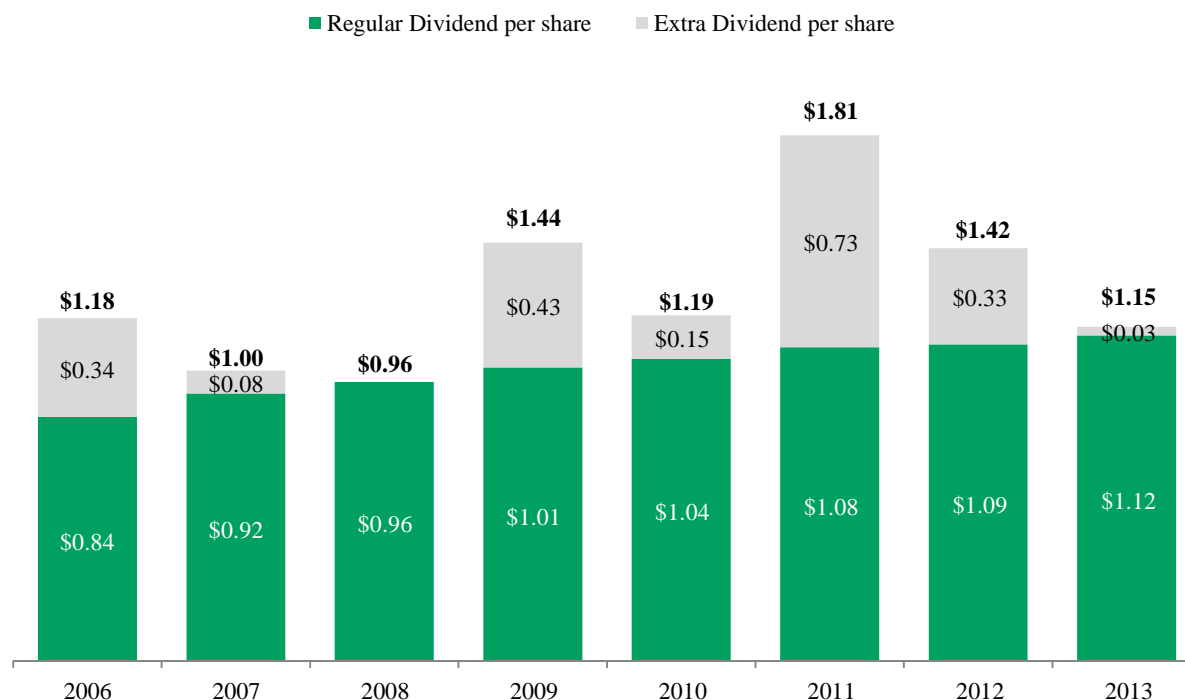


Table 3: Ten Year Financial Summary

(in thousands except per share amounts)

December 31	Net Income	Earnings Per Share	Dividends Per Share	Assets ¹	Shareholders' Equity	Market Capitalization
2013 (IFRS)	\$ 30,203	\$ 1.54	\$ 1.15	\$ 1,018,938	\$ 210,396	\$ 265,993
2012 (IFRS)	21,493	1.22	1.42	950,686	177,781	262,393
2011 (IFRS)	27,103	1.68	1.81	753,799	158,465	225,951
2010 (IFRS)	26,658	1.85	1.19	538,118	125,079	200,249
2009 (CGAAP)	24,742	1.73	1.44	506,683	122,879	194,766
2008 (CGAAP)	30,348	2.14	0.96	570,154	116,609	129,438
2007 (CGAAP)	14,843	1.12	1.00	557,425	103,007	140,416
2006 (CGAAP)	15,211	1.23	1.18	498,107	84,611	141,052
2005 (CGAAP)	14,116	1.18	0.97	434,369	81,164	116,918
2004 (CGAAP)	11,601	1.12	1.11	454,365	74,965	103,374

¹ 2010 - 2013 consist of corporate assets only as reported under IFRS. 2009 and earlier years consist of total assets as reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

RESULTS OF OPERATIONS

Net income was \$30.2 million for the year ended December 31, 2013, up from \$21.5 million in the prior year. Earnings per share were \$1.54 compared to \$1.22 in the prior year. The increase in net income was primarily due to higher mortgage interest income, in addition to a bargain purchase gain recorded on the acquisition of Xceed, significantly higher yields earned on the Xceed mortgage portfolio, a gain on dilution of our equity investment in MCAP, whole loan gains on sale earned in the year and a decrease in the net investment loss from securitization assets. These increases were partially offset by higher operating expenses incurred as part of the acquisition of Xceed and a lower recovery of taxes.

Table 4: Net Income - For the Years Ended December 31

(in thousands)	2013	2012
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 50,509	\$ 41,395
Equity income from MCAP Commercial LP	6,563	6,906
Fees	2,347	2,236
Marketable securities	1,308	2,061
Whole loan gain on sale income	1,738	-
Realized and unrealized gain (loss) on financial instruments	(558)	-
Interest on financial investments and other loans	(62)	1,422
Interest on cash and cash equivalents	887	544
	62,732	54,564
Term deposit interest and expenses	19,163	17,157
Mortgage expenses	3,290	3,070
Interest on loans payable	954	642
Provision for credit losses	369	2,560
	23,776	23,429
	38,956	31,135
Other Income - Corporate Assets		
Bargain purchase gain	2,127	-
Transaction and restructuring expenses	(2,010)	-
Gain on dilution of investment in MCAP Commercial LP	4,510	-
Gain on sale of investment in MCAP Commercial LP	736	-
	5,363	-
Net Investment Income - Securitization Assets		
Mortgage interest	7,365	14,124
Interest on financial investments	1,806	4,763
Interest on short-term investments	1,386	1,547
Other securitization income	3,761	9,655
	14,318	30,089
Interest on financial liabilities from securitization	13,998	26,888
Mortgage expenses	179	423
	14,177	27,311
Net investment income before fair market value adjustment	141	2,778
Fair market value adjustment - derivative financial instruments	(3,218)	(8,682)
	(3,077)	(5,904)
Operating Expenses		
Salaries and benefits	6,036	3,953
General and administrative	5,254	5,040
	11,290	8,993
Net Income Before Income Taxes	29,952	16,238
Provision for (recovery of) income taxes	(251)	(5,255)
Net Income	\$ 30,203	\$ 21,493
Basic and diluted earnings per share	\$ 1.54	\$ 1.22
Taxable income per share ¹	\$ 0.78	\$ 1.17
Dividends per share	\$ 1.15	\$ 1.42

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

Certain items in the table above have been reclassified from prior years and quarters.

Net Investment Income - Corporate Assets

Mortgage interest income increased by \$9.1 million from the prior year as a result of a \$93 million increase in the average mortgage portfolio (from \$691 million in 2012 to \$784 million in 2013) and an increase in the average mortgage yield from 5.81% in 2012 to 6.40% in 2013. The increase in the average mortgage yield is a result of the higher effective interest rates on the mortgages acquired as part of the acquisition of Xceed. Excluding the mortgages acquired from Xceed, the average mortgage yield increased from 5.81% to 5.83%. Given the short duration of the mortgages acquired from Xceed, we expect the corporate mortgage yield to return to historical levels by mid-2014. Mortgage interest income also includes \$948,000 of realized discount income from MCAN's acquired mortgage portfolios compared to \$1.2 million in 2012. For additional details, refer to Table 7 of this MD&A.

Equity income from our investment in MCAP remained strong at \$6.6 million in 2013, down slightly from \$6.9 million in 2012. MCAP's assets under administration, origination and securitization volumes increased in the current year, while it also reversed a significant provision. However, these increases were offset by lower MBS spreads in the current year and a one-time gain earned in the prior year.

Fees, consisting primarily of extension, renewal and letter of credit fees earned on the corporate mortgage portfolio, increased by \$111,000 from the prior year as a result of a larger average mortgage portfolio.

Marketable securities income decreased by \$753,000 from the prior year, primarily due to less trading activity in the portfolio in the current year. In addition, the average portfolio balance decreased slightly from the prior year.

Whole loan gain on sale income includes a \$1.3 million gain on the sale of the remaining balance of the acquired mortgage portfolio, on which we had previously recognized discount income (included in mortgage interest income), during the fourth quarter of 2013. In addition, we recognized \$281,000 of gains from sales of insured mortgages to third party mortgage aggregators.

The realized and unrealized loss on financial instruments of \$558,000 represents the gain/loss associated with hedging of mortgage funding commitments to mitigate interest rate risk. To the extent that the related mortgages are sold, offsetting gains or losses are recognized in the period that the mortgages are sold.

We incurred a loss of \$62,000 on financial investments and other loans in the current year, primarily due to a write-off related to a financial investment. The decrease from the prior year income of \$1.4 million was a result of a lower average balance in the current year and a \$493,000 income distribution received from a commercial real estate investment in the prior year.

Term deposit interest and expenses increased by \$2.0 million from the prior year, primarily due to a \$91 million increase in the average term deposit balance from \$660 million in 2012 to \$751 million in 2013. In addition, the average term deposit rate increased from 2.44% in 2012 to 2.46% in 2013.

Mortgage expenses, consisting primarily of mortgage servicing fees, increased by \$220,000 from the prior year as a result of a larger average mortgage portfolio.

Interest on loans payable increased by \$312,000 from 2012 as we increased the use of our credit facilities in the fourth quarter to facilitate the re-commencement of our participation in the market mortgage-backed securities ("MBS") program (refer to the "Securitization Programs" section of this MD&A).

Details of the provision for credit losses are discussed in the "Credit Quality" section of this MD&A.

Other Income - Corporate Assets

As part of the acquisition of Xceed, we recognized a bargain purchase gain of \$2.1 million, representing the excess of the fair value of the net assets acquired over the consideration paid. We also incurred \$2.0 million of transaction and restructuring expenses as part of the acquisition. These include lease termination expense, severance expenses and legal and professional consulting fees. For further details, refer to the "Acquisition of Xceed" section of this MD&A.

During the fourth quarter of 2013, we recorded a \$4.5 million gain on the dilution of our equity investment in MCAP and a \$736,000 gain on the partial sale of the investment. For additional information, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to MCAN's participation in the Canada Mortgage Bonds ("CMB") program and the market MBS program. For further details, refer to the "Securitization Programs" section of this MD&A. As existing CMB issuances continue to mature, we expect securitization revenues and expenses to decrease as the related mortgages, reinvestment assets and liabilities are removed from our balance sheet.

The net investment income from securitization assets before fair market value adjustments was \$141,000 in 2013 compared to \$2.8 million in 2012. Including fair market value adjustments on derivative financial instruments, there was a net investment loss on securitization assets of \$3.1 million in 2013 compared to a loss of \$5.9 million in 2012. Gross securitization revenues and expenses decreased significantly from 2012 due to a substantial decline in average securitization asset and liability balances, which was due to the maturity of \$970 million of CMB-related assets and liabilities during 2013.

Securitized mortgage interest income decreased by \$6.8 million from the prior year, primarily due to a \$499 million decrease in the average mortgage portfolio from 2012 as a result of the aforementioned maturity of CMB-related assets. In addition, the average mortgage yield decreased from 4.00% in 2012 to 3.62% in 2013 as older higher-yielding mortgage portfolios matured during the year. As the mortgages securitized through the CMB program repay, we reinvest the collected principal in certain permitted investments, which include financial investments and short-term investments. Since we do not currently plan to participate in new CMB issuances in the near future, we expect CMB-related securitized mortgage interest income to continue to decrease as the mortgages repay and reinvestment income to decrease as CMB issuances continue to mature.

Interest on financial investments decreased by \$3.0 million from 2012 and interest on short-term investments decreased by \$161,000, both as a result of a decrease in the average portfolios from the aforementioned maturity of CMB-related assets.

Other securitization income was \$3.8 million in 2013 compared to \$9.7 million in 2012, consisting primarily of interest rate swap receipts of \$3.4 million (2012 - \$7.4 million). As part of the CMB program, we enter into "pay floating, receive fixed" interest rate swaps to hedge interest rate risk. In the prior year, we also earned \$1.3 million of refinancing and renewal gains and \$978,000 from the sale of MBS, compared to \$385,000 and \$nil, respectively, in the current year.

Interest on financial liabilities from securitization decreased by \$12.9 million from the prior year, primarily due to a significantly lower average balance as a result of the maturity of \$970 million of CMB-related financial liabilities from securitization during 2013. In addition, the average interest rate decreased to 3.03% in 2013 from 3.54% in 2012.

The negative fair market value adjustment to derivative financial instruments of \$3.2 million (2012 - \$8.7 million) relates to the CMB interest rate swaps. The unrealized portion of this fair market value adjustment can be volatile as it is driven by changes in the forward interest rate curve. From an economic perspective, this adjustment is generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. We regularly monitor our interest rate swap hedge position to minimize our exposure to interest rate risk. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statement of income, which can cause significant volatility to net income since there is no offset to the fair market value adjustment to derivative financial instruments.

Our existing financial liabilities from securitization mature as follows: 2014 - \$847 million (CMB program), 2015 - \$41 million (CMB program), 2018 - \$168 million (market MBS program).

Net Interest Income

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

Table 5: Net Interest Income - For the Year Ended December 31, 2013

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 101,726	\$ -	\$ 101,726	\$ 887	\$ -	\$ 887	0.87%	-
Short-term investments	-	487,257	487,257	-	1,386	1,386	-	0.88%
Marketable securities	20,811	-	20,811	1,308	-	1,308	5.02%	-
Mortgages - corporate	784,216	-	784,216	50,509	-	50,509	6.40%	-
Mortgages - securitized	-	696,328	696,328	-	7,365	7,365	-	3.62%
Financial investments	23,364	458,737	482,101	(122)	1,806	1,684	5.08%	1.73%
Other loans	2,468	-	2,468	60	-	60	2.43%	-
Total on interest earning assets	932,585	1,642,322	2,574,907	52,642	10,557	63,199	5.77%	2.16%
Other assets	26,835	3,576	30,411	-	-	-	-	-
Total assets	\$ 959,420	\$ 1,645,898	\$ 2,605,318	\$ 52,642	\$ 10,557	\$ 63,199	5.60%	2.15%
Liabilities and shareholders' equity								
Term deposits	\$ 751,251	\$ -	\$ 751,251	\$ 19,163	\$ -	\$ 19,163	2.46%	-
Financial liabilities from securitization	-	1,628,440	1,628,440	-	13,998	13,998	-	3.03%
Loans payable	22,673	-	22,673	954	-	954	3.39%	-
Other liabilities	7,423	4,288	11,711	-	-	-	-	-
Shareholders' equity	-	-	191,243	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 781,347	\$ 1,632,728	\$ 2,605,318	\$ 20,117	\$ 13,998	\$ 34,115	2.50%	3.03%
Net Interest Income ²				\$ 32,525	\$ (3,441)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits								3.94%

¹ The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

² Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, other securitization income, mortgage expenses, provision for credit losses and fair market adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items are immaterial for the year ended December 31, 2013. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

The corporate mortgage yield as presented above is higher than usual as a result of the higher effective interest rates on the mortgages acquired from Xceed. Given the short duration of these mortgages, we expect the corporate mortgage yield to return to historical levels by mid-2014.

The income/expenses associated with the securitized assets and liabilities in the tables above represents MCAN's 32% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, the net loss from securitization assets before negative fair market value adjustments was reduced as a result of the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$3.4 million for the year ended December 31, 2013.

Table 6: Net Interest Income - For the Year Ended December 31, 2012

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 67,779	\$ -	\$ 67,779	\$ 544	\$ -	\$ 544	0.80%	-
Short-term investments	-	582,187	582,187	-	1,547	1,547	-	0.89%
Marketable securities	24,523	-	24,523	2,061	-	2,061	4.56%	-
Mortgages - corporate	690,931	-	690,931	41,395	-	41,395	5.81%	-
Mortgages - securitized	-	1,195,262	1,195,262	-	14,124	14,124	-	4.00%
Financial investments	21,457	1,063,934	1,085,391	1,309	4,763	6,072	6.90%	1.77%
Other loans	3,496	-	3,496	113	-	113	3.23%	-
Total on interest earning assets	808,186	2,841,383	3,649,569	45,422	20,434	65,856	5.69%	2.56%
Other assets	26,658	10,605	37,263	-	-	-	-	-
Total assets	\$ 834,844	\$ 2,851,988	\$ 3,686,832	\$ 45,422	\$ 20,434	\$ 65,856	5.50%	2.52%
Liabilities and shareholders' equity								
Term deposits	\$ 660,180	\$ -	\$ 660,180	\$ 17,157	\$ -	\$ 17,157	2.44%	-
Financial liabilities from securitization	-	2,824,402	2,824,402	-	26,888	26,888	-	3.54%
Loans payable	19,885	-	19,885	642	-	-	4.00%	-
Other liabilities	11,862	5,597	17,459	-	-	-	-	-
Shareholders' equity	-	-	164,906	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 691,927	\$ 2,829,999	\$ 3,686,832	\$ 17,799	\$ 26,888	\$ 44,045	2.50%	3.54%
Net Interest Income ²				\$ 27,623	\$ (6,454)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							3.37%	

¹ The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

² Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, other securitization income, mortgage expenses, provision for credit losses and fair market adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items are immaterial for the year ended December 31, 2012. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

The income/expenses associated with the securitized assets and liabilities in the tables above represents MCAN's 30% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, net interest income from securitization assets before negative fair market value adjustments was positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$7.4 million for the year ended December 31, 2012.

Table 7: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Years Ended December 31 (in thousands except %)	2013			2012		
	Average Assets	Interest Income	Average Rate ¹	Average Assets	Interest Income	Average Rate ¹
Single family	\$ 336,870	\$ 23,193	6.61%	\$ 345,049	\$ 21,509	5.74%
Construction and single family uninsured completed inventory loans	372,252	21,659	6.00%	280,039	15,826	6.05%
Commercial	75,094	5,657	7.40%	65,843	4,060	5.96%
Average mortgages - corporate portfolio	\$ 784,216	\$ 50,509	6.40%	\$ 690,931	\$ 41,395	5.81%

¹ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as arrears interest and prior period adjustments are excluded from the calculation of the average rate. Non-recurring items are immaterial for the years ended December 31, 2013 and December 31, 2012. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of the MD&A.

The single family yield and overall yield include mortgages acquired from Xceed. The respective yields excluding these mortgages were 5.22% (2012 - n/a) and 5.83% (2012 - n/a).

Credit Quality

Table 8: Provisions for Credit Losses and Write-offs

For the Years Ended December 31	2013	2012
(in thousands except basis points)		
Individual provision (recovery)		
Single family uninsured	\$ 674	\$ 195
Residential construction	-	300
Commercial uninsured	-	58
	\$ 674	\$ 553
Collective provision (recovery)		
Single family uninsured	\$ 270	\$ 185
Construction	523	583
Commercial	114	359
Corporate mortgages - total	907	1,127
Financial investments and other loans	(9)	(20)
Other provisions (recoveries)	(1,203)	900
	\$ (305)	\$ 2,007
Total provision for (recovery of) credit losses	\$ 369	\$ 2,560
Corporate mortgage portfolio data:		
Provision for (recovery of) credit losses	\$ 1,581	\$ 1,680
Net write offs	\$ 665	\$ 1,323
Net write offs (basis points)	8.5	19.1

The allowance for credit losses reduces the carrying value of mortgages to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the mortgages and the overall economic environment. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The collective allowance represents losses that we believe have been incurred but not yet specifically identified, and is calculated at each balance sheet date. Collective allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current period, and there could be a need to increase or decrease the allowance for credit losses.

During the first quarter of 2012, we recorded a \$900,000 increase to an allowance relating to our pro-rata share of estimated losses pursuant to a construction loan securitization program indemnity. As at December 31, 2012, the allowance was \$1.1 million. During the first quarter of 2013, we purchased the other investor's interest in the underlying loans at a discount,

including the impaired residential construction loan with which the allowance was associated. We reversed the existing liability upon purchase and established an individual mortgage allowance for the same amount, which was reduced to \$550,000 later in the year. Subsequent to purchase, the impaired residential construction loan was reclassified as an uninsured single family mortgage (completed inventory) as a result of the completion of the individual housing units on the property.

Other recoveries includes amortization of \$103,000 relating to the \$1.6 million reserve set up at the time of the acquisition of Xceed, relating to Xceed's off balance sheet securitized mortgage portfolio. This reserve is expected to be incurred over the remaining duration of the portfolio. For further details refer to the "Acquisition of Xceed" section of this MD&A.

During the first quarter of 2013, we foreclosed on an impaired residential construction loan with a carrying value of \$1.8 million (net of a \$300,000 individual allowance). The realization of the previously recorded individual allowance was recognized as a mortgage write-off upon foreclosure. During the first quarter of 2012, MCAN and another participant lender foreclosed on an impaired residential construction loan with a carrying value of \$6.8 million (net of a \$1 million individual allowance). The realization of the previously recorded individual allowance was recognized as a mortgage write-off upon foreclosure.

The balance of write-offs in both years relate to uninsured single family mortgages.

Corporate mortgage arrears and impaired mortgages were \$28 million as at December 31, 2013, down from \$39 million as at December 31, 2012. The decrease relates primarily to single family mortgages. Securitized mortgage arrears were \$11 million as at December 31, 2013, down from \$24 million as at December 31, 2012. There were no other assets in arrears at year end. We continue to proactively monitor loan arrears and take prudent steps to collect overdue accounts.

Net Impaired Mortgages and Allowances

Table 9: Net Impaired Mortgages and Allowances

(in thousands except %)		
As at December 31	2013	2012
Corporate portfolio		
Single family	\$ 4,834	\$ 6,856
Single family (completed inventory loans)	2,564	-
Residential construction	-	1,760
Net impaired mortgages	\$ 7,398	\$ 8,616
Total mortgages	\$ 1,454,029	\$ 1,676,759
Net impaired as % of total mortgages (net of individual allowances)	0.51%	0.51%
Net impaired as % of corporate mortgages (net of individual allowances)	0.85%	1.17%
Collective allowance	\$ 4,265	\$ 3,723
Individual allowance	1,087	713
Total allowance	\$ 5,352	\$ 4,436

Table 10: Operating Expenses

(in thousands)		
For the Years Ended December 31	2013	2012
Salaries and benefits	\$ 6,036	\$ 3,953
General and administrative	5,254	5,040
	\$ 11,290	\$ 8,993

The increase in salaries and benefits from the prior year is primarily due to an increase in the number of employees as a result of the acquisition of Xceed, in addition to severance costs of \$514,000 incurred during the year.

Table 11: Income Taxes

(in thousands)				
For the Years Ended December 31	2013		2012	
Current tax provision (recovery)	\$	(2,226)	\$	(1,519)
Deferred tax provision (recovery)		1,975		(3,736)
	\$	(251)	\$	(5,255)

The recovery of current taxes was a result the significant excess of dividends paid over taxable income.

Deferred tax activity for the year ended December 31, 2013 was largely driven by the significant difference between equity income from MCAP for accounting and tax purposes noted in the table below. The recovery of deferred taxes in the prior year was primarily due to the significant negative fair market value adjustment to derivative financial instruments.

MCAN's taxable income (refer to the "Non-IFRS Measures" section of this MD&A) was \$15.3 million (\$0.78 per share) in 2013 and \$20.5 million (\$1.17 per share) in 2012. MCAN's equity income from MCAP for tax purposes was significantly lower than for accounting purposes in 2013 as a result of significant securitization activity in MCAP.

The key differences between taxable income and pre-tax net income include differences between equity income from MCAP and Xceed for accounting and tax purposes, the treatment of capital gains income and the non-deductibility of fair market value adjustments, collective provisions for credit losses and the amortization of upfront CMB costs for tax purposes. As a MIC, we typically pay out all of our taxable income to shareholders through dividends. In addition, our MIC status allows us to deduct dividends paid within 90 days of year end from taxable income.

Taxable income from MCAP was significantly lower than income for accounting purposes in both 2013 and 2012. For tax purposes, equity income from MCAP related to mortgage securitizations is recognized in line with actual cash flows, such that a tax loss is incurred up front as program costs are paid while interest income is earned over the term of the mortgage portfolios. As a result of this difference, we recognized a tax loss of \$375,000 in 2013 on our investment in MCAP. The timing differences associated with income from MCAP for accounting and tax purposes are expected to reverse over future periods.

The table below provides a reconciliation between net income for accounting purposes and taxable income. The adjustments below represent the difference between the individual components for accounting and tax purposes. Taxable income is presented on a non-consolidated basis and does not incorporate taxable income from Xceed as it does not directly impact MCAN's non-consolidated taxable income until Xceed distributes income to MCAN. For further information, refer to the "Acquisition of Xceed" section of this MD&A.

Table 12: Taxable Income Reconciliation

(in thousands)	For the Quarters Ended December 31		For the Years Ended December 31	
	2013	2012	2013	2012
Net income for accounting purposes	\$ 10,978	\$ 7,342	\$ 30,203	\$ 21,493
Adjustments:				
Provision for (recovery of) income taxes	1,474	(1,440)	(251)	(5,255)
Equity income from MCAP Commercial LP	670	(6,668)	(6,938)	(6,739)
Gain on dilution of investment in MCAP Commercial LP	(4,510)	-	(4,510)	-
Bargain purchase gain	-	-	(2,127)	-
Equity income and discount income from Xceed	(1,360)	-	(3,285)	-
Provision for (recovery of) credit losses	299	246	(319)	1,627
Fair market value adjustment - derivative financial instruments	512	2,115	3,218	8,682
Capital gains	(616)	22	(1,214)	(1,085)
Amortization of upfront CMB costs	313	627	1,578	3,083
Securitization program cash outflows	(1,674)	(274)	(2,029)	(1,013)
Other items	292	(527)	975	(275)
Taxable Income	\$ 6,378	\$ 1,443	\$ 15,301	\$ 20,518

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

Cash Flows

Operating activities used cash flows of \$653 million in 2013 and used cash flows of \$444 million in 2012. In the current year, net mortgage and term deposit inflows were significantly lower than the prior year, although cash outflows from the repayment of financial liabilities from securitization decreased from the prior year.

Investing activities provided cash flows of \$574 million in 2013 and provided cash flows of \$518 million in 2012. The current year net inflow from financial investments was higher than the prior year, while the prior year also had net outflows from short-term investments. The current year increase was partially offset by outflows associated with the acquisition of Xceed.

Financing activities provided cash flows of \$20 million in 2013 and used cash flows of \$2 million in 2012. The current year had net inflows from loans payable while the prior year had no activity.

Summary of Three Year Results of Operations

Earnings per share of \$1.68 in 2011 were solid by historical standards as we earned income from the CMB program and our acquired mortgage portfolio. In addition, equity income from MCAP was significantly higher in 2011 than in recent prior years.

In 2012, earnings per share decreased to \$1.22, primarily due to significant negative fair market value adjustments. Income from the CMB program began to decline as a result of the maturity of certain CMB issuances. Income from corporate assets increased in line with the portfolio size, while equity income from MCAP remained strong.

In 2013, earnings per share increased significantly from 2012, primarily due to the acquisition of Xceed and a dilution gain and partial gain on sale associated with the equity investment in MCAP. Gross securitization income continued to decline as CMB issuances matured, although the negative fair market value adjustment associated with the CMB was lower than the prior year.

FINANCIAL POSITION

Total assets were \$2.09 billion as at December 31, 2013, consisting of \$1.02 billion of corporate assets and \$1.07 billion of securitization assets. Corporate assets increased by \$68 million during 2013, which consisted primarily of an increase of \$122 million in mortgages and a decrease of \$59 million in cash and cash equivalents. As part of the acquisition of Xceed, we acquired \$46 million of corporate mortgages.

Securitization assets decreased by \$963 million during 2013, primarily due to the maturity of CMB-related assets of \$970 million and a decrease in Insured Mortgage Purchase Program ("IMPP") related assets of \$158 million during the year. These decreases were partially offset by an increase of \$169 million in securitization mortgages related to the market MBS program. These mortgages remained on the consolidated balance sheet as a result of MCAN's retention of risks and rewards associated with the mortgages. For further information on securitization assets, refer to the "Securitization Programs" section of this MD&A.

Table 13: Assets

(in thousands)		
As at December 31	2013	2012
Corporate Assets		
Cash and cash equivalents	\$ 64,945	\$ 123,825
Marketable securities	21,687	20,390
Mortgages	861,613	739,812
Foreclosed real estate	5,667	4,355
Financial investments	19,297	18,067
Other loans	2,530	3,164
Equity investment in MCAP Commercial LP	39,246	36,386
Other assets	3,953	4,687
	1,018,938	950,686
Securitization Assets		
Short-term investments	370,400	378,443
Mortgages	592,416	936,947
Financial investments	108,877	714,631
Derivative financial instruments	1,448	4,666
Other assets	207	1,248
	1,073,348	2,035,935
	\$ 2,092,286	\$ 2,986,621

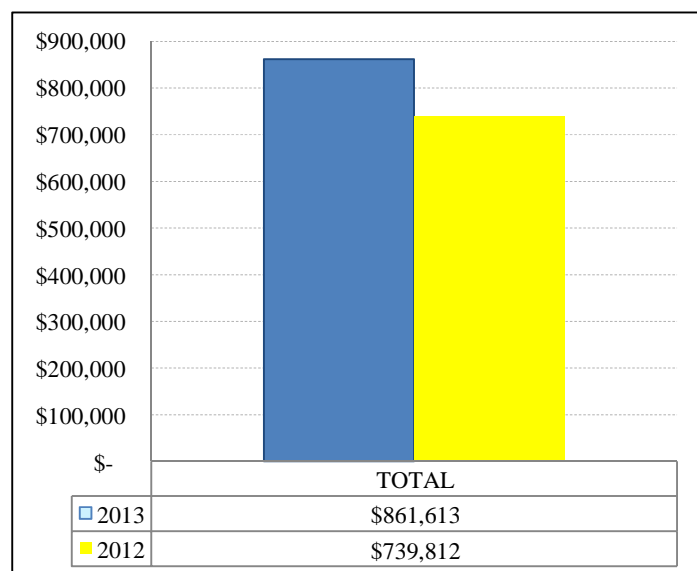
Corporate Assets

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, decreased by \$59 million during 2013. These investments provide liquidity to meet maturing term deposit and mortgage funding commitments and met our liquidity requirements at December 31, 2013, which are outlined in the "Risk Management" section of this MD&A.

Marketable securities, consisting of corporate bonds, real estate investment trusts and exchange-traded funds, increased by \$1.3 million during the year. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents.

The corporate mortgage portfolio increased by \$122 million during the year, partly due to an increase of \$46 million through the acquisition of Xceed. Activity for the year consisted of increases of \$71 million in construction loans, \$52 million in insured single family mortgages (including \$40 million via the Xceed acquisition) and \$16 million in commercial loans, and a decrease of \$17 million in uninsured single family mortgages.

Figure 3: Total Corporate Mortgage Portfolio (in thousands)



We invest in insured and uninsured single family mortgages in Canada. We also originate insured and uninsured single family mortgages through Xceed for our own corporate and securitization activities. The Canadian residential property market continues to exhibit healthy fundamentals, but continues to experience moderation in sales volumes which we expect to continue into 2014. We do not invest in the United States mortgage market. The uninsured mortgages that we invest in may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by Canada Mortgage and Housing Corporation ("CMHC") or Genworth Financial Mortgage Insurance Company Canada Inc. ("Genworth") may exceed this ratio.

Uninsured residential construction loans are made to homebuilders to finance residential construction projects. These loans generally have a floating rate of interest and terms of one to two years. Our limit on total conventional construction loans is the lesser of \$400 million or 250% of regulatory capital. Non-residential construction loans may comprise up to one half of this limit. Per our internal limits, the maximum single conventional construction loan may not exceed \$20 million.

The composition of our corporate mortgage portfolio is as follows:

Figure 4: Corporate Mortgage Portfolio Composition by Product Type (in thousands)

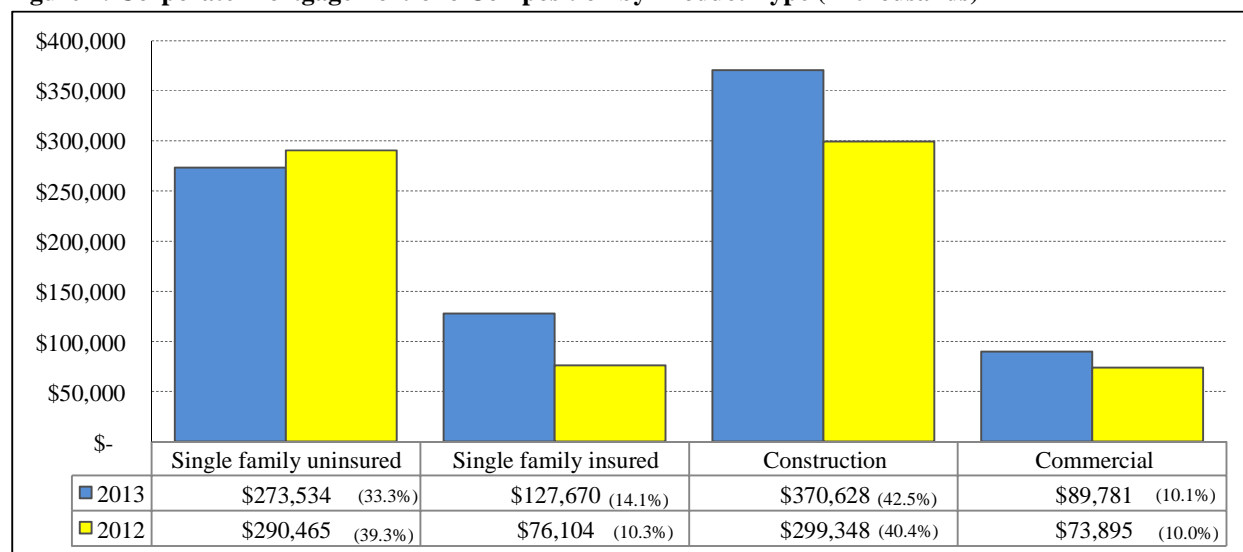


Figure 5: Corporate Mortgage Portfolio Geographic Distribution (2013)

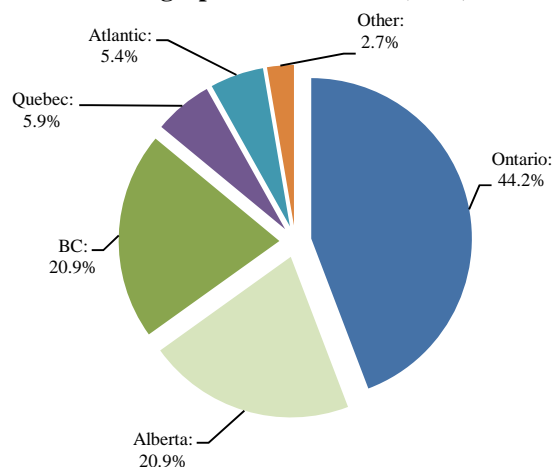
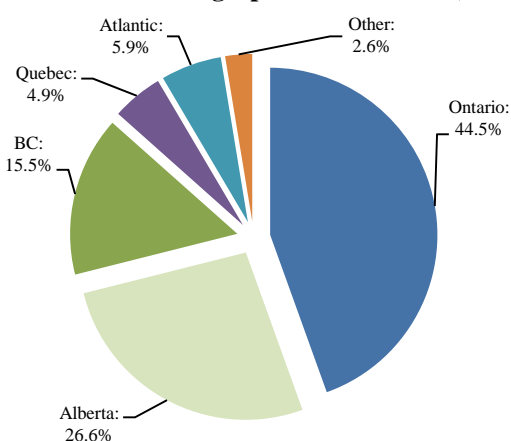


Figure 6: Corporate Mortgage Portfolio Geographic Distribution (2012)



As at December 31, 2012 we held discounted single family mortgages with a net discount of \$5.9 million. During 2013, we sold the entire associated mortgage portfolio, recognizing a gain on sale of \$1.3 million. Prior to sale, we participated with MCAP in a profit sharing program such that 50% of any recoveries of discounts were retained and the remaining 50% was paid to MCAP.

We also hold an uninsured single family completed inventory loan with a net discount of \$9.2 million as at December 31, 2013. The principal value net of the discount and an individual allowance of \$550,000 represents our best estimate of net realizable value at that date given the impaired status of the mortgage and the uncertainty of the resolution period.

In previous quarters we have reported on our exposure to real estate in areas of Alberta that experienced flooding during 2013. As at December 31, 2013, our potential loss exposure had not changed from previous quarters.

Table 14: Mortgage Originations

(in thousands)	Quarters Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
Single family insured	\$ 9,089	\$ 439	\$ 64,060	\$ 19,740
Single family uninsured	15,623	21,795	39,955	114,824
Single family uninsured (completed inventory loans)	17,489	10,884	58,428	26,633
Residential construction (advances)	147,015	104,800	423,675	330,454
Commercial	15,842	13,068	44,982	38,957
	\$ 205,058	\$ 150,986	\$ 631,100	\$ 530,608

The table above includes mortgages originated by Xceed. MCAN originations are solely for investment purposes as corporate assets, while mortgage originations through Xceed are generally sold to third party mortgage aggregators. In the fourth quarter of 2013, Xceed commenced an uninsured single family mortgage origination program to generate mortgages for MCAN's corporate balance sheet.

Foreclosed real estate increased by \$1.3 million during the year. For further details on a new property that was foreclosed upon during 2013, refer to the "Credit Quality" sub-section of the "Results of Operations" section of this MD&A. We are currently exploring options to sell both properties, which are carried at fair value.

Corporate financial investments increased by \$1.2 million during the year, which included a \$4.7 million increase in a commercial real estate investment and a \$2.9 million decrease in an investment in a retained interest.

We enter into interest rate swaps to manage interest rate exposures on mortgage funding commitments. The fair value of the swaps at December 31, 2013 was \$123,000, which is included in other corporate assets.

Equity investment in MCAP

Our equity investment in MCAP, in which we hold a 15.7% equity interest, increased from \$36 million to \$39 million during the year. To November 30th, we held a 23.4% equity interest. The value of this investment has increased substantially from the second quarter of 2012, at which point we contributed \$14 million of additional capital to MCAP. In addition, MCAP has earned significant income for accounting purposes since that time, which increases the value of the investment.

On November 30, 2013, MCAP issued 5,080,802 new class A units and 3,452,829 new class C units to other partners of MCAP at a cost of \$11.72 per unit, raising \$100 million of new unitholder equity. As a result of the issuance of the new units at a price in excess of the carrying value per unit, we recorded a \$4.5 million gain on the dilution of the investment in MCAP. Subsequent to the issuance of the new class A and class C units, we sold 237,880 class A units to another partner of MCAP at a price of \$11.72 per unit, recognizing a gain on sale of \$736,000. The combination of the two transactions reduced our equity interest in MCAP from 23.4% to 15.7%. Subsequent to year end, we sold 250,000 class C units to another partner of MCAP at a price of \$11.72 per unit, reducing our equity interest from 15.7% to 14.8%.

Our investment in MCAP for accounting purposes was \$39 million as at December 31, 2013 (December 31, 2012 - \$36 million). The LP ARA of our equity investment in MCAP (refer to the "Non-IFRS Measures" section of this MD&A), is increased (decreased) by the partner's share of partnership income (loss) on a tax basis, increased by the amount of capital contributions to the partnership and reduced by distributions received from the partnership. As at December 31, 2013, after deducting the taxable loss from MCAP for the year, the LP ARA is \$25.0 million (December 31, 2012 - \$32.9 million).

The excess of the accounting value of the equity investment in MCAP over the LP ARA as at December 31, 2013 represents our estimate of the taxable income versus accounting income difference that we expect will be earned in future periods from MCAP. The future realization of this taxable income is subject to a number of risk factors that could impact future outcomes, as well as any changes to our investment in the form of new capital invested or a full or partial disposition of our investment in MCAP.

As indicated above, lower taxable income from MCAP has contributed to lower estimated taxable income for the year. In addition, we note that our investment in MCAP creates a deduction from regulatory capital on an "all-in" basis under Basel III (refer to the "Capital Management" section of this MD&A). While we view our investment in MCAP as strategic, we are currently evaluating alternative tax-effective structures to hold the investment.

As a result of the treatment of MCAP's securitization activity for tax purposes, MCAN's equity income from MCAP for tax purposes has been significantly lower than income for accounting purposes during the last two years. In 2012, we had a minimal equity loss from MCAP for tax purposes, and for the year ended December 31, 2013 MCAN's tax loss from MCAP was \$375,000.

MCAP is an originator and servicer of mortgages for third party investors in Canada. MCAP's origination volumes were \$10.5 billion in 2013. MCAP had \$40.3 billion of assets under administration as at December 31, 2013.

Securitization Assets

Securitization assets decreased by \$963 million during 2013, primarily due to the maturity of CMB-related assets of \$970 million and a decrease in IMPP-related assets of \$158 million during the year. These decreases were partially offset by an increase of \$169 million in securitization mortgages related to the market MBS program.

Short-term investments decreased by \$8 million during 2013. This decrease consisted of the maturity of \$219 million of CMB reinvestment assets from the CMB issuances that matured during the year, an increase of \$225 million in CMB reinvestment assets from other CMB issuances and a decrease of \$14 million in CMB cash held in trust and pledged as collateral. Despite the slight decrease in the balance during 2013, short-term investments as a percentage of CMB reinvestment assets increased significantly during 2013.

The securitized mortgage portfolio decreased by \$345 million during the year, consisting of the maturity of \$422 million of securitized mortgages from CMB issuances that matured during the year, \$92 million of principal repayments from borrowers from other CMB issuances and \$169 million of new mortgages retained on the balance sheet through the market MBS program. The principal repayments were invested into reinvestment assets as part of the CMB program, consisting of short-term investments and financial investments. The market MBS program mortgages remained on the consolidated balance sheet as a result of MCAN's retention of risks and rewards associated with the mortgages.

The composition of our securitized mortgage portfolio is as follows:

Figure 7: Securitized Mortgage Portfolio Composition by Product Type (in thousands)

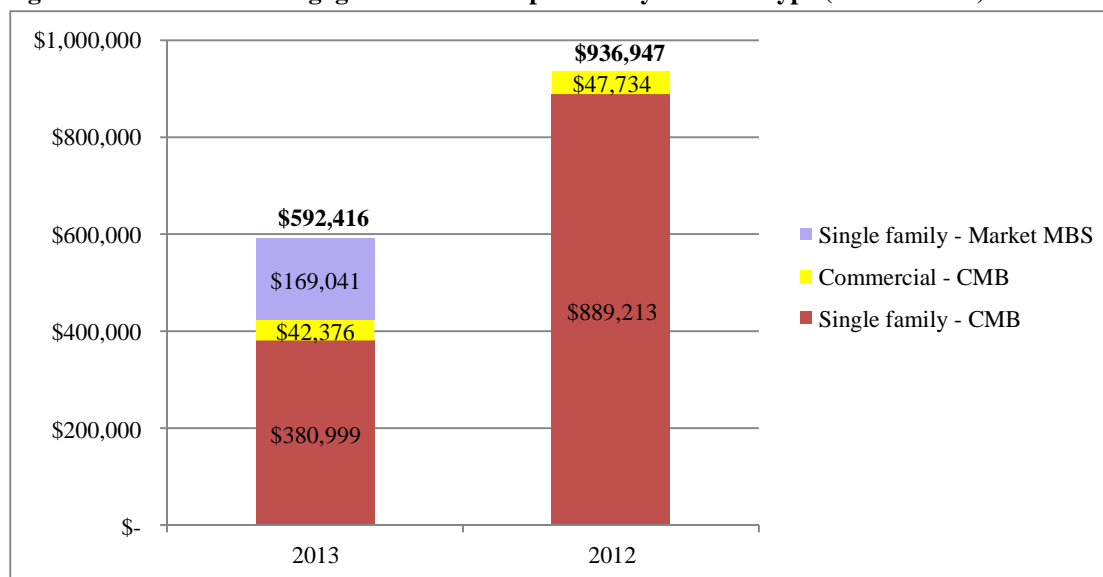


Figure 8: Securitized Mortgage Portfolio Geographic Distribution (2013)

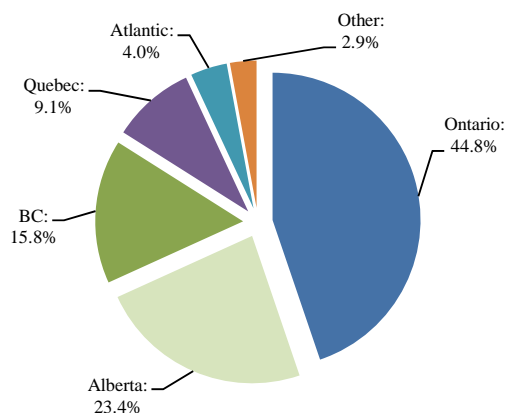
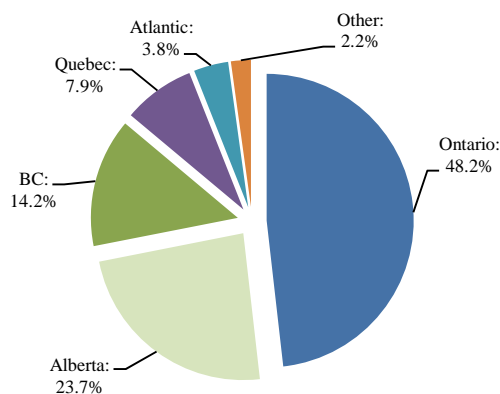


Figure 9: Securitized Mortgage Portfolio Geographic Distribution (2012)



Financial investments consist of insured MBS held as reinvestment assets for the CMB program and a receivable associated with MCAN's participation in the IMPP. For further information on the IMPP, refer to the "Securitization Programs" section of this MD&A. Financial investments decreased by \$606 million during the year, consisting of decreases of \$447 million in insured MBS held as reinvestment assets and \$158 million relating to the IMPP. The decrease in insured MBS held as reinvestment assets was partly due to the maturity of \$291 million of reinvestment assets from the CMB issuances that matured during the year.

Derivative financial instruments at December 31, 2013 consisted of interest rate swaps relating to the CMB program. We have entered into "pay-floating, receive-fixed" swaps to hedge against interest rate risk on reinvested CMB principal collections. The decrease of \$3.2 million in derivative financial instruments during the year consisted of net interest rate swap receipts of \$3.4 million net of an unrealized gain of \$158,000.

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

In accordance with OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, commencing this year, additional information is provided on the composition of MCAN’s single family mortgage portfolio by insurance status and province, as well as amortization periods and Loan to Value ratio (“LTV”) by province.

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

MCAN does not originate HELOCs. The HELOC balances displayed below relate to insured mortgages.

Table 15: Single Family Mortgages by Province

(in thousands except %)											
As at December 31, 2013	Corporate						Securitized		Total		%
	Insured	%	Uninsured	%	HELOCs	%	Insured	%			
Ontario	\$ 46,058	36.2%	\$ 129,407	47.3%	\$ 165	40.9%	\$ 245,862	44.8%	\$ 421,492	44.3%	
Alberta	35,264	27.7%	45,777	16.7%	168	41.7%	133,356	25.2%	214,565	22.6%	
British Columbia	13,129	10.3%	51,637	18.9%	70	17.4%	93,767	17.1%	158,603	16.7%	
Quebec	13,580	10.7%	19,610	7.2%	-	0.0%	35,837	5.5%	69,027	7.3%	
Atlantic Provinces	11,275	8.9%	22,733	8.3%	-	0.0%	23,588	4.3%	57,596	6.1%	
Other	7,961	6.2%	4,370	1.6%	-	0.0%	17,630	3.1%	29,961	3.1%	
Total	\$ 127,267	100.0%	\$ 273,534	100.0%	\$ 403	100.0%	\$ 550,040	100.0%	\$ 951,244	100.0%	

Table 16: Single Family Mortgages by Amortization Period

(in thousands except %)							
As at December 31, 2013	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total	
Corporate	\$ 85,089 21.2%	\$ 105,597 26.3%	\$ 113,800 28.4%	\$ 90,643 22.6%	\$ 6,075 1.5%	\$ 401,204	100.0%
Securitized	\$ 105,599 19.2%	\$ 146,760 26.7%	\$ 131,142 23.8%	\$ 162,767 29.6%	\$ 3,772 0.7%	\$ 550,040	100.0%
Total	\$ 190,688 20.0%	\$ 252,357 26.5%	\$ 244,942 25.7%	\$ 253,410 26.6%	\$ 9,847 1.2%	\$ 951,244	100.0%

Table 17: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgages Originated During the Periods

(in thousands)					
	Quarter Ended		Year Ended		
	Amount	Average LTV	Amount	Average LTV	
Ontario	\$ 7,709	75.2%	\$ 34,361	71.1%	
Alberta	5,532	74.0%	28,757	73.8%	
British Columbia	16,661	70.9%	27,415	68.9%	
Quebec	2,716	69.6%	5,067	72.4%	
Atlantic Provinces	266	62.0%	1,732	70.2%	
Other	228	65.0%	1,051	73.0%	
Total	\$ 33,112	72.2%	\$ 98,383	71.3%	

In the event of an economic downturn, the potential impact for loss on single family mortgages would be mitigated, as MCAN’s corporate single family mortgage portfolio is well secured with an average LTV of less than 67% based on value at origination.

Table 18: Liabilities and Shareholders' Equity

(in thousands)		
As at December 31	2013	2012
Liabilities		
Corporate Liabilities		
Term deposits	\$ 790,222	\$ 777,077
Loans payable	17,991	-
Current tax liabilities	13	2,114
Deferred tax liabilities	3,486	1,842
Other liabilities	13,170	9,493
	824,882	790,526
Securitization Liabilities		
Financial liabilities from securitization	1,054,656	2,015,046
Other liabilities	2,352	3,268
	1,057,008	2,018,314
	1,881,890	2,808,840
Shareholders' Equity		
Share capital	179,215	155,005
Contributed surplus	510	510
Retained earnings	27,669	19,985
Accumulated other comprehensive income	3,002	2,281
	210,396	177,781
	\$ 2,092,286	\$ 2,986,621

Term deposits increased by \$13 million during the year. To fund our corporate operations, we issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We do not use capital markets (including asset-backed commercial paper) for liquidity.

Loans payable relate to two credit facilities with financial institutions that we use for short-term mortgage funding needs. For further details, refer to the "Liquidity Risk" sub-section of the "Risk Management" section of this MD&A. As at December 31, 2013, the combined outstanding balance from both facilities was \$18 million.

Upon the acquisition of Xceed, we set up a reserve associated with Xceed's off-balance sheet securitized mortgage portfolio, which is expected to be incurred over the remaining duration of the portfolio and is included in other corporate liabilities. As at December 31, 2013, the balance of the reserve was \$1.5 million and the associated off balance sheet securitized mortgage portfolio balance was \$683 million. Xceed will earn revenue from renewal rights on its securitized mortgage portfolio.

The \$960 million decrease in financial liabilities from securitization from 2012 relates primarily to the maturity of \$970 million of CMB-related financial liabilities from securitization during the year. In addition, there was a \$158 million decrease in financial liabilities from securitization related to the paydown of the liability associated with MCAN's participation in the IMPP. Our participation in the market MBS program during fourth quarter led to the creation of a \$168 million liability, since we retained the risks and rewards associated with the mortgages. For further information on market MBS program and IMPP, refer to the "Securitization Programs" section of this MD&A.

The liabilities associated with the CMB program pay out in full at the time that a specific issuance matures. Financial liabilities from securitization as at December 31, 2013 mature as follows: 2014 - \$847 million (CMB program), 2015 - \$41 million (CMB program), 2018 - \$168 million (market MBS program).

Share capital increased by \$24 million during the year, primarily as a result of the \$21.5 million issuance of new MCAN shares related to the Xceed acquisition in the third quarter of 2013. The remaining increase relates to the issuance of new shares through the Executive Share Purchase Plan and the dividend reinvestment plan.

Retained earnings increased by \$7.7 million, consisting of net income of \$30.2 million less dividends of \$22.5 million.

Accumulated other comprehensive income represents unrealized gains or losses (net of deferred taxes) on available for sale marketable securities and financial investments.

SUMMARY OF FOURTH QUARTER RESULTS

Net income for the quarter ended December 31, 2013 was \$11.0 million (\$0.54 per share), up from \$7.3 million (\$0.40 per share) in the prior year.

Table 19: Net Income for the Quarters Ended December 31

(in thousands)	2013	2012
Net Investment Income - Corporate Assets		
Mortgage interest	\$ 15,011	\$ 10,006
Equity income from MCAP Commercial LP	303	4,253
Fees	923	677
Marketable securities	269	392
Whole loan gain on sale income	1,652	-
Realized and unrealized gain (loss) on financial instruments	(341)	-
Interest on financial investments and other loans	37	198
Interest on cash and cash equivalents	263	180
	18,117	15,706
Term deposit interest and expenses	5,108	4,687
Mortgage expenses	972	748
Interest on loans payable	680	200
Provision for credit losses	420	421
	7,180	6,056
	10,937	9,650
Other Income - Corporate Assets		
Gain on dilution of investment in MCAP Commercial LP	4,510	-
Gain on sale of investment in MCAP Commercial LP	736	-
	5,246	-
Net Investment Income - Securitization Assets		
Mortgage interest	1,663	3,024
Interest on financial investments	246	819
Interest on short-term investments	319	478
Other securitization income	945	2,530
	3,173	6,851
Interest on financial liabilities from securitization	2,545	5,923
Mortgage expenses	38	91
	2,583	6,014
Net investment income before fair market value adjustment	590	837
Fair market value adjustment - derivative financial instruments	(512)	(2,115)
	78	(1,278)
Operating Expenses		
Salaries and benefits	1,896	1,011
General and administrative	1,913	1,459
	3,809	2,470
Net Income Before Income Taxes	12,452	5,902
Provision for (recovery of) income taxes	1,474	(1,440)
Net Income	\$ 10,978	\$ 7,342
Basic and diluted earnings per share	\$ 0.54	\$ 0.40
Taxable income per share ¹	\$ 0.32	\$ 0.06
Dividends per share	\$ 0.28	\$ 0.28

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

Net Investment Income - Corporate Assets

Mortgage interest income increased by \$5.0 million as a result of a \$170 million increase in the average mortgage portfolio from \$728 million in 2012 to \$898 million in 2013 and an increase in the average mortgage yield from 5.50% in 2012 to 6.73% in 2013 which was primarily due to the higher-yielding mortgages acquired through the Xceed acquisition.

Equity income from our ownership interest in MCAP decreased by \$4.0 million from 2012 as a result of lower MBS spreads in the current year.

Fees increased by \$246,000 from the prior year as a result of to a higher average corporate mortgage portfolio.

For a discussion of whole loan gain on sale income and realized and unrealized losses on financial instruments, refer to the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

Term deposit interest and expenses increased by \$421,000 from 2012, primarily due to a \$61 million increase in the average outstanding balance from \$731 million in 2012 to \$792 million in 2013. The average term deposit interest rate increased from 2.44% in 2012 to 2.46% in 2013.

For a discussion of interest on loans payable, refer to the "Net Investment Income - Corporate Assets" sub-section of the "Results of Operations" section of this MD&A.

For details of the provision for credit losses, refer to Table 8 of this MD&A.

Other Income - Corporate Assets

For details regarding the \$4.5 million gain on dilution of the investment in MCAP and \$736,000 gain on the partial sale of the investment, refer to the "Investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Net Investment Income - Securitization Assets

Mortgage interest income decreased by \$1.4 million, primarily due to a \$473 million decrease in the average mortgage portfolio from 2012.

Interest on financial investments decreased by \$573,000 and interest on short-term investments decreased by \$159,000 from 2012, both as a result of a decrease in the average portfolio.

Other securitization income decreased by \$1.6 million from the prior year, primarily due to a \$1.4 million decrease in interest rate swap receipts.

Interest on financial liabilities from securitization decreased by \$3.4 million as a result of a \$1.4 billion decrease in the average outstanding balance and a 0.58% decrease in the average interest rate.

There was a negative fair market value adjustment to derivative financial instruments of \$512,000 (2012 - negative \$2.1 million) for the quarter relating to the CMB interest rate swaps.

Net Interest Income

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

Table 20: Net Interest Income - For the Quarter Ended December 31, 2013

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 92,518	\$ -	\$ 92,518	\$ 263	\$ -	\$ 263	1.13%	-
Short-term investments	-	457,243	457,243	-	319	319	-	0.83%
Marketable securities	18,621	-	18,621	269	-	269	5.49%	-
Mortgages - corporate	897,585	-	897,585	15,011	-	15,011	6.73%	-
Mortgages - securitized	-	513,835	513,835	-	1,663	1,663	-	3.51%
Financial investments	23,052	214,316	237,368	23	246	269	3.41%	2.07%
Other loans	2,221	-	2,221	14	-	14	2.57%	-
Total on interest earning assets	1,033,997	1,185,394	2,219,391	15,580	2,228	17,808	6.10%	2.37%
Other assets	32,742	1,948	34,690	-	-	-	-	-
Total assets	\$ 1,066,739	\$ 1,187,342	\$ 2,254,081	\$ 15,580	\$ 2,228	\$ 17,808	5.91%	2.36%
Liabilities and shareholders' equity								
Term deposits	\$ 791,777	\$ -	\$ 791,777	\$ 5,108	\$ -	\$ 5,108	2.46%	-
Financial liabilities from securitization	-	1,170,555	1,170,555	-	2,545	2,545	-	2.79%
Loans payable	72,805	-	72,805	680	-	680	3.35%	-
Other liabilities	8,669	3,315	11,984	-	-	-	-	-
Shareholders' equity	-	-	206,960	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 873,251	\$ 1,173,870	\$ 2,254,081	\$ 5,788	\$ 2,545	\$ 8,333	2.56%	2.79%
Net Interest Income²				\$ 9,792	\$ (317)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits								4.27%

¹ The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

² Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, other securitization income, mortgage expenses, provision for credit losses and fair market adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items are immaterial for the quarter ended December 31, 2013. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

The corporate mortgage yield as presented above is higher than usual as a result of the higher effective interest rates on the mortgages acquired from Xceed. Given the short duration of these mortgages, we expect the corporate mortgage yield to return to historical levels by mid-2014.

The income/expenses associated with the securitized assets and liabilities in the tables above represents MCAN's 33% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, the net loss from securitization assets before negative fair market value adjustments was reduced as a result of the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$560,000 in the fourth quarter of 2013.

Table 21: Net Interest Income - For the Quarter Ended December 31, 2012

(in thousands except %)	Average Balance ¹			Income/Expense			Average Rate ³	
	Corporate	Securitized	Total	Corporate	Securitized	Total	Corporate	Securitized
Assets								
Cash and cash equivalents	\$ 89,379	\$ -	\$ 89,379	\$ 180	\$ -	\$ 180	0.80%	-
Short-term investments	-	757,653	757,653	-	478	478	-	0.87%
Marketable securities	19,740	-	19,740	392	-	392	4.69%	-
Mortgages - corporate	727,834	-	727,834	10,006	-	10,006	5.50%	-
Mortgages - securitized	-	986,676	986,676	-	3,024	3,024	-	3.72%
Financial investments	24,217	836,755	860,972	177	819	996	5.80%	1.67%
Other loans	3,397	-	3,397	21	-	21	2.45%	-
Total on interest earning assets	864,567	2,581,084	3,445,651	10,776	4,321	15,097	5.02%	2.46%
Other assets	55,441	7,293	62,734	-	-	-	-	-
Total assets	\$ 920,008	\$ 2,588,377	\$ 3,508,385	\$ 10,776	\$ 4,321	\$ 15,097	4.71%	2.67%
Liabilities and shareholders' equity								
Term deposits	\$ 731,117	\$ -	\$ 731,117	\$ 4,687	\$ -	\$ 4,687	2.44%	-
Financial liabilities from securitization	-	2,569,614	2,569,614	-	5,923	5,923	-	3.37%
Loans payable	16,333	-	16,333	200	-	200	4.00%	-
Other liabilities	11,742	4,213	15,955	-	-	-	-	-
Shareholders' equity	-	-	175,366	-	-	-	-	-
Total liabilities and shareholders' equity	\$ 759,192	\$ 2,573,827	\$ 3,508,385	\$ 4,887	\$ 5,923	\$ 10,810	2.50%	3.37%
Net Interest Income ²				\$ 5,889	\$ (1,602)			
Spread of Mortgages (Corporate Portfolio) over Term Deposits							3.06%	

¹ The average balance is calculated with reference to opening and closing monthly balances and as such may not be as precise if daily balances were used.

² Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, other securitization income, mortgage expenses, provision for credit losses and fair market adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

³ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items consisting of one-time gains/losses, asset write-downs and fees not associated with the asset/liability yield are excluded from the calculation of the average rate. Non-recurring items are immaterial for the quarter ended December 31, 2012. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

The income/expenses associated with the securitized assets and liabilities in the tables above represents MCAN's 30% weighted average share of CMB program economics.

Although net interest income from securitization assets and liabilities shown above is presented as a negative amount, net interest income from securitization assets before negative fair market value adjustments was positive due to the impact of the CMB interest rate swaps, which are "pay-floating, receive-fixed" swaps. Since interest rates have generally decreased since the original securitization dates, the positive interest rate swap income has offset lower than expected principal reinvestment income (since the majority of reinvested assets have a floating interest rate). Interest rate swap receipt income was \$1.9 million in the fourth quarter of 2012.

Table 22: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended (in thousands except %)	December 31, 2013			December 31, 2012		
	Average Assets	Interest Income	Average Rate ¹	Average Assets	Interest Income	Average Rate ¹
Single family	\$ 391,477	\$ 6,671	6.94%	\$ 351,602	\$ 4,573	5.02%
Construction and uninsured single family completed inventory loans	419,962	6,586	6.22%	311,188	4,449	6.00%
Commercial	86,146	1,754	8.31%	65,044	984	5.77%
Average mortgages - corporate portfolio	\$ 897,585	\$ 15,011	6.73%	\$ 727,834	\$ 10,006	5.50%

¹ Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as arrears interest and prior period adjustments are excluded from the calculation of the average rate. Non-recurring items are immaterial for the quarters ended December 31, 2013 and December 31, 2012. Average rate is considered to be a non-IFRS measure. For further details, refer to the "Non-IFRS Measures" section of this MD&A.

The single family yield and overall yield include mortgages acquired from Xceed. The respective yields excluding these mortgages were 5.03% (2012 - n/a) and 5.99% (2012 - n/a).

Credit Quality

Table 23: Provisions for Credit Losses and Write-offs

(in thousands except basis points)		
For the Quarters Ended December 31	2013	2012
Individual provision (recovery)		
Single family uninsured	\$ 49	\$ 145
Residential construction	-	(150)
Commercial uninsured	-	116
	\$ 49	\$ 111
Collective provision (recovery)		
Single family uninsured	\$ 237	\$ 24
Construction	155	119
Commercial	39	171
Corporate mortgages - total	431	314
Financial investments and other loans	-	(4)
Other provisions (recoveries)	(60)	-
	\$ 371	\$ 310
Total provision for (recovery of) credit losses	\$ 420	\$ 421
Corporate mortgage portfolio data:		
Provision for (recovery of) credit losses	\$ 480	\$ 425
Net write offs	\$ 138	\$ 83
Annualized net write offs (basis points)	6.1	4.6

Table 24: Operating Expenses

(in thousands)		
For the Quarters Ended December 31	2013	2012
Salaries and benefits	\$ 1,896	\$ 1,011
General and administrative	1,913	1,459
	\$ 3,809	\$ 2,470

The increase in salaries and benefits from the prior year is primarily due to an increase in the number of employees as a result of the acquisition of Xceed. The increase in general and administrative expenses is a result of the consolidation of Xceed's operations in the current year. For further details, refer to the "Acquisition of Xceed" section of this MD&A.

Table 25: Income Taxes

(in thousands)		
For the Quarters Ended December 31	2013	2012
Current tax provision (recovery)	\$ 838	\$ (1,604)
Deferred tax provision	636	164
	\$ 1,474	\$ (1,440)

The provision for current taxes in the current year and recovery in the prior year were due to the excess and deficiency, respectively, of taxable income over dividends paid.

Deferred tax activity for the quarter ended December 31, 2013 was largely driven by the difference between equity income from MCAP for accounting and tax purposes.

Table 26: Selected Quarterly Financial Data

	Q4/13	Q3/13	Q2/13	Q1/13	Q4/12	Q3/12	Q2/12	Q1/12
Net investment income - corporate assets	\$ 10,937	\$ 12,137	\$ 8,638	\$ 7,244	\$ 9,650	\$ 5,872	\$ 9,997	\$ 5,616
Other income - corporate assets	5,246	1,253	(406)	(722)	-	-	-	-
Net investment income - before fair market value adjustment	590	(532)	44	39	837	458	457	1,026
Fair market value adjustment	(512)	(385)	(1,680)	(641)	(2,115)	(1,869)	(1,460)	(3,238)
Net investment income - securitization assets	78	(917)	(1,636)	(602)	(1,278)	(1,411)	(1,003)	(2,212)
Operating expenses	3,809	3,491	2,079	1,919	2,470	2,031	2,351	2,141
Net income before income taxes	12,452	8,982	4,517	4,001	5,902	2,430	6,643	1,263
Provision for (recovery of) income taxes	1,474	(721)	(480)	(524)	(1,440)	(1,034)	323	(3,104)
Net income	<u>\$ 10,978</u>	<u>\$ 9,703</u>	<u>\$ 4,997</u>	<u>\$ 4,525</u>	<u>\$ 7,342</u>	<u>\$ 3,464</u>	<u>\$ 6,320</u>	<u>\$ 4,367</u>
Basic and diluted earnings per share	\$ 0.54	\$ 0.49	\$ 0.27	\$ 0.24	\$ 0.40	\$ 0.19	\$ 0.37	\$ 0.26
Return on average shareholders' equity	21.22%	19.49%	11.17%	10.06%	16.75%	8.25%	16.16%	11.05%
Taxable income ¹	\$ 6,378	\$ 3,354	\$ 4,304	\$ 1,265	\$ 1,443	\$ 4,809	\$ 8,150	\$ 6,116
Taxable income per share ¹	\$ 0.32	\$ 0.16	\$ 0.23	\$ 0.07	\$ 0.06	\$ 0.27	\$ 0.48	\$ 0.36
Dividends per share								
Regular	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.28	\$ 0.27	\$ 0.27	\$ 0.27
Extra	-	-	-	0.03	-	-	-	0.33
Total	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.31</u>	<u>\$ 0.28</u>	<u>\$ 0.27</u>	<u>\$ 0.27</u>	<u>\$ 0.60</u>

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

Prior to the fourth quarter of 2013, other income from corporate assets was not presented individually. During the first three quarters of 2013, the bargain purchase gain and transaction and restructuring expenses were presented in net investment income - corporate assets and operating expenses, respectively.

The increase in net investment income in the third and fourth quarters of 2013 relates to the bargain purchase gain recorded as part of the Xceed acquisition and the gain on dilution from our equity investment in MCAP, respectively. In addition, we earned a significantly higher yield on the mortgages acquired from Xceed in both quarters. Excluding the second half of 2013, net investment income from our corporate portfolio has been stable and consistent for the past eight quarters. The fourth quarter of 2012 and the second quarter of 2012 were higher than usual as a result of significant equity income from MCAP.

Net investment income before fair market value adjustments from our securitization portfolio has declined since 2012 as a result of the repayment of securitized mortgages. The fair market value adjustment is driven by changes in the forward interest rate curve and accordingly may be volatile.

We generally recover current taxes in the first quarter of each year based on the magnitude of the extra dividend. We generally incur deferred tax expense on a positive fair market value adjustment, and vice versa.

SECURITIZATION PROGRAMS

We participate in the National Housing Act ("NHA") MBS program, which involves the securitization of insured mortgages to create MBS. Pursuant to the NHA MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. CMHC makes principal and interest payments in the event of any NHA MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, we have sold MBS as part of the CMB program, the market MBS program and the IMPP, which are discussed below. In instances where we have sold MBS, where applicable, these sales are executed for the purposes of transferring various economic exposures that result in accounting outcomes noted for each program below. Each of the MBS programs noted below provide for many responsibilities that are linked to the issuer of these MBS instruments. We do not transfer oversight or these responsibilities when selling MBS to other parties.

CMB Program

We participate in the CMB program, which involves the sale of MBS to the Canada Housing Trust ("CHT"). On the sale of MBS to CHT, we receive proceeds for the sale, incur a liability in the amount of such proceeds received and are obligated to pay interest on this liability, which does not amortize over the term of the issuance and is payable in full at maturity. The securitized mortgages and reinvestment assets are held as collateral against the CMB liabilities. As CMB issuance liabilities continue to mature, we expect net investment income from CMB-related securitization assets prior to fair market value adjustments to decrease.

Over the term of a CMB issuance, we are entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, we reinvest the collected principal in certain permitted investments and are also entitled to interest income from the reinvested assets. We also recognize servicing expenses on the mortgages and pay certain upfront costs.

We participate in the CMB program with MCAP. We participate in the economics of each CMB issuance in accordance with a pre-determined economic sharing percentage, which dictates the upfront and ongoing cash flow rights and obligations of the participants. MCAN's weighted average economic participation for outstanding CMB issuances as at December 31, 2013 was 35% (December 31, 2012 - 30%). MCAP has indemnified MCAN for the remaining 65% of CMB program obligations (December 31, 2012 - 70%).

The sales of MBS to CHT failed to meet derecognition criteria, since we did not transfer substantially all risks and rewards on sale. The primary risk retained was mortgage prepayment risk, while the primary reward retained was the excess of mortgage interest income and reinvestment asset interest income over securitization liability interest expense. Interest rate risk is largely mitigated by the interest rate swaps discussed below, and credit risk is minimal as all mortgages securitized through the NHA MBS program are insured. We accounted for these transactions as collateralized borrowings and recorded cash received as a financial liability from securitization.

As a result of the failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, we recognize 100% of the mortgages, reinvestment assets and securitization liabilities on the consolidated balance sheets until the maturity of a CMB issuance. We recognize our 35% share of mortgage interest income, principal reinvestment income, interest expense on the securitization liabilities and certain other program expenses on the accrual basis.

We enter into "pay floating, receive fixed" interest rate swaps as part of the CMB program. The purpose of the interest rate swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate, as substantially all interest payments on the securitization liabilities are fixed rate.

The interest rate swaps are classified as held for trading, where changes in fair value are recorded through the consolidated statements of income. From an economic perspective, these fair value changes are generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statements of

income, which can cause volatility to the consolidated statements of income since there is no offset to fair value changes in the interest rate swaps.

In March 2010, OSFI released a final advisory with respect to the impact of IFRS rules regarding securitization on regulatory capital ratios, which require assets and liabilities that are subject to securitization to be reflected as on-balance sheet items. The advisory indicated that any on-balance sheet assets and liabilities recognized from securitization transactions (including insured mortgages that are securitized through the CMB program) were required to be included in the calculation of a regulated financial institution's regulatory capital ratios. Pursuant to these guidelines, we are required to include any assets and liabilities recognized from CMB program transactions undertaken after June 30, 2010 in the calculation of our regulatory capital ratios under IFRS. Consequently, our future participation in securitization transactions, namely through our participation in the CMB program, was significantly reduced at this time from historical participation levels in order for us to comply with our regulatory capital ratios.

Market MBS Program

In the fourth quarter of 2013, we re-commenced our participation in the market MBS program, under which we sell MBS to third parties and may also elect to sell the net economics and cash flows from the underlying mortgages ("interest-only strips") to third parties in future periods. As part of this program, we originate and purchase insured single family mortgages to sell as MBS.

During the fourth quarter of 2013, we purchased certain mortgages from MCAP, pooled them with MCAN-originated mortgages and sold \$168 million of MBS to a third party. As we retained all risks and rewards of ownership (eg. prepayment risk, Timely Payment Guarantee), the sale did not achieve derecognition and the associated mortgages remained on the balance sheet while a corresponding liability was incurred. During the fourth quarter of 2013, we received approval from CMHC to commence the sale of interest-only strips to third parties. We are currently evaluating the merits of the sale of interest-only strips to achieve derecognition of the mortgages from our balance sheet. We did not have any other MBS or interest-only strip sales during 2013.

During 2012, we recognized \$978,000 related to the sale of MBS and the interest-only strips associated with the underlying mortgages as we transferred substantially all risks and rewards on sale. Since the inception of the program in 2011, all interest-only strip sales have been made to MCAP. We meet derecognition criteria on the sale of the mortgages (i.e. upon creation of MBS and subsequent sales of MBS and interest-only strips to third parties) if we transfer substantially all risks and rewards on sale, and if so, they are removed from the consolidated balance sheet at that time.

The primary risks associated with the market MBS program are liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment Guarantee (discussed below) as part of the market MBS program. The primary reward associated with the market MBS program is the excess of mortgage interest income over the MBS interest. The risks and rewards are both transferred to the purchaser of the interest-only strips pursuant to contractual agreements entered into with such purchaser.

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

Any mortgages securitized through the market MBS program for which derecognition is not achieved remain on the balance sheet and are also included in regulatory assets for OSFI purposes. However, for tax purposes, all mortgages securitized by MCAN achieve derecognition and are not included in income tax assets. For further details on regulatory assets and capital and income tax assets and capital, refer to the "Capital Management" section of this MD&A.

Other MBS Programs

Insured Mortgage Purchase Program

We participated in the IMPP, which involved the sale of MBS to CMHC by MCAN. Although we have no continuing economic involvement in the IMPP, we earned an up-front fee for our participation. We participated in the IMPP on behalf of MCAP, who is entitled to 100% of the ongoing economics and cash flows of the IMPP.

We purchased certain mortgages from MCAP that were subsequently securitized into MBS as part of the IMPP. These mortgage sales from MCAP to MCAN failed to meet derecognition criteria, since MCAP retained substantially all risks and rewards as part of the aforementioned entitlement to all economics and cash flows. As a result of this, at the time of sale we recognized a corresponding financial investment (representing a receivable from MCAP) and financial liability from securitization (representing the securitization proceeds received from CMHC). We are the counterparty for the ongoing cash flows between MCAP and CMHC in its role as the IMPP counterparty.

Similar to the CMB program, we have no direct obligations relating to the renewals or refinances of the underlying IMPP mortgages. As the originator and servicer of these mortgages, MCAP has control over the direction of the renewed or refinanced mortgages. We do not have the right to create new MBS with these matured mortgages upon renewal, early renewal or refinance,

however they may potentially be used to create new MBS as part of the aforementioned market MBS program that we initiated in 2011. Since the inception of the market MBS program, 0.2% (\$524,000) of mortgages in new MBS pool issuances through this program have been renewed or refinanced mortgages from the IMPP. We do not rely on renewed or refinanced mortgages from the IMPP to create new MBS pools that are sold through the market MBS program.

Timely Payment Guarantee

Consistent with all issuers of MBS, we are 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. Irrespective of any economic sharing arrangements noted above, we maintain the Timely Payment Guarantee obligation in our role as MBS issuer until the maturity of the security. If we fail 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.

If mortgage payments have not been collected from mortgagors or mortgagors are unable to renew their mortgages at their scheduled maturities, we will be required to use our own financial resources to fund our pro-rata share of these obligations until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties.

CMB Program

As part of the CMB program, MCAP is responsible for its pro-rata share of the Timely Payment Guarantee obligations noted above based on its contracted economic participation. If MCAP is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund MCAP's pro-rata share of these obligations until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties. To date, we have not had to use our own financial resources to fund any CMB program cash shortfalls from MCAP.

Insured Mortgage Purchase Program

As part of the IMPP, MCAP is obligated to fund 100% of any cash shortfalls associated with the Timely Payment Guarantee as noted above. If MCAP is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund MCAP's 100% share of this obligation until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties. To date, we have not had to use our own financial resources to fund any IMPP cash shortfalls from MCAP.

Market MBS Program

As part of the market MBS program, the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfalls associated with the Timely Payment Guarantee as noted above. If the interest-only strip purchaser is not able to provide funds to cover any cash shortfalls, we will be required to use our own financial resources to fund its 100% share of this obligation until mortgage arrears are collected or proceeds are received from the mortgage insurers following the sale of the mortgaged properties. To date, we have not had to use our own financial resources to fund any market MBS program cash shortfalls from interest-only strip purchasers.

Mortgage Renewal Rights

In acquiring Xceed, MCAN acquired the renewal rights to insured mortgages which arose from CMHC-insured mortgages previously originated and sold by Xceed to third parties for sale into the CMB program, on which Xceed achieved derecognition from its balance sheet. As at December 31, 2013, MCAN had the renewal rights to \$683 million of off-balance sheet mortgages.

Xceed retains renewal rights on mortgages it originates when it sells mortgages to third parties. At renewal, MCAN and Xceed may be able to renew these mortgages by offering clients competitive rates, thereby contributing to future revenues.

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At December 31, 2013, there were 20,460,936 common shares outstanding. For additional information related to share capital, refer to Note 23 to the consolidated financial statements. At February 23, 2014, there were 20,507,023 common shares outstanding.

DIVIDEND POLICY AND RECORD

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

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

Table 27: Dividends

Fiscal Period	2013	2012	2011
First Quarter - Regular Dividend	\$ 0.28	\$ 0.27	\$ 0.27
First Quarter - Extra Dividend	0.03	0.33	0.73
Second Quarter	0.28	0.27	0.27
Third Quarter	0.28	0.27	0.27
Fourth Quarter	0.28	0.28	0.27
	\$ 1.15	\$ 1.42	\$ 1.81
Taxable Dividends	1.15	1.37	1.81
Capital Gains Dividends	-	0.05	-
	\$ 1.15	\$ 1.42	\$ 1.81

The Board declared a first quarter dividend of \$0.28 per share to be paid March 31, 2014 to shareholders of record as of March 17, 2014.

CONTRACTUAL OBLIGATIONS

We have contractual obligations relating to an operating lease, in addition to outstanding commitments for future fundings of mortgages intended for our own portfolio. As part of the acquisition of Xceed, the former head office of Xceed was vacated and we wrote off any future obligations as part of the acquisition.

We outsource the majority of our mortgage and loan origination and servicing to MCAP and other third party originators and servicers. We continue to pay servicing expenses as long as the mortgages and loans remain on our balance sheet.

Table 28: Contractual Obligations

(in thousands)	Less than one year	One to three years	Three to five years	Over five years	Total
As at December 31, 2013					
Mortgage fundings	\$ 335,313	\$ 75,281	\$ -	\$ -	\$ 410,594
Operating lease	817	1,364	914	2,244	5,339
	\$ 336,130	\$ 76,645	\$ 914	\$ 2,244	\$ 415,933

TRANSACTIONS WITH RELATED PARTIES

In 2013, we purchased certain corporate services from MCAP in the amount of \$695,000 (2012 - \$566,000). We also purchased certain mortgage origination and administration services from MCAP in the amount of \$2.1 million (2012 - \$2.8 million). In 2013, we received \$4.0 million of mortgage fees from MCAP (2012 - \$3.0 million). The fees received from MCAP include commitment, extension, renewal, and letter of credit fees. We use MCAP systems, including networks, subsystems and general ledger. We also receive technology support from MCAP.

In 2013, we paid fees in the amount of \$1.3 million to MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages (2012 - \$1.7 million). We received \$94,000 of fees from MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages (2012 - \$190,000). The remaining balance of the portfolio was sold in late 2013.

In 2013, we earned \$nil from the sale of interest-only strips to MCAP (2012 - \$978,000), discussed above in the "Securitization Programs" section of this MD&A.

We have an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to key personnel for the purpose of purchasing MCAN'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. During 2013, MCAN advanced \$450,000 of new loans under the Share Purchase Plan (2012 - \$nil). As at December 31, 2013, \$1.8 million of loans were outstanding (December 31, 2012 - \$1.9 million). The loans under the Share Purchase Plan bear interest at prime plus 1%, and have a five-year term.

In 2010, we established a Deferred Share Units Plan (the "DSU Plan") whereby the Board granted units under the DSU Plan to the President and Chief Executive Officer (for the purposes of this paragraph, the "Participant"). Each unit is equivalent in value to one common share of MCAN. Following the Participant's retirement/termination date, the Participant is entitled to receive cash for each unit. The individual unit value is based on the average market value of MCAN's common shares for the five days preceding the retirement/termination date. The Participant was granted 30,000 units under the DSU Plan during 2010. In addition, the Participant is entitled to receive dividend distributions in the form of additional units. The underlying units follow a graded vesting schedule over three years. All dividends paid prior to July 6, 2014 vest as at July 6, 2014. All dividends paid after July 6, 2014 vest immediately. As at December 31, 2013, 30,000 units had vested (December 31, 2012 - 20,000).

We recognize compensation expenses associated with the DSU Plan in line with the graded vesting schedule. The compensation expense recognized for the year ended December 31, 2013 related to the DSU Plan was \$49,000 (2012 - \$137,000). As at December 31, 2013, the accrued DSU Plan liability was \$495,000 (December 31, 2012 - \$446,000), included in other corporate liabilities.

In 2013, we established a Restricted Share Units Plan (the "RSU Plan") whereby the Board of Directors granted units under the RSU Plan to certain executives (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. The RSU Participants were granted 11,200 units under the RSU Plan in December 2013. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years. As at December 31, 2013, no units had vested (December 31, 2012 - n/a).

We recognize compensation expenses associated with the RSU Plan on the accrual basis over the vesting period. The compensation expense recognized related to the RSU Plan for 2013 was \$2,000 (2012 - n/a). As at December 31, 2013, the accrued RSU Plan liability was \$2,000 (December 31, 2012 - n/a).

ACQUISITION OF XCEED

On July 4, 2013, MCAN acquired all of the issued and outstanding common shares of Xceed. The total purchase price paid by MCAN consisted of cash of \$30.3 million (representing 17,309,747 shares purchased for cash consideration of \$1.75 per share) plus 1,531,903 common shares of MCAN (representing 12,982,310 Xceed shares at an exchange ratio of 0.118).

The 1,531,903 common shares of MCAN were valued using a price of \$14.05 per share, representing MCAN's closing share price as of July 4, 2013. Under IFRS 3, *Business Combinations*, the share consideration is measured based on the closing date of the business combination.

The purchase was accounted for as a business combination using the acquisition method of accounting under IFRS 3. As such, we valued the identifiable assets and liabilities of Xceed at fair value and recorded a bargain purchase gain of \$2.1 million, representing the excess of the fair value of the net assets and liabilities acquired over the purchase price of Xceed.

Based on the above regarding consideration transferred, the purchase equation is as follows:

Table 29: Xceed Acquisition Information

(in thousands)	
Fair value of net assets acquired	
Cash and cash equivalents	\$ 7,007
Mortgages - corporate	46,289
Mortgages - securitized	394
Other assets	4,334
Current taxes receivable	148
Deferred tax assets	106
Other liabilities	(4,336)
Total net assets acquired	53,942
Consideration transferred	
Cash	30,292
Shares	21,523
Total consideration transferred	51,815
Excess of net assets acquired over consideration transferred (bargain purchase gain)	\$ 2,127

The bargain purchase gain of \$2.1 million does not include "transaction and restructuring" expenses of \$2.0 million included in the consolidated statement of income for the year ended December 31, 2013.

In the determination of the fair value of the net assets acquired above, adjustments were made to the July 4, 2013 carrying values to reflect the overall marketability of the mortgages to third party investors, regulatory changes, the yield requirements of third party investors, factors such as borrower credit and repayment history, loan and debt service ratios, local market conditions and regulatory requirements.

Other liabilities of \$4.3 million include a reserve of \$1.6 million set up by MCAN associated with Xceed's off balance sheet securitized mortgage portfolio, which is expected to be incurred over the remaining duration of the portfolio. At December 31, 2013, Xceed had \$683 million outstanding in this securitized mortgage portfolio.

The total fair value adjustment on acquisition was a reduction of \$8.5 million from Xceed's net book value.

Xceed is a specialized, single family insured and uninsured residential mortgage lender, focused primarily on the insured area of the mortgage market.

The acquisition of Xceed is expected to provide multiple benefits to MCAN, including: (i) opportunities for long-term and sustainable earnings derived from a combination of Xceed's CMHC origination and underwriting capabilities and MCAN's existing operations and superior access to capital; (ii) CMHC-approved lender status which will provide MCAN with the opportunity to expand the scope of its operations; and (iii) enhanced portfolio management resulting from Xceed's database management and reporting capabilities. The issuance of share capital to partially fund the acquisition also increased MCAN's asset capacity by approximately \$124 million based on its target assets to capital ratio of 5.75 which is measured on a tax basis.

CAPITAL MANAGEMENT

We derive our net investment income from the investment of our equity and the difference or spread between amounts earned on our assets and the cost of the term deposits that we issue to fund such assets. We borrow to the extent that we are satisfied that the borrowing and additional investments will increase our overall profitability.

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

Table 30: Income Tax Capital¹

(dollars in thousands)	December 31 2013	December 31 2012
Tax Act Ratios¹		
Income tax assets	\$ 1,004,711	\$ 953,235
Income tax capital	\$ 187,915	\$ 168,477
Income tax assets to capital ratio	5.35	5.66
Income tax liabilities to capital ratio	4.35	4.66

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

The maximum leverage permitted under the Tax Act is more constraining on MCAN than the regulatory assets to capital ratio mandated by OSFI. Accordingly, we manage our assets to a level of 5.75 times capital on a tax basis to provide a prudent cushion between the maximum permitted assets and total actual assets.

As a loan company under the *Trust and Loan Companies Act* (the "Trust Act"), OSFI oversees the adequacy of our capital. For this purpose, OSFI has imposed minimum capital-to-regulatory (or risk-weighted) assets ratios and a maximum assets to capital ratio. Assets securitized through the CMB program prior to September 30, 2010 are excluded from the calculation of these regulatory ratios.

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. The Basel III rules will be phased in from 2013 to 2019. In December 2012, OSFI released its final Capital Adequacy Requirements ("CAR") guideline, effective January 1, 2013, to reflect (and require Canadian financial institutions to adhere to) certain changes to the global capital rules represented by Basel III.

Of particular relevance to the Company, under the CAR guideline:

- OSFI requires all federally regulated financial institutions to meet the minimum Common Equity Tier 1 ("CET 1"), Total Tier 1 and Total Capital requirements set out therein. In 2013, those minimum capital ratios are 3.5% for CET 1, 4.5% for Total Tier 1 and 8% for Total Capital and by 2015 those minimum capital ratios increase to 4.5%, 6% and 8%, respectively (with the phase-in of certain regulatory adjustments and phase-out of non-qualifying capital instruments over a 10 year horizon).
- The regulatory adjustments to be phased into the calculation of the capital ratios of a federally regulated financial institution include the deduction of certain non-significant investments in the capital of banking, financial and insurance entities above 10% of the institution's CET 1 capital (after certain prescribed regulatory adjustments). This adjustment for non-significant investments in the capital of banking, financial and insurance entities is expected to impact the Company's capital calculations and, in particular, the inclusion of its equity investment in MCAP in such calculations.
- Capital, for purposes of the assets-to-capital multiple, can be calculated on a transitional basis (phasing-in regulatory adjustments between 2014 and 2018 and phasing-out non-qualifying capital instruments over a 10 year horizon commencing in 2013). As at December 31, 2013, we did not have any non-qualifying capital instruments.
- Commencing in 2016, OSFI will also require all federally regulated financial institutions to maintain a capital conservation buffer. The buffer will be phased-in over time and reach its final level of 2.5% in 2019.
- In addition to the minimum capital requirements and capital conservation buffer to be maintained by all federally regulated institutions, OSFI expects all such institutions to attain target capital ratios equal to or greater than the 2019 minimum capital ratios and the 2019 capital conservation buffer well in advance of the phase-in period. Accordingly, OSFI expects all federally regulated institutions to achieve a CET 1 ratio of 7% by the first quarter of 2013, and a Total Tier 1 ratio of 8.5% and a Total Capital ratio of 10.5% by the first quarter of 2014 (in each case, calculated on an "all

in" basis giving effect to all regulatory adjustments that will be required by 2019 and including the 2019 capital conservation buffer). Failure to achieve such targets will serve as triggers for supervisory intervention.

Our internal target minimum Tier 1 and Total capital ratios are both 20%. We expect to be able to meet OSFI's requirements and expectations above without materially adversely affecting the Company's business plan.

Table 31: Regulatory Capital

(in thousands except %)	December 31, 2013 Basel III (All-in)	December 31, 2013 Basel III (Transitional)	December 31, 2012 (Basel II)
Regulatory Ratios (OSFI)			
Share capital	\$ 179,215	\$ 179,215	\$ 155,005
Contributed surplus	510	510	510
Retained earnings	27,669	27,669	19,985
Accumulated other comprehensive income ¹	3,002	3,002	n/a
Adjustment for equity investment in MCAP Commercial LP ²	(18,206)	-	n/a
Common Equity Tier 1 capital	192,190	210,396	n/a
Tier 1 capital deductions	-	-	(229)
Tier 1 capital	192,190	210,396	175,271
Unrealized gain on available for sale marketable securities ¹	n/a	n/a	1,032
Tier 2 capital deductions	-	-	(229)
Tier 2 capital	-	-	803
Total capital	\$ 192,190	\$ 210,396	\$ 176,074
Total regulatory assets	\$ 1,244,426	\$ 1,244,426	\$ 1,002,759
Total risk-weighted assets	\$ 969,150	\$ 1,005,562	\$ 806,140
Capital ratios ³			
Common Equity Tier 1 capital to risk-weighted assets ratio	19.83%	20.92%	n/a
Tier 1 capital to risk-weighted assets ratio	19.83%	20.92%	21.74%
Total capital to risk-weighted assets ratio	19.83%	20.92%	21.84%
Assets to capital ratio	6.47	5.91	5.70

¹ Under Basel III, all accumulated other comprehensive income is included in Common Equity Tier 1 capital. Under Basel II, only the available for sale marketable securities portfolio was included in regulatory capital, as part of Tier 2 capital.

² The deduction for the equity investment in MCAP is the amount of the investment in excess of 10% of the Company's regulatory capital (but prior to this deduction from regulatory capital).

³ For further details, refer to the "Non-IFRS Measures" section of this MD&A.

We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets. In conjunction with the annual strategic planning and budgeting process, we complete an Internal Capital Adequacy Assessment Process ("ICAAP") in order to ensure that we have the capital adequacy to support our business plan and risk appetite. The ICAAP assesses the capital available to support the various inherent risks that we face including credit, liquidity, interest rate, market, geographic concentration and reputational risks. The Company's business plan is also stress tested under various adverse scenarios in order to determine the impact on our results from operations and financial condition. The ICAAP is reviewed by both management and the Board and is submitted to OSFI annually. In addition, we perform stress testing on our internal forecasts for capital adequacy on a quarterly basis and the results of such testing are reported to the Board. Based on our 2013 ICAAP and recent quarters' stress testing, we have determined that the Company remains adequately capitalized.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

LIQUIDITY

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the Risk Committee of the Board ("RCB") on a quarterly basis. The table below shows the composition of our liquidity ratios over the last two years.

Table 32: Liquidity Ratios

(in thousands except %)		
As at December 31	2013	2012
Tier 1 liquidity		
Cash and cash equivalents	\$ 64,945	\$ 123,825
Tier 2 liquidity		
Marketable securities	21,687	20,390
Market MBS held by MCAN	7,220	7,137
	28,907	27,527
Tier 3 liquidity		
Single family insured mortgages ¹	39,194	19,458
Total liquidity	\$ 133,046	\$ 170,810
100 day term deposit maturities	\$ 72,255	\$ 141,958
Tier 1 & 2 liquidity to 100 day term deposit maturities	130%	107%
Total liquidity to 100 day term deposit maturities	184%	120%

¹ Reduced from book value to reflect lower liquidity than Tier 1 and Tier 2, as follows: CMHC insured (25%), CMHC insured second mortgages (50%), privately insured (50%).

In December 2010, the BCBS introduced Basel III: International framework for liquidity risk measurement, standards and monitoring, which outlined two minimum standards, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") and a series of liquidity monitoring tools for supervisors. This framework was followed in January 2013 by the issuance of Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools, which updated the LCR and liquidity monitoring tool sections of the December 2010 publication. At the end of 2013, OSFI released a draft Liquidity Adequacy Requirement Guideline that combines the tools and measurements from the BCBS guidance as well as OSFI's Net Cumulative Cash Flow ("NCCF") measure. The LCR is calculated as the ratio of the stock of high-quality liquid assets to stressed net cash outflows over a 30-day time period under a specified regulatory scenario. The NCCF measures net cumulative cash flows, on a contractual basis, after the application of assumptions around the functioning of assets and modified liabilities (i.e. where rollover of certain liabilities is permitted) and helps identify gaps between contractual inflows and outflows for various time bands over and up to a 12 month time horizon, which indicate potential liquidity shortfalls. The OSFI guideline is scheduled to be finalized in 2014 with the LCR, NCCF, and liquidity monitoring tools coming into effect as of January 1, 2015. Final guidance on the NSFR is expected later in 2014 as the BCBS is conducting a review of the standard over 2014. We believe that we are well positioned to meet these regulatory requirements.

RISK FACTORS

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

We are exposed to a number of risks that can adversely affect our ability to achieve our business objectives or execute our business strategies, and which may result in a loss of earnings, capital and/or damage to our reputation. The risks that have been identified may not be the only risks that we face. Other risks of which we are not aware of or which we currently deem to be immaterial may surface and have a material adverse impact on our business, results from operations and financial condition.

The significant risks to which we are exposed are as follows:

Liquidity Risk

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

Reputational Risk

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

Reliance on Key Personnel

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

Strategic and Business Risk

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

Operational Risk

Operational risk is the exposure to loss or harm resulting from inadequate or failed internal processes, people and systems, or from an external event such as a natural disaster. The largest component of this risk has been separately identified as outsourcing risk. The remaining risks arise from the small size and entrepreneurial nature of MCAN, and the legacy systems used within it. The exposure to financial misreporting, inaccurate financial models, fraud, breaches in privacy, information security, attraction and retention of employees, and business continuity and recovery are included within operational risk.

Outsourcing Risk

Outsourcing risk is the risk incurred when we contract out a business function to a service provider instead of performing the function ourselves, and the service provider performs at a lower standard than we would have under similar circumstances. We outsource all mortgage and loan origination, servicing and collections to MCAP and other third parties.

Credit Risk

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

party fails to meet its obligations to the Company and the value realized on the sale of the underlying security deteriorates below the carrying amount of the exposure.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on and off-balance sheet, have mismatched repricing dates. Changes in interest rates where we have mismatched repricing dates may have an adverse effect on our financial condition and results of operations. In addition, interest rate risk may arise when changes in the underlying interest rates on assets do not match changes in the interest rates on liabilities. This potential mismatch may have an adverse effect on our financial condition and results of operations.

Our exposure to interest rate risk is discussed further in Note 33 to the consolidated financial statements.

Economic Conditions

Factors that could impact general business conditions include changes in short-term and long-term interest rates; commodity prices; inflation; consumer, business and government spending; real estate prices and adverse economic events.

Regulatory Risk

Changes in laws and regulations, including interpretation or implementation, may affect the Company by limiting the products or services that we can provide and increasing the ability of competitors to compete with our products and services. Also, any failure by the Company to comply with applicable laws and regulations may result in sanctions and financial penalties which may adversely impact our earnings and damage our reputation. Increasing regulations and expectations as a result of the recent financial crisis, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

Qualification as a Mortgage Investment Corporation

Although we intend to qualify at all times as a MIC, no assurance can be provided in this regard. If for any reason we do not maintain our qualification as a MIC under the Tax Act, taxable dividends and capital gains dividends paid by MCAN on our common shares will cease to be fully or partly deductible in computing income for tax purposes and such dividends will no longer be deemed by the rules in the Tax Act that apply to MICs to have been received by shareholders as interest or a capital gain, as the case may be. As a consequence, the rules in the Tax Act regarding the taxation of public corporations and their shareholders should apply, with the result that the combined rate of corporate and shareholder tax could be significantly greater.

Market Risk

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

Competition Risk

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

Monetary Policy

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

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations.

We aim to mitigate this risk by complying with all environmental laws and by applying a rigorous environmental policy and procedures to our commercial and development lending activities.

Changes in Laws and Regulations

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

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements. Please refer to the "Standards Issued But Not Effective" section of this MD&A for further details.

Accuracy and Completeness of Information on Customers and Counterparties

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we rely on information furnished by them, including financial statements and other information. We may also rely on the representations of customers and counterparties as to the accuracy and completeness of that information. Our financial condition and results of operations may be negatively affected to the extent that we rely on financial statements and other information that do not comply with IFRS, that are materially misleading or that do not fairly represent, in all material respects, the financial condition and results of operations of the customers and counterparties.

Leverage

Leverage increases our potential exposure to all risk factors described above.

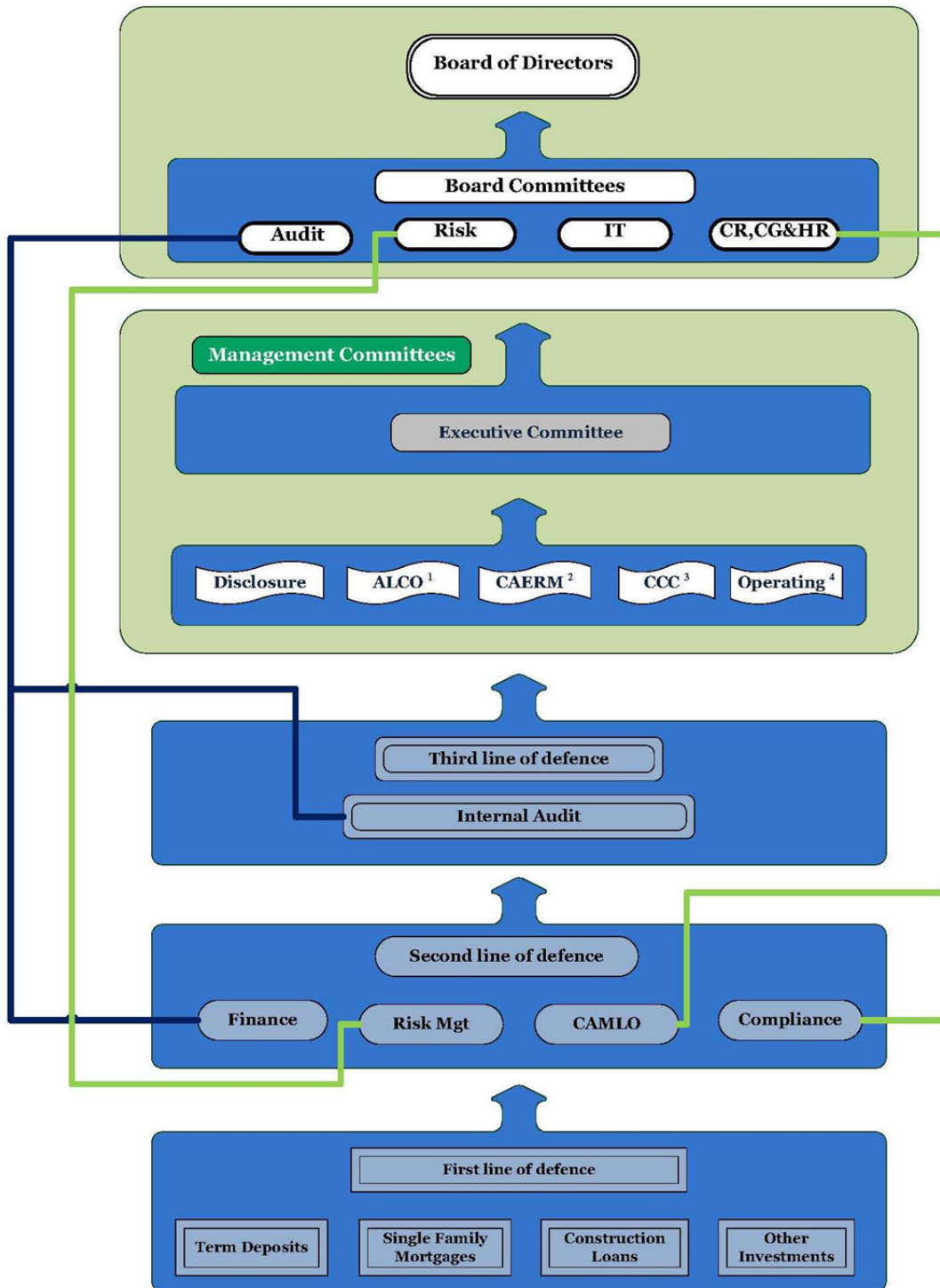
No Assurance of Achieving Investment Objectives or Payment of Dividends

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

RISK GOVERNANCE AND MANAGEMENT

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

The Chair of the Board and the other Board members have overall responsibility for risk governance within MCAN. They provide oversight and carry out their risk management mandate primarily through the Risk Committee of the Board (“RCB”), the Audit Committee of the Board (the “Audit Committee”), the Information Technology Committee of the Board (the “IT Committee”), and the Conduct Review, Corporate Governance and Human Resources Committee of the Board (the “HR Committee”). There is a further committee structure at the management level as illustrated in the following diagram:



¹ Asset and Liability Committee
² Compliance, Audit and Enterprise Risk Management Committee
³ Capital Commitments Committee
⁴ Operating Committee

The RCB is responsible for overseeing risk management across the Company. It ensures the relevance of the Company's Risk Appetite Framework ("RAF") and its alignment with the Company's strategy. It has the responsibility to ensure that the risk management function is independent from the business activity it reviews, and that the policies, procedures and controls used by management are sufficient to keep risks within the Company's risk framework and appetite.

The Chief Executive Officer ("CEO") and the executive management team are responsible for developing the strategy and a comprehensive set of enterprise wide policies, including the risk appetite framework, for approval by the Board. They are responsible for fostering the "tone at the top" and applying the approved strategy and RAF to the business operations of the Company to help maximize, within the Company's risk appetite, the benefit to shareholders and other stakeholders from a portfolio of risks that the Company is willing to accept. MCAN's Operating Committee provides governance over the operations of MCAN to ensure that the strategy and tactics used by which MCAN in its funding and investing activities are effective in meeting the Corporation's stated objectives.

The Company's operating model is predicated on the three-lines-of-defense approach to the management of risk. The operating areas headed by the CEO are the first line of defense in the Company's management of risk. They "own" the risk in their areas of responsibility and are responsible for ensuring the Company pursues only suitable business opportunities that are within the Company's risk appetite.

The second line of defense establishes the enterprise level risk management frameworks and policies, and provides risk guidance and oversight of the effectiveness of First Line risk management practices. These activities are provided by.

- The Chief Risk Officer ("CRO"), who is responsible for providing independent review and oversight of enterprise-wide risks and for the fostering of a strong risk culture throughout the organization. The CRO has responsibility for maintaining and managing the RAF and in that regard for identifying, measuring, controlling, and reporting on the significant business risks of the Company.
- The Chief Financial Officer ("CFO"), who is responsible for the accuracy and integrity of the Company's accounting and financial reporting systems, financial statements, and planning and budgeting systems and documents. The CFO ensures legal and regulatory compliance for all financial matters within the Company. The CFO is responsible for the Company's financial and capital plans which are presented to the Executive Committee and the Board for annual approval. Progress against these plans is regularly reported to the Board and regulators. The Finance group that the CFO heads also updates the plan with periodic forecasts, advises the Board of anticipated outcomes, and recommends revisions to capital plans and structures as appropriate.
- The Chief Compliance Officer ("CCO"), who is responsible for measuring, and reporting on, compliance with the Company's policies and processes that have been designed to manage and mitigate regulatory compliance risk. The CCO is mandated to promote a sound compliance culture, report to the Board on compliance with legislative requirements and make recommendations related to compliance activities.
- The Chief Anti-Money Laundering Officer ("CAMLO"), who is responsible for the Company's adherence to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act with regard to its deposit taking and lending activities.

The third line of defense is provided by MCAN's internal audit group which monitors, and reports on, the effectiveness of controls, risk management, and governance practices within the Company.

As discussed above in the "Risk Factors" section of this MD&A, we are exposed to certain inherent risks, including credit risk, liquidity risk and interest rate risk. We mitigate these risks through prudent credit limits, established lending policies and procedures, effective monitoring and reporting, investment diversification and by the diligent management of assets and liabilities.

Liquidity Risk

We closely monitor our liquidity position to ensure that we have sufficient cash to meet liability obligations as they become due. The RCB is responsible for the review and approval of liquidity policies. The Asset and Liability Committee ("ALCO"), which is comprised of management, is responsible for liquidity management. We have an internal target of a standard level of liquid investments (cash and cash equivalents, marketable securities, 75% of CMHC-insured single family mortgages, 50% of CMHC-insured single family second mortgages and 50% of privately insured mortgages) of at least 100% of term deposits maturing within 100 days. In addition, all single family mortgages are readily marketable within a time frame of one to three months, providing us with added flexibility to meet unexpected liquidity needs. We have access to capital through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed. We also maintain an overdraft facility to fund asset growth or meet our short-term obligations as required. The overdraft facility is a component of a larger credit facility that also has a portion which guarantees letters of credit used to support the obligations of borrowers to municipalities in conjunction with construction loans. The total facility is \$75 million, with sub-limits of \$50 million for overdrafts and \$50 million for letters of credit. In addition, we maintain a credit warehouse facility

which can be drawn as required as mortgage fundings occur, which bears interest at the prime rate. This facility provides up to \$75 million of borrowings, and insured mortgages are eligible to act as collateral in the facility for a period of no longer than one year.

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

Management has developed a Liquidity Risk Management Framework that is reviewed and approved annually by the Board. This framework details the daily, monthly and quarterly analysis that is performed by management. Management monitors changes in cash and cash requirements on a daily basis and formally reports to ALCO on a monthly basis. Management also completes monthly and quarterly stress testing which is reviewed by ALCO and the RCB. Management monitors trends in deposit concentration with significant term deposit brokers on a monthly basis.

Our liquidity position and access to funding support our ability to meet current and expected future commitments. Our liquid investments were 184% of term deposits maturing within 100 days at December 31, 2013 (December 31, 2012 - 120%). For further details on our liquid assets and our ability to meet liability obligations, refer to Note 34 to the consolidated financial statements.

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

Our sources and uses of liquidity are outlined in the table below. We manage our net liquidity surplus/deficit by raising term deposits as mentioned above.

Table 33: Liquidity Analysis

(in thousands)	Within 3 Months	3 Months To 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2013	December 31 2012
Sources of liquidity							
Cash and cash equivalents	\$ 64,945	\$ -	\$ -	\$ -	\$ -	\$ 64,945	\$ 123,825
Marketable securities	-	-	5,867	1,342	14,478	21,687	20,390
Mortgages - corporate	279,792	172,844	296,577	95,633	16,767	861,613	739,812
Foreclosed real estate	-	-	-	-	5,667	5,667	4,355
Financial investments	2	145	244	-	18,906	19,297	18,067
Other loans	14	-	715	-	1,801	2,530	3,164
	344,753	172,989	303,403	96,975	57,619	975,739	909,613
Uses of liquidity							
Term deposits	62,990	388,142	300,851	38,239	-	790,222	777,077
Loans payable	-	17,991	-	-	-	17,991	-
Other liabilities	13,170	-	-	-	-	13,170	9,493
	76,160	406,133	300,851	38,239	-	821,383	786,570
Net liquidity surplus (deficit)	\$ 268,593	\$ (233,144)	\$ 2,552	\$ 58,736	\$ 57,619	\$ 154,356	\$ 123,043
Off-Balance Sheet							
Unfunded mortgage commitments	\$ -	\$ 335,313	\$ 75,281	\$ -	\$ -	\$ 410,594	\$ 247,587

The above table excludes securitized assets and liabilities and pledged assets as their use is restricted to CMB/MBS operations.

For a discussion regarding liquidity risk relating to the maturity of CMB program issuances and other MBS programs, refer to the "Timely Payment Guarantee" section of the "Securitization Programs" discussion.

Reputational Risk

The most effective way for the Company to safeguard its public reputation is through the successful management of the underlying risks in the business.

Strategic and Business Risk

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

Operational Risk

We manage operational risk through various committees and processes. Our management team reviews operational measures on a recurring basis as part of the Operating Committee, Compliance Audit and Enterprise Risk Management Committee, and ALCO. We also provide monthly updates to the Board to provide an update on operations and other key factors and issues that arise.

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

Outsourcing Risk

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

Credit Risk

Credit and commitment exposure is closely monitored through a reporting process that includes a formal monthly review involving ALCO and a formal quarterly review involving the RCB. A Dashboard Report, which identifies, assesses, ranks and provides trending analysis on all material risks to the Company, is provided to the RCB on a quarterly basis. Weekly monitoring also takes place through our Capital Commitments Committee, which is comprised of certain members of management.

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

We identify potential risks in our mortgage portfolio by way of regular review of market metrics, which are a key component of quarterly market reports provided to the RCB. We also undertake site visits of active mortgage properties. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, annual reviews of large loans and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provides adequate monitoring of and control over our exposure to credit risk. In the current economic environment, we have increased our monitoring of real estate market values for single family mortgages, with independent assessments of value obtained as individual mortgages exceed 90 days in arrears.

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

We have established a methodology for determining the adequacy of our collective allowances. The adequacy of collective allowances is assessed periodically, taking into consideration economic factors such as Gross Domestic Product, employment, housing market conditions as well as the current position in the economic cycle.

We record an individual allowance to the extent that the estimated realizable value of a mortgage has decreased below its net book value. Individual allowances include all of the accumulated provisions for credit losses on a particular mortgage. At December 31, 2013, we had recorded \$1.1 million (December 31, 2012 - \$713,000) of individual allowances on our corporate mortgage portfolio (refer to Note 10 to the consolidated financial statements).

Our maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, whose maximum credit exposure also includes outstanding commitments for future mortgage fundings.

Interest Rate Risk

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

We manage interest rate risk associated with securitization assets and liabilities through the use of “pay-floating, receive-fixed” interest rate swaps. For further details, refer to the “CMB Program” section of this MD&A.

Ultimately, risk management is monitored and controlled at the highest level of the Company. ALCO reviews and manages these risks on a monthly basis. The Board also reviews and approves all risk management policies and procedures at least annually. Management reports to the Board on the status of risk management at least quarterly.

Market Risk

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

General Litigation

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 that may result in unplanned payments to third parties. To the best of our knowledge, MCAN management does not expect the outcome of any of these proceedings to have a material adverse effect on the consolidated financial position or results of operations of MCAN.

Currently, MCAP is one of several parties to a claim in respect of a development project in Alberta. Although a summary judgment in MCAP's favour was rendered at trial, the Alberta Court of Appeal overturned the summary judgment in part and has directed that certain aspects of the claim be allowed to proceed to trial. MCAN management does not believe that the claim has any merit and believes the claim will ultimately be unsuccessful. In any event, management believes that any monetary damages against MCAP would not have a material financial impact on MCAN.

Changes in Laws and Regulations

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

Changes in Accounting Standards and Accounting Policies

We may be subject to changes in the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes may materially impact how we record and report our financial condition and results of operations and, in certain circumstances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements. Please refer to the “Standards Issued But Not Effective” section of this MD&A for further details.

PEOPLE

As at December 31, 2013, we had 48 employees.

REGULATORY COMPLIANCE

Our CCO ensures that management understands the impact of all relevant legislation affecting the business, assesses compliance with current and pending legislation and works with management to address any gaps in policies and procedures. We use a Legislative Compliance Management System that ensures all managers assess their compliance with relevant legislation on a quarterly basis. Senior management liaises with regulators to keep them apprised of company progress and changes to our business. Our CCO reports quarterly to the HR Committee.

INTERNAL AUDIT

The Internal Audit function, consisting of the Chief Audit Officer, has unrestricted access to our operations, records, property and personnel, including senior management, the Chair of the Audit Committee and the other members of the Board. Internal Audit formulates an annual risk-based plan for approval by the Audit Committee and then undertakes internal audit reviews throughout the year with regular and direct reporting to both senior management and the Audit Committee.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Note 4 to the consolidated financial statements provides detailed information on our significant accounting policies, the method of applying those policies, and the material components of the amounts in the consolidated balance sheets and the statements of income, changes in shareholders' equity, comprehensive income and cash flows. The policies discussed below are considered particularly important, as they require management to make judgments involving estimations, which are discussed in Note 6 to the consolidated financial statements. We have control procedures to ensure that these policies are applied consistently and that the policies are independently reviewed on at least an annual basis. Changes to accounting policies are made only after an appropriate amount of research and discussion has occurred and independent advice is obtained. Estimates are considered carefully and reviewed at an appropriate level within MCAN. We believe that our estimates of the value of our assets and liabilities are appropriate. Actual results may differ from those estimates.

Financial Instruments

All financial instruments are initially recognized on the trade date, and are classified based on management's intentions. Financial assets are classified as held for trading, held to maturity, available for sale or loans and receivables, and financial liabilities are classified as held for trading or at amortized cost. Changes in the unrealized fair value of financial instruments classified as held for trading are recognized to income. Changes in the unrealized fair value of available for sale financial assets are recognized in the available for sale reserve, except for those considered to be changes attributable to impairment which are charged to income. Upon disposal, the cumulative change in fair value is transferred to income. Other classifications are subsequently measured at amortized cost. From time to time, we may use derivative and non-derivative financial instruments to manage interest rate risk as discussed above in the "Securitization Programs" section. Hedge accounting is optional, and where it can be applied, it requires MCAN to document the hedging relationship and to test the effectiveness of the hedging item to offset changes in value of the underlying hedged item on an ongoing basis. At December 31, 2013, we did not have any hedge accounting relationships.

All financial instruments that are carried on the consolidated balance sheets at fair value 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.

For further details on financial instruments, refer to Notes 4, 5, 8, 9, 10, 12, 13, 16, 17, 18, 19 and 22 to the consolidated financial statements.

Allowance for Credit Losses

The allowance for credit losses reduces the carrying value of mortgage assets to provide for an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Individual allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. The collective allowance represents losses that we believe have been incurred but not yet specifically identified. The collective allowance is established by considering historical loss trends during economic cycles, the risk profile of our current portfolio, estimated losses for the current phase of the economic cycle and historic industry experience. Allowance rates depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect our future provisions for credit losses from those provisions determined in the current year, and there could be a need to increase or decrease the allowance for credit losses.

We complete a review of all provisioning policies at least annually. We continue to monitor asset performance and current economic conditions, focusing on any regionally specific issues to assess the adequacy of the current provisioning policies. Provisioning rates are reviewed on a quarterly basis.

In addition to considering current economic conditions, we assessed the probability of default, expected loss as a result of default and the mortgage exposure at the time of default when establishing our collective allowance. We continue to review our underwriting and credit requirements on a regular basis, and we have taken measures as warranted by changes in the market and economic conditions.

We believe that we have established adequate provisioning rates given the current economic concerns. Our current provisioning rates consider the impact of a decline in real estate values and anticipated default/loss percentages that are sufficient to offset current and historical loss experiences.

On an ongoing basis, we reassess the fair value of other loans and financial investments, determined on the basis of expected discounted cash flows. When a decline in value is identified as a result of impairment that is other than temporary, an allowance is recorded through the income statement.

For further details on our accounting policies and balances of the allowances for credit losses, refer to Notes 4, 6, 10 and 12 to the consolidated financial statements.

Discount Income Recognition

We may acquire mortgage portfolios from third parties at fair market value. A mortgage discount will exist to the extent that the fair market value of a mortgage is less than its par value. The discount is allocated between a valuation reserve component and an accretion component. The valuation reserve component represents the risk of credit loss, while the accretion component represents the part of the discount to be recognized to income over time, thereby adjusting the yield on the mortgage from its face rate to an effective yield. The accretion component is amortized to income over the term of the related mortgage through the application of the effective interest rate method. The valuation reserve component is only recognized into income upon payout, less any realized credit loss.

Income Taxes

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. 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.

For further details on our accounting policies and balances relating to income taxes, refer to Notes 4 and 19 to the consolidated financial statements. We will continue to proactively monitor the appropriateness of our position on a quarterly basis.

STANDARDS ISSUED BUT NOT EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. This listing is of standards and interpretations issued, which we reasonably expect to be applicable at a future date. We intend to adopt those standards when they become effective.

IFRS 9, Financial Instruments

IFRS 9 was issued by the IASB in November 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

IAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

These amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. These amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems. This amendment will be effective for annual periods beginning on or after January 1, 2014. We are in the process of assessing the impact of adopting this amendment.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (“DC&P”)

A disclosure committee (the “Disclosure Committee”), comprised of members of our senior management is responsible for establishing and maintaining adequate disclosure controls and procedures. As of December 31, 2013, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Commission – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting (“ICFR”)

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR based upon the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2013.

Ernst & Young LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2013.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1 and ending on December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our ICFR.

Inherent Limitations of Controls and Procedures

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

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.

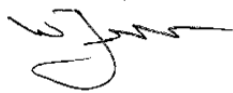
The Company’s accounting system and related internal controls are designed, and supporting procedures maintained to provide reasonable assurance that the Company’s financial records are complete and accurate and that assets are safeguarded against loss from unauthorized use or disposition.

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
Vice President and Chief Financial Officer

*Toronto, Canada,
February 24, 2014*

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, 2013 and December 31, 2012 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, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 24, 2014

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars)

As at December 31	Note	2013	2012
Assets			
Corporate Assets			
Cash and cash equivalents	8	\$ 64,945	\$ 123,825
Marketable securities	9	21,687	20,390
Mortgages	10	861,613	739,812
Foreclosed real estate	11	5,667	4,355
Financial investments	12	19,297	18,067
Other loans	13	2,530	3,164
Equity investment in MCAP Commercial LP	14	39,246	36,386
Other assets	15	3,953	4,687
		1,018,938	950,686
Securitization Assets			
Short-term investments	16	370,400	378,443
Mortgages	17	592,416	936,947
Financial investments	12	108,877	714,631
Derivative financial instruments	18	1,448	4,666
Other assets	15	207	1,248
		1,073,348	2,035,935
		\$ 2,092,286	\$ 2,986,621
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	19	\$ 790,222	\$ 777,077
Loans payable	33	17,991	-
Current taxes payable	20	13	2,114
Deferred tax liabilities	20	3,486	1,842
Other liabilities	21	13,170	9,493
		824,882	790,526
Securitization Liabilities			
Financial liabilities from securitization	22	1,054,656	2,015,046
Other liabilities	21	2,352	3,268
		1,057,008	2,018,314
		1,881,890	2,808,840
Shareholders' Equity			
Share capital	23	179,215	155,005
Contributed surplus	23	510	510
Retained earnings		27,669	19,985
Accumulated other comprehensive income	25	3,002	2,281
		210,396	177,781
		\$ 2,092,286	\$ 2,986,621

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

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	2013	2012
Net Investment Income - Corporate Assets			
Mortgage interest		\$ 50,509	\$ 41,395
Equity income from MCAP Commercial LP	14	6,563	6,906
Fees	26	2,347	2,236
Marketable securities		1,308	2,061
Whole loan gain on sale income	30	1,738	-
Realized and unrealized gain (loss) on financial instruments	18	(558)	-
Interest on financial investments and other loans		(62)	1,422
Interest on cash and cash equivalents		887	544
		62,732	54,564
Term deposit interest and expenses		19,163	17,157
Mortgage expenses	27	3,290	3,070
Interest on loans payable		954	642
Provision for credit losses	28	369	2,560
		23,776	23,429
		38,956	31,135
Other income - Corporate Assets			
Bargain purchase gain	6	2,127	-
Transaction and restructuring expenses	6	(2,010)	-
Gain on dilution of investment in MCAP Commercial LP	14	4,510	-
Gain on sale of investment in MCAP Commercial LP	14	736	-
		5,363	-
Net Investment Income - Securitization Assets			
Mortgage interest		7,365	14,124
Interest on financial investments		1,806	4,763
Interest on short-term investments		1,386	1,547
Other securitization income	29	3,761	9,655
		14,318	30,089
Interest on financial liabilities from securitization		13,998	26,888
Mortgage expenses	27	179	423
		14,177	27,311
Net investment income before fair market value adjustment		141	2,778
Fair market value adjustment - derivative financial instruments	18	(3,218)	(8,682)
		(3,077)	(5,904)
Operating Expenses			
Salaries and benefits		6,036	3,953
General and administrative		5,254	5,040
		11,290	8,993
Net Income Before Income Taxes		29,952	16,238
Provision for (recovery of) income taxes			
Current	20	(2,226)	(1,519)
Deferred	20	1,975	(3,736)
		(251)	(5,255)
Net Income		\$ 30,203	\$ 21,493
Basic and diluted earnings per share		\$ 1.54	\$ 1.22
Dividends per share		\$ 1.15	\$ 1.42
Weighted average number of basic and diluted shares (000's)		19,591	17,579

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of Canadian dollars)

Years Ended December 31	2013	2012
Net income	\$ 30,203	\$ 21,493
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	(871)	1,527
Less: deferred taxes	171	(301)
Transfer of gains on sale of marketable securities to net income	(264)	(943)
Less: deferred taxes	52	186
Change in unrealized gain on available for sale financial investment	1,882	190
Less: deferred taxes	(249)	(25)
	721	634
Comprehensive income	\$ 30,924	\$ 22,127

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years Ended December 31	Note	2013	2012
Share capital			
Balance, beginning of period		\$ 155,005	\$ 132,817
Common shares issued	23	24,210	22,188
Balance, end of period		179,215	155,005
Contributed surplus			
Balance, beginning of period		510	510
Changes to contributed surplus		-	-
Balance, end of period		510	510
Retained earnings			
Balance, beginning of period		19,985	23,491
Net income		30,203	21,493
Dividends declared	24	(22,519)	(24,999)
Balance, end of period		27,669	19,985
Accumulated other comprehensive income			
Balance, beginning of period		2,281	1,647
Other comprehensive income		721	634
Balance, end of period		3,002	2,281
Total shareholders' equity		\$ 210,396	\$ 177,781

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

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

Years Ended December 31	2013	2012
Cash provided by (used for):		
Operating Activities		
Net income	\$ 30,203	\$ 21,493
Adjusted for non-cash items:		
Current taxes	(2,226)	(1,519)
Deferred taxes	1,975	(3,736)
Equity income	(6,563)	(6,906)
Bargain purchase gain	(2,127)	-
Gain on MCAP commercial LP dilution	(4,510)	-
Gain on sale of investment in MCAP Commercial LP	(736)	2,560
Provision for credit losses	369	8,682
Fair market value adjustment - derivative financial instruments	3,218	-
Amortization of securitized mortgage and liability transaction costs	(558)	3,083
Amortization of other assets	72	127
Amortization of mortgage discounts (premiums)	(5,033)	(332)
Amortization of premium on marketable securities	219	154
Mortgage advances	(1,505,225)	(1,704,120)
Mortgage reductions	1,119,456	1,400,526
Proceeds on sale of mortgages	661,083	762,382
Issuance of term deposits	523,466	575,609
Repayment of term deposits	(510,321)	(400,109)
Issuance of financial liabilities from securitization	168,023	-
Repayment of financial liabilities from securitization	(1,128,772)	(1,096,911)
Decrease (increase) in other assets	4,291	(2,085)
Increase (decrease) in other liabilities	(417)	(2,520)
Cash flows for operating activities	(654,113)	(443,622)
Investing Activities		
Decrease in marketable securities	(2,649)	10,190
Increase in short-term investments	8,043	(32,956)
Decrease in financial investments	606,402	559,509
Increase in foreclosed real estate	(1,312)	(4,355)
Proceeds on sale of investment in MCAP Commercial LP	2,788	-
Decrease (increase) in other loans	634	(130)
Distributions from MCAP Commercial LP	6,162	-
Increase in equity investment in MCAP Commercial LP	-	(14,000)
Net investment in Xceed	(23,479)	-
Cash flows from investing activities	596,589	518,258
Financing Activities		
Issue of common shares	2,687	22,188
Increase in loans payable	17,991	-
Dividends paid	(22,034)	(24,308)
Cash flows from (for) financing activities	(1,356)	(2,120)
Increase in cash and cash equivalents	(58,880)	72,516
Cash and cash equivalents, beginning of period	123,825	51,309
Cash and cash equivalents, end of period	\$ 64,945	\$ 123,825
Supplementary Information		
	2013	2012
Interest received	\$ 50,316	\$ 62,755
Interest paid	30,387	39,915
Taxes paid	5	58

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note	Page
1. Corporate Information	61
2. Basis of Preparation.....	61
3. Basis of Consolidation.....	62
4. Summary of Significant Accounting Policies.....	62
5. Significant Accounting Judgments and Estimates	70
6. Acquisition of Xceed	71
7. Securitization Activities.....	72
8. Cash and Cash Equivalents.....	75
9. Marketable Securities	75
10. Mortgages - Corporate.....	75
11. Foreclosed Real Estate.....	78
12. Financial Investments	78
13. Other Loans	79
14. Equity Investment in MCAP Commercial LP	79
15. Other Assets.....	80
16. Short-Term Investments	81
17. Mortgages - Securitized.....	81
18. Derivative Financial Instruments.....	82
19. Term Deposits.....	83
20. Income Taxes.....	84
21. Other Liabilities	85
22. Financial Liabilities from Securitization	85
23. Share Capital and Contributed Surplus.....	86
24. Dividends.....	87
25. Accumulated Other Comprehensive Income	87
26. Fees.....	87
27. Mortgage Expenses.....	88
28. Provision for Credit Losses	88
29. Other Securitization Income	88
30. Whole Loan Gain on Sale Income	88
31. Related Party Disclosures	88
32. Commitments and Contingencies	90
33. Credit Facilities.....	91
34. Interest Rate Sensitivity.....	91
35. Capital Management.....	93
36. Financial Instruments.....	96
37. Standards Issued But Not Effective	98
38. Comparative Amounts	98

1. Corporate Information

MCAN Mortgage Corporation (the “Company” or “MCAN”) is a Loan Company under the *Trust and Loan Companies Act* (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 tax basis) 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 wholly-owned subsidiary, Xceed Mortgage Corporation (“Xceed”), focuses on the origination and sale to MCAN and third party mortgage aggregators of residential first-charge mortgage products across Canada. As such, Xceed operates primarily in one industry segment through its sales team and mortgage brokers. MCAN began to consolidate the operations of Xceed as at July 4, 2013, which was the date of acquisition. Xceed is incorporated in the province of Ontario. For further details, refer to Note 6.

MCAN also participates in the Canada Mortgage Bonds (“CMB”) program, the market MBS program and other securitizations of insured mortgages. For further details, refer to Note 7.

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 on February 24, 2014.

2. Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a historical cost basis, except for marketable securities, foreclosed real estate, certain financial investments designated as available for sale and derivative financial instruments, 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 and estimates applicable to the preparation of the consolidated financial statements (Note 5).

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 securitized through the CMB program, market MBS program and reinvestment assets purchased with CMB program mortgage principal repayments, and are funded by the cash received from the sale of the associated securities, classified as financial liabilities from securitization.

3. Basis of Consolidation

The consolidated financial statements include the balances of MCAN and its subsidiaries as at December 31, 2013.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date that such control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

The Company holds 100% of the nominal share capital of Xceed Capital Corporation (“XCC”), a special purpose entity (“SPE”). However, the Company has concluded that it does not control XCC, as it has no power to direct the activities of XCC and does not obtain the majority of benefits or risks. Prior to the acquisition of Xceed by MCAN, Xceed sold assets to XCC with no continuing involvement and earned fees on the sale. Since the date of acquisition, the Company has not transferred any assets to XCC or earned any fees. The Company does not provide any guarantees related to the performance of XCC.

All intercompany balances, 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:

(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. This includes purchases or sales of financial assets that require delivery of assets within the time frame generally established by market convention.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and management’s intention for which the financial instruments were acquired and their characteristics. 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.

(iii) Derivatives recorded at fair value through the consolidated statements of income

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.

The Company uses derivative financial instruments such as interest rate swaps to hedge its interest rate risk as part of its participation in the CMB program and on its mortgage funding commitments.

No derivative financial instruments have been designated for hedge accounting.

(iv) 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

4. Summary of Significant Accounting Policies (continued)

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

(v) *Financial assets and financial liabilities designated at fair value through the consolidated statements of income*

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through the consolidated statements of income upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities designated at fair value through the consolidated statements of income are recorded in the consolidated financial statements at fair value. Changes in fair value are recorded in the consolidated statements of income. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the effective interest rate method (“EIRM”), while dividend income is recorded in income when the right to the payment has been established.

(vi) *“Day 1” profit or loss*

When the transaction price is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognizes the difference between the transaction price and fair value (a “Day 1” profit or loss). In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable, or when the instrument is derecognized.

(vii) *Available for sale financial investments*

Available for sale investments include marketable securities and an equity investment in commercial real estate. 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.

(viii) *Held to maturity financial investments*

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity. After initial measurement at fair value, held to maturity financial investments are subsequently measured at amortized cost using the EIRM, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIRM. The amortization is included in interest on financial investments and other loans in the consolidated statements of income. The losses arising from impairment of such investments are recognized in the consolidated statements of income.

The Company has not designated any financial assets as held to maturity.

(ix) *Loans and receivables*

Loans and receivables include 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:

4. Summary of Significant Accounting Policies (continued)

- 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, loans and receivables are subsequently measured at amortized cost using the EIRM, less 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 EIRM. 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.

(x) *Financial liabilities*

After initial recognition, interest bearing financial liabilities are subsequently measured at amortized cost using the EIRM. Premiums and discounts on the liabilities are recognized in the consolidated statements of income when the liabilities are extinguished as well as through amortization using the EIRM.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate ("EIR"). The EIR amortization is included in the related line in the consolidated statements of income.

(xi) *Transaction costs*

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. These costs are defined as costs that would not have been incurred if the Company had not acquired, issued or disposed of the related financial instrument. Transaction costs are capitalized and amortized over the expected life of the instrument using the EIRM, 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.

(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 "pass-through" arrangement; and either:
 - the Company has transferred substantially all the risks and rewards of the asset, or
 - the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the 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.

4. Summary of Significant Accounting Policies (continued)

(3) Determination of fair value

The fair value for financial instruments traded in active markets is based on their quoted market price or other trading data without any deduction for transaction costs.

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) Non-current assets held for sale

Held-for-sale foreclosed assets in the settlement of an impaired mortgage are initially carried at fair market value less costs to sell. In subsequent measurements, the asset is carried at the lower of its carrying amount and fair market 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 of the consolidated statements of income.

(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 on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4. Summary of Significant Accounting Policies (continued)

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 or has been transferred to the Company. 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 future write-off is later recovered, the recovery is credited to the provision for credit losses.

The present value of the estimated future cash flows is discounted at the financial asset's original 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, past-due status and other relevant factors.

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, there is a currently 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.

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.

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.

(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 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.

4. Summary of Significant Accounting Policies (continued)

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 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 EIRM, 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. Interest income or expense is included in the appropriate component of the consolidated statements of income.

(11) Cash and short-term investments

Cash and short-term investments 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 31. 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) Business combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Transaction and restructuring costs are expensed as incurred.

4. Summary of Significant Accounting Policies (continued)

The Company recognizes identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognized amount of any noncontrolling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

(14) Capital assets

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

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

(15) Newly adopted standards, interpretations and amendments

IFRS 7, Financial Instruments: Disclosure - Offsetting Financial Assets and Financial Liabilities - IFRS 7 Amendments

Amendments to IFRS 7, *Offsetting Financial Assets and Financial Liabilities*, introduced new disclosure requirements for financial instruments relating to their rights of offset and related arrangements. The adoption of these amendments did not have a significant impact on the Company's consolidated financial statements.

IFRS 10, Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of the previously existing IAS 27, *Consolidated and Separate Financial Statements*, that dealt with consolidated financial statements and SIC-12, *Consolidation - Special Purpose Entities*. IFRS 10 changes the definition of control such that 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The adoption of IFRS 10 resulted in no impact to the consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. These disclosures are included in Note 14.

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. Additionally, the standard requires disclosures of fair value for both financial and non-financial assets and liabilities measured at, or based on, fair value and for items not measured at fair value but for which fair value is disclosed. As a result of the guidance in IFRS 13, the Company reassessed its policies for measuring fair values, in particular its valuations inputs such as non-performance risk for the fair value measurement of liabilities. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Company. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7, *Financial Instruments: Disclosures*.

4. Summary of Significant Accounting Policies (continued)

IAS 1, Presentation of Items in Other Comprehensive Income - Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified (“recycled”) to the income statement at a future point in time (e.g. net loss or gain on available for sale financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation of land and buildings). The amendments affect presentation only and have no impact on the Company’s financial position.

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.

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.

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, judgment is required to establish fair values. The judgments 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, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes judgments 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 prices indices and the performance of different individual groups).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by relevant tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the responsible tax authority. As the Company assesses the probability of litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

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

5. Significant Accounting Judgments and Estimates (continued)

Further details on taxes are disclosed in Note 20.

6. Acquisition of Xceed

On July 4, 2013, MCAN acquired all of the issued and outstanding common shares of Xceed. The total purchase price paid by MCAN consisted of cash of \$30,292 (representing 17,309,747 shares purchased for cash consideration of \$1.75 per share) plus 1,531,903 common shares of MCAN (representing 12,982,310 Xceed shares at an exchange ratio of 0.118).

The 1,531,903 common shares of MCAN were valued using a price of \$14.05 per share, representing MCAN's closing share price as of July 4, 2013. Under IFRS 3, the share consideration is measured based on the closing date of the business combination.

The purchase is accounted for as a business combination using the acquisition method of accounting. As such, the Company valued the identifiable assets and liabilities of Xceed at fair value and recorded a bargain purchase gain of \$2,127, representing the excess of the fair value of the net assets and liabilities acquired over the purchase price of Xceed.

Based on the above regarding consideration transferred, the purchase equation is as follows:

Fair value of net assets acquired	
Cash and cash equivalents	\$ 7,007
Mortgages - corporate	46,289
Mortgages - securitized	394
Other assets	4,334
Current taxes receivable	148
Deferred tax assets	106
Other liabilities	(4,336)
Total net assets acquired	53,942
Consideration transferred	
Cash	30,292
Shares	21,523
Total consideration transferred	51,815
Excess of net assets acquired over consideration transferred (bargain purchase gain)	\$ 2,127

The bargain purchase gain of \$2,127 does not include "transaction and restructuring" expenses of \$2,010 included in the consolidated statement of income for the year ended December 31, 2013 as follows: transaction expenses - \$1,164; lease termination expense - \$267; severance expense - \$579.

The transaction expenses of \$1,164 primarily relate to legal and professional consulting fees incurred by MCAN related to the acquisition of Xceed. The lease termination expenses of \$267 relate to costs incurred to terminate Xceed's existing premises lease. The severance expense of \$579 relates to severance costs incurred for specified Xceed senior management.

In the determination of the fair value of the net assets acquired above, adjustments made to the carrying values of Xceed are as follows:

- Corporate mortgages with a carrying value of \$51,048 as at July 4, 2013 were adjusted by \$4,759 to a fair value of \$46,289. The fair value is based on the overall marketability of the mortgages to third party investors. The valuation includes the impact of renewal rates from regulatory changes such as OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, effective January 1, 2013. Fair value adjustments were also applied to reflect the yield requirements of third party investors, incorporating factors such as borrower credit and repayment history, loan and debt service ratios, local market conditions and regulatory requirements.
- Securitized mortgages with a carrying value of \$2,076 as at July 4, 2013 were adjusted by \$1,682 to a fair value of \$394. The fair value adjustment reflects considerations similar to those noted above in addition to the higher illiquidity of these mortgages.
- Other assets with a carrying value of \$4,783 as at July 4, 2013 were adjusted by \$449 to a fair value of \$4,334 based on the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

6. Acquisition of Xceed (continued)

- The \$106 fair value of deferred tax assets and the \$148 fair value of current taxes receivable represent their carrying values.
- Other liabilities of \$4,336 include a credit reserve of \$1,565 set up by MCAN associated with a portion of Xceed's off balance sheet securitized mortgage portfolio, which is expected to be incurred over the remaining duration of the portfolio. As at December 31, 2013, Xceed had \$683,203 in this securitized mortgage portfolio. The reserve (net of amortization to date) has been reflected in other corporate liabilities in the consolidated balance sheet.

The total fair value adjustment on acquisition was \$8,455.

Xceed has contributed \$8,756 and \$6,279 to the Company's revenues and net income, respectively from the acquisition date to December 31, 2013. Had the acquisition occurred on January 1, 2013, the Company's revenue for the period to December 31, 2013 would have been \$92,180 and the Company's net income for the period would have been \$33,764.

7. Securitization Activities

The Company participates in the National Housing Act ("NHA") mortgage-backed securities ("MBS") program, which involves the securitization of insured mortgages to create MBS. 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 NHA MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, the Company has sold MBS as part of the CMB program, the market MBS program and the Insured Mortgage Purchase Program ("IMPP"), which are discussed below. In instances where the Company has sold MBS, where applicable, these sales are executed for the purposes of transferring various economic exposures that result in accounting outcomes noted for each program below. Each of the MBS programs noted below provide for many responsibilities that are linked to the issuer of these MBS instruments, such as the collection of actual principal and interest payments from the underlying mortgages and the remittance of guaranteed principal and interest payments to CMHC for transfer to MBS holders. The Company does not transfer oversight or these responsibilities when selling MBS to other parties.

CMB Program

MCAN participates in the CMB program, which involves the sale of MBS to the Canada Housing Trust ("CHT"). On the sale of MBS to CHT, MCAN receives proceeds for the sale, incurs a liability in the amount of such proceeds received and is obligated to pay interest on this liability, which does not amortize over the term of the issuance and is payable in full at maturity. The securitized mortgages and reinvestment assets are held as collateral against the CMB liabilities.

Over the term of a CMB issuance, MCAN is entitled to interest income received from the securitized mortgages. As the securitized mortgages repay, MCAN reinvests the collected principal in certain permitted investments and is also entitled to interest income from the reinvested assets. MCAN also recognizes servicing expenses on the mortgages and pays certain upfront costs.

MCAN participates in the CMB program with MCAP Commercial LP and its wholly owned subsidiaries including MCAP Service Corporation (collectively "MCAP") through a contractual agreement with MCAP. MCAN participates in the economics of each CMB issuance in accordance with a pre-determined economic sharing percentage, which dictates the upfront and ongoing cash flow rights and obligations of the participants. MCAN's weighted average economic participation for outstanding CMB issuances as at December 31, 2013 was 35% (December 31, 2012 - 30%). MCAP has indemnified MCAN for the remaining 65% of CMB program obligations (December 31, 2012 - 70%).

The sales to CHT failed to meet derecognition criteria since MCAN did not transfer substantially all risks and rewards on sale. The primary risk retained was mortgage prepayment risk, while the primary reward retained was the excess of mortgage interest income and reinvestment asset interest income over securitization liability interest expense. Interest rate risk is largely mitigated by the interest rate swaps discussed below, and credit risk is minimal as all mortgages securitized through the NHA MBS program are insured. MCAN accounted for these transactions as collateralized borrowings and recorded cash received as a financial liability from securitization.

As a result of its failure to meet derecognition criteria on the sale of the securitized mortgages to CHT, MCAN recognizes 100% of the mortgages (Note 17), reinvestment assets (Notes 12 and 16) and securitization liabilities (Note 22) on the consolidated balance sheets until the maturity of the CMB issuance. MCAN recognizes its 35% share of mortgage interest income, principal reinvestment income, interest expense on the securitization liabilities and certain other program expenses on the accrual basis. MCAN has also capitalized certain costs associated with the securitized mortgages and securitization liabilities, both of which are amortized using the EIRM.

7. Securitization Activities (continued)

The Company enters into “pay floating, receive fixed” interest rate swaps as part of the CMB program (Note 18). The purpose of the interest rate swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate, as substantially all interest payments on the securitization liabilities are fixed rate.

The interest rate swaps are classified as held for trading, where changes in fair value are recorded through the consolidated statements of income. From an economic perspective, these fair value changes are generally offset by changes in future expected income from securitized mortgages and principal reinvestment assets that have a floating interest rate. From an accounting perspective, changes in future expected income from these floating rate assets are not reflected in the consolidated statements of income, which can cause volatility to the consolidated statements of income since there is no offset to fair value changes in the interest rate swaps.

Market MBS Program

In the fourth quarter of 2013, MCAN re-commenced its participation in the market MBS program, under which it sells MBS to third parties and may also elect to sell the net economics and cash flows from the underlying mortgages (“interest-only strips”) to third parties in future periods. As part of this program, MCAN originates and purchases insured single family mortgages to sell as MBS.

During the fourth quarter of 2013, MCAN purchased certain mortgages from MCAP, pooled them with MCAN-originated mortgages and sold \$168,023 of MBS to a third party. Since MCAN retained all risks and rewards of ownership (e.g. prepayment risk, Timely Payment Guarantee), the sale did not achieve derecognition and the associated mortgages remained on MCAN’s balance sheet while a corresponding liability was incurred (Notes 17 and 22). MCAN did not have any other MBS or interest-only strip sales during 2013.

During 2012, MCAN recognized \$978 related to the sale of MBS and the interest-only strips associated with the underlying mortgages as it transferred substantially all risks and rewards on sale. Since the inception of the program in 2011, all interest-only strip sales have been made to MCAP. MCAN meets derecognition criteria on the sale of the mortgages (i.e. upon creation of MBS and subsequent sales of MBS and interest-only strips to third parties) if it transfers substantially all risks and rewards on sale, and if so, they are removed from the consolidated balance sheet at that time.

The primary risks associated with the market MBS program are liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment Guarantee (discussed below) as part of the market MBS program. The primary reward associated with the market MBS program is the excess of mortgage interest income over the MBS interest. The risks and rewards are both transferred to the purchaser of the interest-only strips pursuant to contractual agreements entered into with such purchaser.

Any mortgages securitized through the market MBS program for which derecognition is not achieved remain on MCAN’s balance sheet and are also included in regulatory assets for OSFI purposes (Note 35). However, for tax purposes, all mortgages securitized by MCAN achieve derecognition and are not included in income tax assets (Note 35).

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

During the fourth quarter, as part of the re-commencement of its participation in the market MBS program, MCAN received permission from CMHC to resume the sale of interest-only strips to third parties.

Other MBS Programs

Insured Mortgage Purchase Program

MCAN participated in the IMPP, which involved the sale of MBS to CMHC by MCAN. Although MCAN has no continuing economic involvement in the IMPP, it earned an up-front fee for its participation. MCAN participated in the IMPP on behalf of MCAP, who is entitled to 100% of the ongoing economics and cash flows of the IMPP.

MCAN purchased certain mortgages from MCAP that were subsequently securitized into MBS as part of the IMPP. These mortgage sales from MCAP to MCAN failed to meet derecognition criteria, since MCAP retained substantially all risks and rewards as part of the aforementioned entitlement to all economics and cash flows. As a result of this failure, at the time of sale MCAN recognized a corresponding financial investment representing a receivable from MCAP (Note 12) and financial liability from securitization representing the securitization proceeds received from CMHC (Note 22). MCAN is the counterparty for the ongoing cash flows between MCAP and CMHC in its role as the IMPP counterparty.

7. Securitization Activities (continued)

Timely Payment Guarantee

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 the CMB program, MCAP is responsible for its pro-rata share of the timely payment guarantee obligations noted above based on its respective contracted economic participation. As part of the IMPP, MCAP is obligated to fund 100% of any cash shortfall. As part of the market MBS program, the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall.

Transferred financial assets that are not derecognized in their entirety

CMB Program

As a result of the failure to meet derecognition criteria, the CMB mortgage sale transactions have resulted in MCAN recognizing the securitized mortgages, reinvestment assets and financial liabilities from securitization on its consolidated balance sheet. The remaining securitized mortgage balance as at December 31, 2013 was \$423,375 (December 31, 2012 - \$936,947) (Note 17). The reinvestment asset balance as at December 31, 2013 was \$436,953 (December 31, 2012 - \$878,588) (Notes 12 and 16). The financial liabilities from securitization balance as at December 31, 2013 was \$885,466 (December 31, 2012 - \$1,855,051) (Note 22).

Market MBS Program

As a result of the failure to meet derecognition criteria, the above-noted 2013 market MBS program mortgage sale transactions have resulted in MCAN recognizing the securitized mortgages and financial liabilities from securitization on its consolidated balance sheet. The remaining securitized mortgage balance as at December 31, 2013 was \$169,041 (December 31, 2012 - n/a) (Note 17). The financial liabilities from securitization balance as at December 31, 2013 was \$167,501 (December 31, 2012 - n/a) (Note 22).

Insured Mortgage Purchase Program

As a result of the failure to meet derecognition criteria, the IMPP mortgage sale transactions have resulted in MCAN recognizing a loan receivable from MCAP and a loan payable to the IMPP counterparty on its consolidated balance sheet. The balance of both loans as at December 31, 2013 was \$1,689 (December 31, 2012 - \$159,995) (Notes 12 and 22).

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

Market MBS Program

No MBS sales through the market MBS program during 2013 achieved derecognition (2012 - \$284,143). MCAN has sold \$310,275 of MBS that has achieved derecognition since the inception of the program in 2011. MCAN recognized \$978 of income on sale in 2012, and has recognized \$1,239 of income since the inception of the program in 2011. MCAN met derecognition criteria on the sale of certain mortgages (i.e. on creation and sale of MBS) and the related interest-only strips as a result of the transfer of substantially all risks and rewards, and accordingly they were removed from the consolidated balance sheet at that time. Similarly, at the maturity of the MBS pools that have been issued by MCAN, any outstanding principal must be paid to the MBS investors. The total outstanding derecognized MBS balance related to the market MBS program December 31, 2013 was \$270,952 (December 31, 2012 - \$295,948), which was not reflected as an asset or liability on MCAN's consolidated balance sheets at either date. The MBS mature as follows: 2016 - \$44,152, 2017 - \$226,800.

8. Cash and Cash Equivalents

As at December 31	2013		2012	
Cash balances with banks	\$	64,945	\$	11,825
Bankers' acceptances and term deposits		-		112,000
	\$	64,945	\$	123,825

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

Refer to Note 33 for an analysis of the Company's available credit facilities.

9. Marketable Securities

As at December 31	2013		2012	
Corporate bonds	\$	7,759	\$	8,491
Real estate investment trusts		13,928		7,825
Exchange-traded funds		-		4,074
	\$	21,687	\$	20,390

Marketable securities are designated as available for sale. Corporate bonds mature between 2015 and 2022, while real estate investment trusts and exchange-traded funds have no specific maturity date. Fair values are based on bid prices quoted in active markets, and changes in fair value are recognized in the consolidated statements of comprehensive income.

10. Mortgages - Corporate

(a) Summary

As at December 31, 2013	Gross Principal	Allowance			Net Principal
		Collective	Individual	Total	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 229,444	\$ 976	\$ 271	\$ 1,247	\$ 228,197
- Uninsured completed inventory loans	46,181	144	700	844	45,337
- Insured	127,670	-	-	-	127,670
Construction loans					
- Residential	365,816	2,390	-	2,390	363,426
- Non-residential	7,249	47	-	47	7,202
Commercial loans					
- Uninsured	90,605	708	116	824	89,781
	\$ 866,965	\$ 4,265	\$ 1,087	\$ 5,352	\$ 861,613

As at December 31, 2012	Gross Principal	Allowance			Net Principal
		Collective	Individual	Total	
Corporate portfolio:					
Single family mortgages					
- Uninsured	\$ 271,662	\$ 1,135	\$ 147	\$ 1,282	\$ 270,380
- Uninsured completed inventory loans	20,315	80	150	230	20,085
- Insured	76,104	-	-	-	76,104
Construction loans					
- Residential	274,977	1,748	300	2,048	272,929
- Non-residential	26,585	166	-	166	26,419
Commercial loans					
- Uninsured	74,605	594	116	710	73,895
	\$ 744,248	\$ 3,723	\$ 713	\$ 4,436	\$ 739,812

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

10. Mortgages - Corporate (continued)

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 Genworth Financial Mortgage Insurance Company Canada Inc. ("Genworth") 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. Satisfactory confirmation that all units are substantially complete is required prior to funding all inventory loans. Final occupancy permits, condo corporation registration and/or written confirmation by the cost consultant as to the completion of the units are examples of verification measures.

Residential construction loans are made to homebuilders to finance residential construction projects.

Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments.

Commercial loans include commercial term mortgages and high ratio mortgage loans.

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

As at December 31	2013	2012
Single family	5.66%	4.63%
Construction	6.30%	5.95%
Commercial	8.13%	6.94%
Total	6.18%	5.39%

Mortgages are classified as loans and receivables and are carried at amortized cost. The fair market value of the corporate mortgage portfolio as at December 31, 2013 was \$874,942 (December 31, 2012 - \$742,779). Fair market values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages. Outside of the change during the periods shown in the above tables, there were no significant fluctuations in mortgage balances within the periods. For information regarding the maturity dates of the Company's mortgages, refer to Note 34.

As at December 31, 2013, the Company held \$45,998 of corporate mortgages to be securitized and sold through the market MBS program (December 31, 2012 - n/a).

Outstanding commitments for future fundings of mortgages intended for the Company's corporate portfolio were \$410,594 as at December 31, 2013 (December 31, 2012 - \$247,587). The majority of these commitments relate to floating rate construction loans.

As at December 31, 2013, the Company had \$11,719 (December 31, 2012 - \$11,981) of insured single family mortgages pledged as collateral as part of the CMB program. In addition, the Company had \$10,168 of insured single family mortgages pledged as collateral (December 31, 2012 - n/a) as part of its credit warehouse facility, which is discussed further in Note 33.

As at December 31, 2013, the Company held \$21 of second uninsured single family mortgages (December 31, 2012 - \$240).

(b) Discounted single family mortgages

As applicable, principal balances presented in section (a) are net of the unamortized discount on the Company's portfolio of single family mortgages purchased at a discount. As at December 31, 2012, the Company held discounted mortgages with an aggregate discount of \$5,874. During 2013, the Company sold the entire associated mortgage portfolio, recognizing a gain on sale of \$1,282. Prior to sale, the Company participated with MCAP in a profit sharing program such that 50% of any recoveries of the discount were retained and the remaining 50% was paid to MCAP (refer to Note 31 for profit sharing fees paid to/from MCAP).

10. Mortgages - Corporate (continued)

The Company also holds an uninsured single family completed inventory loan with a net discount of \$9,156 as at December 31, 2013 that is discussed further in Note 21. The principal value net of the discount and an individual allowance of \$550 represents the Company's best estimate of net realizable value given the mortgage's impaired status and the uncertainty of the resolution period.

(c) Geographic Analysis

As at December 31, 2013	Single Family	Construction	Commercial	Total	
Ontario	\$ 175,630	\$ 164,706	\$ 40,714	\$ 381,050	44.2%
Alberta	81,209	69,271	29,358	179,838	20.9%
British Columbia	64,836	111,574	3,524	179,934	20.9%
Quebec	33,190	13,871	3,783	50,844	5.9%
Atlantic Provinces	34,008	-	12,096	46,104	5.4%
Other	12,331	11,206	306	23,843	2.7%
	\$ 401,204	\$ 370,628	\$ 89,781	\$ 861,613	100.0%

As at December 31, 2012	Single Family	Construction	Commercial	Total	
Ontario	\$ 167,177	\$ 135,627	\$ 26,375	\$ 329,179	44.5%
Alberta	74,108	101,181	21,417	196,706	26.6%
British Columbia	60,033	50,678	3,884	114,595	15.5%
Quebec	26,453	-	10,144	36,597	4.9%
Atlantic Provinces	31,401	-	12,075	43,476	5.9%
Other	7,397	11,862	-	19,259	2.6%
	\$ 366,569	\$ 299,348	\$ 73,895	\$ 739,812	100.0%

(d) Mortgage Allowances

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

	2013		2012	
	Collective	Individual	Total	Total
Balance, beginning of year	\$ 3,723	\$ 713	\$ 4,436	\$ 4,079
Provisions	907	1,504	2,411	1,987
Recoveries	-	(830)	(830)	(307)
Write-offs	(365)	(300)	(665)	(1,323)
Balance, end of year	\$ 4,265	\$ 1,087	\$ 5,352	\$ 4,436

(e) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2013	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	\$ 8,171	\$ 1,673	\$ 811	\$ -	\$ 10,655
Single family - insured	3,019	895	-	1,547	5,461
Residential construction	825	-	-	-	825
Commercial	3,382	-	-	-	3,382
	\$ 15,397	\$ 2,568	\$ 811	\$ 1,547	\$ 20,323

December 31, 2013 (Dollar amounts in thousands except for per share amounts)

10. Mortgages - Corporate (continued)

As at December 31, 2012	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	\$ 14,064	\$ 8,378	\$ 646	\$ -	\$ 23,088
Single family - insured	330	385	58	627	1,400
Single family - uninsured (completed inventory)	-	2,743	-	-	2,743
Commercial	3,436	-	-	-	3,436
	\$ 17,830	\$ 11,506	\$ 704	\$ 627	\$ 30,667

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

As at December 31, 2013	Single Family	SF (Completed Inventory)	Residential Construction	Total
Ontario	\$ 1,118	\$ -	\$ -	\$ 1,118
Alberta	287	-	-	287
British Columbia	2,294	1,091	-	3,385
Quebec	911	1,473	-	2,384
Atlantic Provinces	164	-	-	164
Other	60	-	-	60
	\$ 4,834	\$ 2,564	\$ -	\$ 7,398

As at December 31, 2012	Single Family	SF (Completed Inventory)	Residential Construction	Total
Ontario	\$ 1,533	\$ -	\$ -	\$ 1,533
Alberta	1,528	-	1,760	3,288
British Columbia	1,736	-	-	1,736
Quebec	462	1,450	-	1,912
Atlantic Provinces	147	-	-	147
	\$ 5,406	\$ 1,450	\$ 1,760	\$ 8,616

11. Foreclosed Real Estate

The Company holds two real estate investments within wholly owned subsidiaries, both of which were impaired residential construction loans that were foreclosed. These investments are carried at the lower of carrying amount and fair market value less estimated costs to sell. The investments were recorded at their fair value less estimated cost to sell at the time of foreclosure, and no gain or loss was recognized as the fair market values were equal to the carrying values of the impaired loans net of individual allowance. The Company assessed the properties as at December 31, 2013 and noted no decrease in the fair value below the carrying amount. Accordingly, the Company did not recognize a loss during 2013 (2012 - nil).

12. Financial Investments

As at December 31	2013	2012
Corporate assets:		
Investment - commercial real estate	\$ 18,451	\$ 13,792
Retained interest	145	3,084
Asset-backed commercial paper	457	457
Other financial investments	244	734
	\$ 19,297	\$ 18,067
Securitization assets:		
Insured mortgage-backed securities (in trust for CMB program)	\$ 107,188	\$ 554,636
Receivables - IMPP	1,689	159,995
	\$ 108,877	\$ 714,631

12. Financial Investments (continued)

Corporate Assets

The Company holds an equity investment in a commercial real estate investment fund in which it has a fixed proportionate share. As acquisitions are made by the fund, the Company advances its proportionate share to finance the acquisitions. The investment is designated as available for sale, with changes in fair value recognized in the consolidated statements of comprehensive income.

The Company holds a retained interest in insured single family mortgages that yields up to 8.75% depending on mortgage prepayment levels. During the quarter, its average yield was 8.75% (2012 - 8.75%). The retained interest is designated as fair value through profit and loss, with changes in fair market value recognized in the consolidated statements of income.

Securitization Assets

Insured MBS (held in trust for the CMB program) represent receivables from third party MBS issuers held as principal reinvestment assets as part of the Company's participation in the CMB program. The weighted average yield was 2.05% as at December 31, 2013 (December 31, 2012 - 1.74%). The fair market value of MBS held in trust for the CMB program as at December 31, 2013 was \$107,457 (December 31, 2012 - \$556,620).

Receivables - IMPP represent the Company's loan receivable from MCAP associated with the Company's involvement in the IMPP (Note 7), although it has no economic interest and therefore recognizes no associated income.

All financial investments are classified as loans and receivables and carried at amortized cost except for the investment - commercial real estate and retained interest. The retained interest is designated as fair value through profit and loss, with changes in fair market value recognized in the consolidated statements of income. The carrying value of all financial investments approximates fair value, except the insured MBS noted above.

13. Other Loans

	Note	2013	2012
Loans receivable - employees	31	\$ 1,815	\$ 1,924
Loans receivable - MCAP	31	715	1,240
		\$ 2,530	\$ 3,164

All other loans are classified as loans and receivables.

14. Equity Investment in MCAP Commercial LP

The Company has a 15.7% equity interest in MCAP as at December 31, 2013 (December 31, 2012 - 23.4%), consisting of 15% of voting class A units (December 31, 2012 - 25%), 0% of non-voting class B units (December 31, 2012 - 0%) and 18.2% of non-voting class C units (December 31, 2012 - 25%).

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, 2013, 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.

MCAN holds a 15% voting interest in MCAP through its class A units (December 31, 2012 - 25%). The remaining 85% of the class A units (December 31, 2012 - 75%) and remaining 81.8% of the class C units (December 31, 2012 - 75%) are held by a subsidiary of the Caisse de dépôt et placement du Québec (the "Caisse").

On November 30, 2013, MCAP issued 5,080,802 new class A units and 3,452,829 new class C units to other partners of MCAP at a cost of \$11.72 per unit, raising \$100,000 of new unitholder equity. As a result of the issuance of the new units at a price in excess of MCAN's carrying value per unit, MCAN recorded a \$4,510 gain on the dilution of its investment in MCAP. Subsequent to the issuance of the new class A and class C units, MCAN sold 237,880 class A units to another partner of MCAP at a price of \$11.72 per unit, recognizing a gain of \$736 on sale. The combination of the two transactions reduced MCAN's equity interest in MCAP from 23.4% to 15.7%.

14. Equity Investment in MCAP Commercial LP (continued)

Subsequent to year end, MCAN sold 250,000 class C units to another partner of MCAP at a price of \$11.72 per unit, reducing MCAN's equity interest in MCAP from 15.7% to 14.8%.

Years Ended December 31	2013	2012
Balance, beginning of year	\$ 36,386	\$ 15,480
Equity income	6,563	6,906
Dilution gain	4,510	-
Carrying value of portion of investment sold	(2,052)	-
Distributions received	(6,161)	-
Additional equity investment	-	14,000
Balance, end of year	\$ 39,246	\$ 36,386

As at November 30	2013	2012
MCAP's balance sheet:		
Assets	\$ 8,548,149	\$ 5,084,576
Liabilities	8,251,224	4,916,237
Equity	296,925	168,339

Years Ended November 30	2013	2012
MCAP revenue and net income:		
Revenue	\$ 258,017	\$ 200,119
Net income	\$ 27,274	\$ 32,968

15. Other Assets

Other corporate assets include receivables, capital assets and prepaid expenses. Other securitization assets, totalling \$207 as at December 31, 2013 (December 31, 2012 - \$1,248), consist of miscellaneous assets relating to the Company's participation in the CMB program. Other assets are carried at cost.

As at December 31	Note	2013	2012
Corporate assets:			
Receivables		\$ 1,626	\$ 952
Capital assets		1,236	565
Derivative financial instruments	18	123	-
Related party receivable - MCAP		-	2,757
Other		968	413
		\$ 3,953	\$ 4,687

16. Short-Term Investments

As at December 31	2013	2012
Commercial paper (in trust for CMB program)	\$ 329,765	\$ 319,590
Repo GOCs (in trust for CMB program)	-	4,362
CMB cash held in trust	40,635	54,491
	\$ 370,400	\$ 378,443

Short-term investments consist primarily of commercial paper and Government of Canada Bonds for which MCAN has a repurchase agreement with a financial institution (“Repo GOCs”) held as reinvestment assets for the CMB program in addition to CMB cash held in trust and cash pledged as CMB program collateral. The weighted average yields of the CMB principal reinvestment assets listed above are as follows: commercial paper - 1.17% (December 31, 2012 - 1.14%) and Repo GOCs - n/a (December 31, 2012 - 0.90%). Short-term investments mature within 90 days.

CMB cash held in trust represents securitized mortgage principal collections from borrowers to be used to acquire principal reinvestment assets in the following month.

The carrying value of short-term investments approximates fair value.

17. Mortgages - Securitized

MCAN’s securitized mortgage portfolio consists of insured mortgages securitized through the CMB program and the market MBS program. These mortgages are held as collateral against the CMB and MBS liabilities (Notes 7 and 22).

(a) Summary

As at December 31, 2013	Gross Principal	Allowance	Net Principal
CMB Program:			
Single family - insured	\$ 380,999	\$ -	\$ 380,999
Commercial - insured	42,376	-	42,376
	<u>423,375</u>	<u>-</u>	<u>423,375</u>
Market MBS Program:			
Single family - insured	169,041	-	169,041
	\$ 592,416	\$ -	\$ 592,416

As at December 31, 2012	Gross Principal	Allowance	Net Principal
Single family - insured	\$ 889,213	\$ -	\$ 889,213
Commercial - insured	47,734	-	47,734
	\$ 936,947	\$ -	\$ 936,947

Certain capitalized transaction costs are included in mortgages and are amortized using the EIRM. As at December 31, 2013, the unamortized capitalized cost balance was \$1,764 (December 31, 2012 - \$1,636). All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance. The fair market value of the securitized mortgage portfolio as at December 31, 2013 was \$601,945 (December 31, 2012 - \$1,057,508).

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

As at December 31	2013	2012
CMB Program:		
Single family	2.97%	3.34%
Commercial	3.39%	3.26%
	<u>3.01%</u>	<u>3.34%</u>
Market MBS Program:		
Single family	3.21%	n/a
Total	3.07%	3.34%

17. Mortgages - Securitized (continued)

(b) Geographic Analysis

As at December 31	2013		2012	
Ontario	\$ 265,370	44.8%	\$ 451,569	48.2%
Alberta	138,428	23.4%	221,606	23.7%
British Columbia	93,767	15.8%	133,095	14.2%
Quebec	53,633	9.1%	74,393	7.9%
Atlantic Provinces	23,588	4.0%	35,160	3.8%
Other	17,630	2.9%	21,124	2.2%
	\$ 592,416	100.0%	\$ 936,947	100.0%

Mortgages past due but not impaired are as follows:

As at December 31, 2013	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - CMB program	\$ 7,131	\$ 2,069	\$ 383	\$ 743	\$ 10,326
Single family - Market MBS program	409	-	-	-	409
	\$ 7,540	\$ 2,069	\$ 383	\$ 743	\$ 10,735

As at December 31, 2012	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - CMB program	\$ 16,665	\$ 3,682	\$ 1,538	\$ 2,321	\$ 24,206

There were no impaired securitized mortgages as at December 31, 2013 or December 31, 2012.

18. Derivative Financial Instruments

As part of its participation in the CMB program, the Company enters into “pay-floating, receive-fixed” interest rate swaps. The purpose of these swaps is to hedge interest rate risk on both securitized mortgages and principal reinvestment assets that have a floating interest rate. The interest rate swap notional is an accreting balance which approximates the sum of floating rate CMB mortgages and reinvestment assets. The interest rate swap counterparty is a Canadian chartered bank.

The Company enters into interest rate swaps to manage interest rate risk between the time that a mortgage rate is committed to borrowers and the time that the mortgage is funded. The interest rate swap counterparty is a Canadian chartered bank.

The interest rate swaps are carried at fair value, which is calculated by discounting future net cash flows based on forward interest rates. The fair values displayed below represent only MCAN’s share of the fair value of the interest rate swaps.

The following tables outline the Company's pro-rata share of derivative financial instruments:

As at December 31, 2013	Less than one year	One to three years	Three to five years	Over five years	Total
CMB interest rate swaps - fair value	\$ 1,264	\$ 184	\$ -	\$ -	\$ 1,448
CMB interest rate swaps - outstanding notional	\$ 114,861	\$ 4,813	\$ -	\$ -	\$ 119,674
Mortgage commitment interest rate swaps - fair value	\$ 123	\$ -	\$ -	\$ -	\$ 123
Mortgage commitment interest rate swaps - outstanding notional	\$ 24,000	\$ -	\$ -	\$ -	\$ 24,000

18. Derivative Financial Instruments (continued)

As at December 31, 2012	Less than one year	One to three years	Three to five years	Over five years	Total
CMB interest rate swaps - fair value	\$ 1,802	\$ 2,864	\$ -	\$ -	\$ 4,666
CMB interest rate swaps - outstanding notional	\$ 94,983	\$ 102,690	\$ -	\$ -	\$ 197,673

Activity related to the CMB interest rate swaps in the current and prior years was as follows:

Years Ended December 31	2013	2012
Balance, beginning of year	\$ 4,666	\$ 13,348
Net interest rate swap receipts	(3,376)	(7,408)
Unrealized derivative financial instrument gain (loss)	158	(1,274)
	<u>(3,218)</u>	<u>(8,682)</u>
Balance, end of year	\$ 1,448	\$ 4,666

In 2013, the Company incurred net realized and unrealized losses of \$583 (December 31, 2012 - n/a) on the interest rate swaps used to hedge interest rate risk on mortgage funding commitments. Any offsetting gains to mortgage commitments are recognized when the related mortgages are sold.

19. Term Deposits

As at December 31	2013	2012
Term deposits	\$ 782,836	\$ 769,450
Accrued interest	7,386	7,627
	<u>\$ 790,222</u>	<u>\$ 777,077</u>

Term deposits are issued to various individuals and institutions with original maturities ranging from 30 days to five years. The weighted average term deposit rate as at December 31, 2013 was 2.48% (December 31, 2012 - 2.45%). The Company's term deposits are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance.

The term deposits mature as follows: less than one year - \$451,132 (December 31, 2012 - \$467,958); one to three years - \$300,851 (December 31, 2012 - \$267,153); three to five years - \$38,239 (December 31, 2012 - \$41,966).

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, 2013 was \$791,537 (December 31, 2012 - \$786,837), and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

20. Income Taxes

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

Years Ended December 31	Note	2013	2012
Income before income taxes		\$ 29,952	\$ 16,238
Less: dividends	24	(22,519)	(24,999)
Income subject to tax		7,433	(8,761)
Statutory rate of tax		39%	39%
Tax provision (recovery) before the following:		2,899	(3,417)
Non-taxable portion of capital gains		(862)	(428)
Permanent differences related to acquisition of Xceed		(92)	-
Other temporary differences		-	(450)
Statutory rate difference in subsidiaries		322	66
Rate changes and other differences		113	(495)
Deferred tax included in equity of associate		(405)	(452)
Adjustments in respect of prior years		(2,226)	(79)
		\$ (251)	\$ (5,255)

Years Ended December 31	2013	2012
Current tax		
Current tax provision (recovery)	\$ -	\$ (1,440)
Adjustment in respect of current income tax of prior years	(2,226)	(79)
Deferred tax provision (recovery)		
Relating to origination and reversal of temporary differences	1,975	(3,736)
	\$ (251)	\$ (5,255)

The composition of the deferred tax liabilities is as follows:

As at and for the year ended December 31, 2013	Deferred Tax Liability (Asset)	Statement of Income	Other Comprehensive Income
Provision for credit losses	\$ (1,725)	\$ (233)	\$ -
Securitization-related items	1,363	(1,091)	-
Equity investment in MCAP Commercial LP	5,204	4,273	-
Financial investments	440	-	249
Marketable securities	149	119	(223)
Loss carry forward benefit	(1,948)	(1,396)	-
Other	3	303	-
	\$ 3,486	\$ 1,975	\$ 26

As at and for the year ended December 31, 2012	Deferred Tax Liability (Asset)	Statement of Income	Other Comprehensive Income
Provision for credit losses	\$ (1,492)	\$ (294)	\$ -
Securitization-related items	2,454	(4,075)	-
Equity investment in MCAP Commercial LP	931	1,088	-
Financial investments	191	4	25
Marketable Securities	253	1	115
Loss carry forward benefit	(126)	(126)	-
Other	(369)	(334)	-
	\$ 1,842	\$ (3,736)	\$ 140

20. Income Taxes (continued)

The deferred tax liability at December 31, 2013 includes a deferred tax asset from Xceed as part of the acquisition on July 4, 2013.

Current Taxes Receivable/Payable

As a MIC under the Tax Act, MCAN is able to deduct from income for tax purposes dividends paid within 90 days of year-end. However, for accounting purposes, dividends paid in the following quarter that have not been declared and accrued prior to quarter end are not deductible in the calculation of current taxes receivable/payable.

21. Other Liabilities

As at December 31	Note	2013	2012
Corporate liabilities:			
Accounts payable and accrued charges		\$ 6,797	\$ 4,249
Related party payable - MCAP		644	-
Dividends payable	24	5,729	5,244
		\$ 13,170	\$ 9,493
Securitization liabilities:			
CMB liabilities - MCAP		\$ 2,340	\$ 3,130
Other		12	138
		\$ 2,352	\$ 3,268

The Company was previously a party to an indemnity agreement whereby the investors of a construction loan securitization program were responsible for any incurred losses in the underlying loans on a pro-rata basis. Since the Company previously held 25% of the first loss position, it was responsible for 25% of any losses incurred on the remaining loans in the securitization program. As at December 31, 2012, the Company's accrued liability representing estimated losses associated with this indemnity was \$1,100.

During 2013, the Company purchased the interest of the other investor (CDP Capital - Real Estate Advisory Inc.) in the underlying construction loans at a discount, including the impaired construction loan with which the allowance was associated. The Company reversed the \$1,100 accrued liability upon purchase and established an individual mortgage allowance for the same amount, which was reduced to \$550 later in the year. Subsequent to purchase, the impaired residential construction loan was reclassified as an uninsured single family mortgage (completed inventory) as a result of the completion of the individual housing units on the property.

CMB liabilities - MCAP represents cash received from MCAP relating to its pro-rata share of the excess of NHA MBS Timely Payment Guarantee principal obligations over actual mortgage principal collected from borrowers (Note 7).

Due to the short-term nature of other liabilities, their carrying value approximates fair value.

22. Financial Liabilities from Securitization

Financial liabilities from securitization include financial liabilities relating to the Company's participation in the CMB program and financial liabilities as a result of its involvement in the IMPP.

As at December 31	Note	2013	2012
Financial liabilities - CMB program	7	\$ 885,466	\$ 1,855,051
Financial liabilities - Market MBS program	7	167,501	-
Financial liabilities - IMPP	7	1,689	159,995
		\$ 1,054,656	\$ 2,015,046

22. Financial Liabilities from Securitization (continued)

The financial liabilities - CMB program had a weighted average interest rate of 2.70% as at December 31, 2013 (December 31, 2012 - 3.18%). The financial liabilities - Market MBS program had a weighted average interest rate of 2.27% (December 31, 2012 - n/a).

As financial liabilities from securitization mature, the securitization liability and related assets (securitized mortgages and principal reinvestment assets) are removed from the consolidated balance sheets. Financial liabilities from securitization as at December 31, 2013 mature as follows:

	CMB	Market MBS	IMPP	Total
2014	\$ 844,814	\$ -	\$ 1,689	\$ 846,503
2015	40,652	-	-	40,652
2018	-	167,501	-	167,501
	\$ 885,466	\$ 167,501	\$ 1,689	\$ 1,054,656

MCAN does not participate in the economics of the IMPP (Note 7) and therefore pays no interest on this liability, nor does it recognize interest income from the associated receivable (Note 12).

Certain capitalized transaction costs are included in financial liabilities from securitization and are amortized using the EIRM. As at December 31, 2013, the unamortized capitalized cost balance was \$141 (December 31, 2012 - \$500).

23. Share Capital and Contributed Surplus

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

	Number of Shares	2013	Number of Shares	2012
Balance, January 1	18,728,500	\$ 155,005	16,861,575	\$ 132,817
Issued				
Xceed acquisition	1,531,903	21,523	-	-
Rights offering	-	-	1,699,157	19,913
Dividend reinvestment plan	165,598	2,237	167,768	2,275
Executive Share Purchase Plan	34,935	450	-	-
Balance, December 31	20,460,936	\$ 179,215	18,728,500	\$ 155,005

During the year, the Company issued 165,598 (2012 - 167,768) shares under the dividend reinvestment plan out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%.

For details on the Executive Share Purchase Plan, refer to Note 31.

The Company had no potentially dilutive instruments as at December 31, 2013 or December 31, 2012.

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

24. Dividends

	2013	2012
Dividends on common shares declared in the prior year and paid in the current year (recognized as a liability at December 31, 2012 and 2011)		
Fourth quarter dividend, 2012: \$0.28 per share (2011: \$0.27 per share)	\$ 5,244	\$ 4,552
Dividends on common shares declared and paid during the year 2013: \$0.87 per share (2012: \$1.14 per share)	\$ 16,790	\$ 19,755
Dividends on common shares declared during the year (recognized as a liability at December 31, 2013 and 2012)		
Fourth quarter dividend, 2013: \$0.28 per share (2012: \$0.28 per share)	\$ 5,729	\$ 5,244
Dividends on common shares approved in the first quarter (not recognized as a liability at December 31, 2013 or 2012)		
First quarter dividend, 2014: \$0.28 per share (2013: \$0.31 per share)	\$ 5,742	\$ 5,819

Dividends paid within 90 days after year end by a MIC are deductible for income tax purposes, however, where such dividends are not recognized as a liability at quarter-end the deduction is not taken into account in determining current taxes payable for accounting purposes. The payment of the approved 2014 first quarter dividend of \$5,742 noted above (2013 - \$5,819), which was not recognized as a liability as at December 31, 2013, is expected to reduce current taxes payable as at March 31, 2014 by \$2,267 (March 31, 2013 - \$2,297). Certain additional factors may impact current taxes payable between December 31, 2013 and March 31, 2014.

25. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains and losses (net of deferred taxes) on available for sale marketable securities.

As at December 31	2013	2012
To be reclassified to the income statement in subsequent periods:		
Unrealized gain on available for sale marketable securities	\$ 149	\$ 1,284
Less: deferred taxes	(29)	(252)
	120	1,032
Unrealized gain on available for sale financial investments	3,322	1,440
Less: deferred taxes	(440)	(191)
	2,882	1,249
	\$ 3,002	\$ 2,281

26. Fees

Years Ended December 31	Note	2013	2012
Mortgagor fees		\$ 2,253	\$ 2,046
Fee income from profit sharing	31	94	190
		\$ 2,347	\$ 2,236

27. Mortgage Expenses

Corporate Assets

Years Ended December 31	2013	2012
Mortgage servicing expense	\$ 2,614	\$ 2,401
Letter of credit expense	462	438
Other mortgage expenses	214	231
	\$ 3,290	\$ 3,070

Securitization Assets

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

28. Provision for Credit Losses

Years Ended December 31	Note	2013	2012
Mortgages - collective provisions, net		\$ 907	\$ 1,127
Mortgages - individual provisions (recoveries), net		674	553
Financial investments and other loans - collective provisions (recoveries), net		(9)	(20)
Other provisions (recoveries), net	21	(1,203)	900
		\$ 369	\$ 2,560

29. Other Securitization Income

	2013	2012
Net interest rate swap receipts	\$ 3,376	\$ 7,408
Refinancing and renewal gains	385	1,325
Income from sale of MBS	-	978
Other	-	(56)
	\$ 3,761	\$ 9,655

30. Whole Loan Gain on Sale Income

The Company regularly sells mortgages to third party mortgage aggregators for sale into the CMB or pooling as MBS on a whole-loan basis with premium proceeds received at the time of sale. The Company maintains renewal rights on these sales.

For the year ended December 31, 2013, the Company sold \$17,944 of insured mortgages (2012 - n/a) and recorded a gross gain of \$281 (2012 - n/a).

The Company sold a portfolio of discounted mortgages during 2013, recognizing a gain of \$1,282 (Note 10(b)). In addition, the Company earned \$175 from other mortgage sales.

31. Related Party Disclosures

The consolidated financial statements include the financial statements of the Company, its equity accounted associate, MCAP, and its wholly-owned subsidiary, Xceed. The Company holds a 15.7% equity interest in MCAP (December 31, 2012 - 23.4%), a non-public entity. MCAP's principal activities include the origination and servicing of mortgages. The Company holds one of five seats on MCAP's Board of Directors. Xceed's principal activities include the origination and sale of mortgages.

During the year, the Company purchased certain corporate services from MCAP in the amount of \$695 (2012 - \$566) and purchased certain mortgage origination and administration services from MCAP in the amount of \$2,054 (2012 - \$2,766). Also, the Company received \$3,967 (2012 - \$3,038) of mortgage fees from MCAP.

During the year, the Company paid fees in the amount of \$1,263 (2012 - \$1,675) to MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages and received \$94 (2012 - \$190) of fees from MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages.

31. Related Party Disclosures (continued)

As part of the aforementioned profit sharing arrangements related to discounted mortgages, MCAP pays MCAN 50% of any recoveries of discounts on mortgages held on MCAP's balance sheet. In addition, MCAN reimburses MCAP for 50% of any credit losses on discounted mortgages held on MCAP's balance sheet (where MCAN participates in a profit sharing arrangement), and vice versa.

During 2012, MCAN created certain MBS that were sold to a third party. MCAN subsequently entered into an economic arrangement with MCAP and sold the rights to all net economics associated with these MBS, consisting primarily of interest-only strips less upfront costs. MCAN earned \$978 from these sales, which were included in other securitization income. Derecognition was achieved on the sale of the mortgages. There were no similar sales during 2013.

MCAN holds a retained interest in insured single family mortgages that was acquired from MCAP that yields up to 8.75% depending on mortgage prepayment levels. The balance as at December 31, 2013 was \$145 (December 31, 2012 - \$3,084) (Note 12).

MCAN holds loans receivable from MCAP bearing interest at 5% that mature in 2015. As at December 31, 2013, the outstanding loan balance was \$715 (December 31, 2012 - \$1,240) (Note 13).

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

Compensation of Executives of the Company, which include the President and Chief Executive Officer, Vice President and Chief Financial Officer, Vice President and Chief Investment Officer, Vice President and Chief Risk Officer and Vice President, Operations, is as follows:

	2013	2012
Salaries and short term employee benefits	\$ 2,545	\$ 1,878
Other long term benefits	51	137
	\$ 2,596	\$ 2,015

Executive Share Purchase Plan

The Company has an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board of Directors can approve loans to key personnel for the purpose of purchasing the Company's common shares. During 2013, 34,935 common shares were issued out of treasury under the Share Purchase Plan (2012 - nil). 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.

As at December 31, 2013, \$1,815 of loans were outstanding (December 31, 2012 - \$1,924) (Note 13). The loans under the Share Purchase Plan bear interest at prime plus 1% (4%) as at December 31, 2013 (December 31, 2012 - 4%) and have a five-year term. The shares are pledged as security for the loans and had a fair market value of \$2,829 as at December 31, 2013 (December 31, 2012 - \$3,159).

During the year, MCAN recognized \$59 of interest income (2012 - \$72) on the Share Purchase Plan loans.

Deferred Share Units Plan

In 2010, the Company established a Deferred Share Units Plan (the "DSU Plan") whereby the Board of Directors 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 granted 30,000 units under the DSU Plan during 2010. In addition, the DSU Participant is entitled to receive dividend distributions in the form of additional units. The underlying units follow a graded vesting schedule over three years. All dividends paid prior to July 6, 2014 vest as at July 6, 2014. All dividends paid after July 6, 2014 vest immediately. As at December 31, 2013, 30,000 units had vested (December 31, 2012 - 20,000).

31. Related Party Disclosures (continued)

The Company recognizes compensation expenses associated with the DSU Plan on the accrual basis over the vesting period. The compensation expense recognized related to the DSU Plan for 2013 was \$49 (2012 - \$137). As at December 31, 2013, the accrued DSU Plan liability was \$495 (December 31, 2012 - \$446).

Restricted Share Units Plan

In 2013, the Company established a Restricted Share Units Plan (the "RSU Plan") whereby the Board of Directors granted units under the RSU Plan to certain executives 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. The RSU Participants were granted 11,200 units under the RSU Plan in December 2013. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years. As at December 31, 2013, no units had vested (December 31, 2012 - n/a).

The Company recognizes compensation expenses associated with the RSU Plan on the accrual basis over the vesting period. The compensation expense recognized related to the RSU Plan for 2013 was \$2 (2012 - n/a). As at December 31, 2013, the accrued RSU Plan liability was \$2 (December 31, 2012 - n/a).

32. Commitments and Contingencies

The Company has contractual obligations relating to an operating lease. In addition, the Company has outstanding commitments for future fundings of mortgages intended for its corporate portfolio.

As at December 31, 2013	Less than one year	One to three years	Three to five years	Over five years	Total
Mortgage fundings	\$ 335,313	\$ 75,281	\$ -	\$ -	\$ 410,594
Operating lease	817	1,364	914	2,244	5,339
	\$ 336,130	\$ 76,645	\$ 914	\$ 2,244	\$ 415,933

The Company incurred \$360 of operating lease expenses during the year (2012 - \$260), included in general and administrative expenses. After acquisition by MCAN, Xceed's former head office was vacated and all future obligations were written off as part of the acquisition. All future obligations related to this space were fully expensed in the current year (included in "transaction and restructuring expenses") and the commitment to pay these expenses has been included in the table above.

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

The Company guarantees the premises lease with respect to the premises occupied by MCAP and the Company at 200 King Street West, Toronto with a current monthly rent of \$116 and expiring in September 2014. CDP Capital - Real Estate Advisory Inc. ("CDP Capital - Real Estate Advisory") indemnifies the Company to the extent of 75% of the costs of any claim resulting from any claims on the guarantee. The effect of this indemnity is that the cost of any claim will be borne by the Company and CDP Capital - Real Estate Advisory.

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

Currently, MCAP is one of several parties to a claim in respect of a development project in Alberta. Although a summary judgment in MCAP's favour was rendered at trial, the Alberta Court of Appeal overturned the summary judgment in part and has directed that certain aspects of the claim be allowed to proceed to trial. MCAN management does not believe that the claim has any merit and believes the claim will ultimately be unsuccessful against MCAP at trial. In any event, MCAN believes that any monetary damages against MCAP would not have a material financial impact on MCAN.

33. Credit Facilities

The Company has a line of credit from a Canadian chartered bank that is a \$75,000 facility bearing interest at prime plus 1%, 4% at December 31, 2013 (December 31, 2012 - prime plus 1%, 4%). 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, 2013, the outstanding overdraft balance was \$8,053 (December 31, 2012 - \$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, 2013, there were letters of credit in the amount of \$33,895 issued (December 31, 2012 - \$25,665) and additional letters of credit in the amount of \$27,175 committed but not issued (December 31, 2012 - \$16,082).

The Company maintains a credit warehouse facility which can be drawn as required as mortgage fundings occur. The facility bears interest at the prime rate. The facility provides for up to \$75,000 of borrowings and insured mortgages are eligible to act as collateral in the facility for a period of no longer than one year. The facility is payable on demand with seven months' notice. As at December 31, 2013, the Company had borrowed \$9,938 from this facility (December 31, 2012 - n/a).

34. Interest Rate Sensitivity

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

An interest rate gap is a common measure of interest rate sensitivity. A positive gap occurs when more assets than liabilities reprice within a particular time period. A negative gap occurs when there is an excess of liabilities over assets repricing. 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.

The interest rate sensitivity analysis is based on the Company's consolidated balance sheets as at December 31, 2013 and December 31, 2012 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, as interest payments are collected or paid, 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 Company does not currently use derivative financial instruments outside of the CMB program, however the potential use of such instruments is analyzed and reported to ALCO on a monthly basis.

The interest rate risk associated with securitization assets (including short-term investments, mortgages - securitized and financial investments) and liabilities (financial liabilities from securitization) from the CMB program is managed through the use of "pay-floating, receive-fixed" interest rate swaps (included in derivative financial instruments). For further details on how the Company manages interest rate risk associated with the CMB program, refer to Notes 7 and 18.

34. Interest Rate Sensitivity (continued)

The following table presents the assets and liabilities of the Company by interest rate sensitivity:

As at December 31, 2013	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	\$ 516,593	\$ 60,869	\$ 166,809	\$ 97,733	\$ 78,893	\$ 16,921	\$ 81,120	\$ 1,018,938
Securitization	95,643	525,279	234,696	40,254	175,580	-	1,896	1,073,348
	612,236	586,148	401,505	137,987	254,473	16,921	83,016	2,092,286
Liabilities								
Corporate	17,991	62,990	388,142	300,851	38,239	-	16,669	824,882
Securitization	80,532	-	764,282	40,652	167,501	-	4,041	1,057,008
	98,523	62,990	1,152,424	341,503	205,740	-	20,710	1,881,890
Shareholders' Equity	-	-	-	-	-	-	210,396	210,396
GAP	\$ 513,713	\$ 523,158	\$ (750,919)	\$ (203,516)	\$ 48,733	\$ 16,921	\$ (148,090)	-
YIELD SPREAD	1.11%	0.70%	2.38%	2.19%	0.84%	3.98%		

As at December 31, 2012	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	\$ 378,655	\$ 74,847	\$ 216,912	\$ 147,234	\$ 56,340	\$ 5,588	\$ 71,110	\$ 950,686
Securitization	410,198	539,952	460,824	463,718	-	-	161,243	2,035,935
	788,853	614,799	677,736	610,952	56,340	5,588	232,353	2,986,621
Liabilities								
Corporate	-	230,981	236,976	267,153	41,967	-	13,449	790,526
Securitization	80,519	-	965,884	808,648	-	-	163,263	2,018,314
	80,519	230,981	1,202,860	1,075,801	41,967	-	176,712	2,808,840
Shareholders' Equity	-	-	-	-	-	-	177,781	177,781
GAP	\$ 708,334	\$ 383,818	\$ (525,124)	\$ (464,849)	\$ 14,373	\$ 5,588	\$ (122,140)	-
YIELD SPREAD	1.01%	0.92%	1.90%	1.85%	1.71%	5.61%		

Certain residential construction loans and single family uninsured completed inventory loans are subject to the greater of a minimum interest rate (ranging between 5% and 16%) or a prime based interest rate. To the extent that the minimum rate exceeds the prime based rate as at December 31, 2013, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - \$2,292 (December 31, 2012 - \$65,024), 3 months to 1 year - \$14,910 (December 31, 2012 - \$57,580) and 1 to 5 years - \$17,359 (December 31, 2012 - \$28,330).

An immediate and sustained 1% increase (decrease) to market interest rates as at December 31, 2013 would have a positive (adverse) effect of \$2,976 (December 31, 2012 - \$2,608) to net income over the following twelve month period. An immediate and sustained 1% increase (decrease) to market interest rates as at December 31, 2013 would have an adverse (positive) effect to accumulated other comprehensive income of \$143 (December 31, 2012 - \$208).

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.

35. 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 dividend reinvestment plan. The Company's capital management is driven by the guidelines set out by the Tax Act and OSFI.

As a MIC under the Tax Act, the Company is limited to a liabilities to capital ratio of 5:1 (or an assets to capital ratio of 6:1), based on the non-consolidated balance sheets measured at their tax values. Securitization assets and liabilities are both excluded from the calculation of the Tax Act ratio.

As at December 31	2013	2012
Tax Act Ratios		
Income tax assets	\$ 1,004,711	\$ 953,235
Income tax capital	\$ 187,915	\$ 168,477
Income tax assets to capital ratio	5.35	5.66
Income tax liabilities to capital ratio	4.35	4.66

The Company manages its assets to a level of 5.75 times capital on a non-consolidated tax basis to provide a prudent cushion between its limit and total actual assets. The Company manages its capital to comply with the requirements of the MIC test and OSFI regulations at all times.

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-regulatory (or risk-weighted) assets ratios and a maximum assets to capital ratio. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of regulatory ratios.

35. Capital Management (continued)

In order to promote a more resilient banking sector and strengthen global capital standards, the Basel Committee on Banking Supervision (“BCBS”) proposed significant enhancements and capital reforms to the current framework. The revised framework, referred to as Basel III, became effective as of January 1, 2013. 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.

	December 31 2013 Basel III (All-in)	December 31 2013 Basel III (Transitional)	December 31 2012 (Basel II)
Regulatory Ratios (OSFI)			
Share capital	\$ 179,215	\$ 179,215	\$ 155,005
Contributed surplus	510	510	510
Retained earnings	27,669	27,669	19,985
Accumulated other comprehensive income ¹	3,002	3,002	n/a
Adjustment for equity investment in MCAP Commercial LP ²	(18,206)	-	n/a
Common Equity Tier 1 capital	192,190	210,396	n/a
Tier 1 capital deductions	-	-	(229)
Tier 1 capital	192,190	210,396	175,271
Unrealized gain on available for sale marketable securities ¹	n/a	n/a	1,032
Tier 2 capital deductions	-	-	(229)
Tier 2 capital	-	-	803
Total capital	\$ 192,190	\$ 210,396	\$ 176,074
Total regulatory assets	\$ 1,244,426	\$ 1,244,426	\$ 1,002,759
Total risk-weighted assets	\$ 969,150	\$ 1,005,562	\$ 806,140
Capital ratios			
Common Equity Tier 1 capital to risk-weighted assets ratio	19.83%	20.92%	n/a
Tier 1 capital to risk-weighted assets ratio	19.83%	20.92%	21.74%
Total capital to risk-weighted assets ratio	19.83%	20.92%	21.84%
Assets to capital ratio	6.47	5.91	5.70

¹ Under Basel III, all accumulated other comprehensive income is included in Common Equity Tier 1 capital. Under Basel II, only the component relating to available for sale marketable securities portfolio was included in regulatory capital, as part of Tier 2 capital.

²The deduction for the equity investment in MCAP is the amount of the investment in excess of 10% of the Company’s regulatory capital (but prior to this deduction from regulatory capital).

As at December 31, 2013 and December 31, 2012 the Company was in compliance with the capital guidelines issued by OSFI under Basel III and Basel II respectively.

35. Capital Management (continued)

The Company's assets, analyzed on a risk-weighted basis, are as outlined in the table below. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of risk-weighted assets.

As at	December 31, 2013 Basel III (All-in)	December 31, 2013 Basel III (Transitional)	December 31, 2012 (Basel II)
On-Balance Sheet Assets			
Cash and cash equivalents	\$ 13,536	\$ 13,536	\$ 25,396
Marketable securities	21,687	21,687	20,390
Mortgages - corporate	587,953	587,953	494,935
Foreclosed real estate	5,667	5,667	4,355
Financial investments	24,548	24,548	17,611
Other loans	2,530	2,530	3,164
Equity investment in MCAP Commercial LP	21,038	57,450	36,386
Other assets	4,041	4,041	5,933
	<u>681,000</u>	<u>717,412</u>	<u>608,170</u>
Off-Balance Sheet Assets			
Letters of credit	16,947	16,947	12,832
Mortgage funding commitments	205,297	205,297	123,794
	<u>222,244</u>	<u>222,244</u>	<u>136,626</u>
Derivative Financial Instruments			
CMB interest rate swaps			
Potential credit exposure	24	24	988
Positive replacement cost	1,504	1,504	4,666
Credit equivalent	1,528	1,528	5,654
Risk weighting	20%	20%	20%
Risk-weighted equivalent	306	306	1,131
Charge for operational risk	65,600	65,600	60,213
Total Risk-Weighted Assets	\$ 969,150	\$ 1,005,562	\$ 806,140

The risk-weighting of all on-balance sheet assets (except derivative financial instruments) and all off-balance sheet assets is based on a prescribed percentage of the underlying asset position, in addition to adjustments for other items such as impaired mortgages and unrated securitization investments. The derivative financial instrument credit equivalent amount consists of the fair market value of the derivative and an amount representing the potential future credit exposure. Risk-weighted assets also include an operational risk charge, which is based on certain components of the Company's net investment income over the past three years.

36. 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, short-term investments, marketable securities, mortgages, financial investments, other loans, financial liabilities from securitization, term deposits and derivative financial instruments.

All financial instruments that are carried on the consolidated balance sheets at fair value (marketable securities, certain financial investments and derivative financial instruments) or for which fair value is disclosed (mortgages) 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. 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).

As at December 31, 2013	Level 1	Level 2	Level 3	Total	Carrying value
Assets measured at fair value					
Marketable securities	\$ 13,928	\$ 7,759	\$ -	\$ 21,687	\$ 21,687
Financial investments - commercial real estate ¹	-	-	18,451	18,451	18,451
Financial investments - retained interest ²	-	-	145	145	145
Derivative financial instruments - corporate	-	123	-	123	123
Derivative financial instruments - securitization	-	1,448	-	1,448	1,448
	<u>\$ 13,928</u>	<u>\$ 9,330</u>	<u>\$ 18,596</u>	<u>\$ 41,854</u>	<u>\$ 41,854</u>
Assets for which fair values are disclosed					
Mortgages - corporate ³	\$ -	\$ -	\$ 874,942	\$ 874,942	\$ 861,613
Financial investments					
- asset-backed commercial paper ⁴	-	-	457	457	457
Financial investments - other ²	-	-	244	244	244
Other loans ⁴	-	-	2,530	2,530	2,530
Short-term investments	-	329,765	-	329,765	329,765
Mortgages - securitized ³	-	-	601,945	601,945	592,416
Financial investments - securitization	-	109,146	-	109,146	108,877
	<u>\$ -</u>	<u>\$ 438,911</u>	<u>\$ 1,480,118</u>	<u>\$ 1,919,029</u>	<u>\$ 1,895,902</u>
Liabilities for which fair values are disclosed					
Term deposits ⁵	\$ -	\$ -	\$ 791,537	\$ 791,537	\$ 790,222
Loans payable ⁶	-	-	17,991	17,991	17,991
Financial liabilities from securitization ⁷	-	-	1,060,641	1,060,641	1,054,656
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,870,169</u>	<u>\$ 1,870,169</u>	<u>\$ 1,862,869</u>

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 calculated by discounting the expected future cash flows using the current credit spread over the risk free rate.

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. We classify our mortgages as level 3 given the fact that although many of the inputs to the valuation models we use 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 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.

⁶ Credit facility fair value is approximated by carrying amount due to their short-term nature.

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

36. Financial Instruments (continued)

As at December 31, 2012	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at fair value					
Marketable securities	\$ 11,889	\$ 8,491	\$ -	\$ 20,380	\$ 20,380
Financial investments - commercial real estate ¹	-	-	13,792	13,792	13,792
Financial investments - retained interest ²	-	-	3,084	3,084	3,084
Derivative financial instruments - securitization	-	4,666	-	4,666	4,666
	<u>\$ 11,889</u>	<u>\$ 13,157</u>	<u>\$ 16,876</u>	<u>\$ 41,922</u>	<u>\$ 41,922</u>
Assets for which fair values are disclosed					
Mortgages - corporate ³	\$ -	\$ -	\$ 742,779	\$ 742,779	\$ 739,812
Financial investments					
- asset-backed commercial paper ⁴	-	-	457	457	457
Financial investments - other ²	-	-	734	734	734
Other loans ⁴	-	-	3,164	3,164	3,164
Short-term investments	-	323,952	-	323,952	323,952
Mortgages - securitized ³	-	-	1,057,508	1,057,508	936,947
Financial investments - securitization	-	716,615	-	716,615	714,631
	<u>\$ -</u>	<u>\$ 1,040,567</u>	<u>\$ 1,804,642</u>	<u>\$ 2,845,209</u>	<u>\$ 2,719,697</u>
Liabilities for which fair values are disclosed					
Term deposits ⁵	\$ -	\$ -	\$ 786,837	\$ 786,837	\$ 777,077
Financial liabilities from securitization ⁶	-	-	1,054,656	1,054,656	2,015,046
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,841,493</u>	<u>\$ 1,841,493</u>	<u>\$ 2,792,123</u>

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 calculated by discounting the expected future cash flows using the current credit spread over the risk free rate.

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. We classify our mortgages as level 3 given the fact that although many of the inputs to the valuation models we use 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 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.

⁶ Fair value of financial liabilities from securitization are determined using current market rates for MBS and CMB.

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

Balance, December 31, 2012	\$ 16,876
Advances	2,780
Repayments	(2,942)
Changes in fair value, recognized in other comprehensive income	1,882
Balance, December 31, 2013	\$ 18,596

An increase of 0.25% to capitalization rates as at December 31, 2013 would result in a decrease to the fair value at Level 3 financial investments - commercial real estate by \$1,443 (December 31, 2012 - \$1,015). A decrease of 0.25% to capitalization rates as at December 31, 2013 would result in an increase to the fair value of Level 3 financial investments - commercial real estate by \$1,557 (December 31, 2012 - \$1,084).

An increase of 1% to market interest rates as at December 31, 2013 would result in a decrease to the fair value at Level 3 financial investments - retained interest by \$3 (December 31, 2012 - \$15). A decrease of 1% to capitalization rates as at December 31, 2013 would result in an increase to the fair value of Level 3 financial investments - retained interest by \$3 (December 31, 2012 - \$15).

There were no transfers between levels during the years ended December 31, 2013 or December 31, 2012. There were no financial liabilities reported at fair value as at December 31, 2013 or as at December 31, 2012.

36. Financial Instruments (continued)

Risk Management

The types of risks to which the Company is exposed include 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 of Directors. These policies are developed and implemented by management and reviewed and approved annually by the Board of Directors.

The nature of these risks and how they are managed is provided in the Risk Management and Risk Factors sections of the Management's Discussion and Analysis of Operations ("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.

37. 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

IFRS 9 was issued by the IASB in November 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

IAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*.

These amendments clarify the offsetting criteria in IAS 32 to address inconsistencies in their application. These amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems. This amendment will be effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact of adopting this amendment.

38. Comparative Amounts

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

DIRECTORS

Brydon Cruise

President and Managing Partner, Brookfield Financial; Chair of Risk Committee; Director since May 2010.

Verna Cuthbert

Counsel, Fasken Martineau DuMoulin LLP; Member of Audit Committee; Member of Risk Committee; Director since September 2013.

Susan Doré

Corporate Director; Chair of Information Technology Committee; Member of Audit Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since May 2010.

William Jandrisits

President and Chief Executive Officer, MCAN Mortgage Corporation; Member of Information Technology Committee; Director since August 2010.

Brian A. Johnson

Partner, Crown Capital Partners and Crown Realty Partners; Member of Risk Committee; Chair of Conduct Review, Corporate Governance and Human Resources Committee; Director since January 2001.

Derek A. Norton

Chief Executive Officer, MCAP Commercial LP; Member of Information Technology Committee; Director since July 2000.

Ian Sutherland

Chair, MCAN Mortgage Corporation; Member of Risk Committee; Director since January 1991.

Karen Weaver

Executive Vice President and Chief Financial Officer, First Capital Realty Inc.; Chair of Audit Committee; Member of Information Technology Committee; Director since November 2011.

W. Terrence Wright

Counsel, Pitblado LLP; Member of Audit Committee; Member of Conduct Review, Corporate Governance and Human Resources Committee; Director since September 2013.

On January 16, 2014, the OSC proposed for comment amendments to Form 58-101F1 of National Instrument 58-101, *Disclosure of Corporate Governance Practices*. The proposed amendments to Form 58-101F1 were made in response to feedback received on the OSC's consultation paper 58-401, *Disclosure Requirements Regarding Women on Boards and in Senior Management*. Noting that corporate decision-making benefits from a diversity of opinions and viewpoints, and that this diversity is enhanced when leadership roles are held by individuals who have different professional experience, education, skills and other individual qualities and attributes, the proposed amendments to Form 58-101F1 require certain issuers to provide disclosure regarding the following matters on an annual basis:

- Director term limits
- Policies regarding the representation of women on the board and in senior leadership positions
- The board's or nominating committee's consideration of the representation of women in the director identification and selection process
- The issuer's consideration of the representation of women in executive officer positions when making executive officer appointments
- The number of women on the board and in executive officer positions
- Targets for these numbers in the future

MCAN plans to fully comply with the amendments to 58-101 if and when enacted and will monitor any developments during 2014.

MCAN Mortgage Corporation's nine-member Board of Directors includes three women members (33%).

OFFICERS AND MANAGEMENT

William Jandrisits
President and Chief Executive Officer

Jeffrey Bouganim
Vice President and Chief Financial Officer

Michael Misener
Vice President and Chief Investment Officer

Sylvia Pinto
Corporate Secretary
Chief Compliance Officer

Robert Horton
Chief Audit Officer

Michel Laroche
Director, Risk Management,
Chief Anti-Money Laundering Officer and
Privacy Officer

Paco Lai
Senior Manager, Cash Operations

Derek Sutherland
Vice President and Chief Risk Officer

Carl Brown
Vice President, Operations
Business Continuity/Disaster Recovery Coordinator

Hassan Shaikh
Assistant Vice President, Investments

Dipti Patel
Senior Manager, Investments

John Tyas
Controller

Eloise Goodwin
Manager of Finance

Murtuza Lakdawala
Assistant Controller

CORPORATE INFORMATION

Head Office

200 King Street West, Suite 600
Toronto, Ontario
M5H 3T4

Tel: (416) 572-4880
Fax: (416) 598-4142

Corporate Counsel

Goodmans LLP
Toronto, Ontario

Auditors

Ernst & Young LLP
Toronto, Ontario

Public Listing

Toronto Stock Exchange
Exchange symbol MKP

Bank

Bank of Montreal
First Canadian Place
Toronto, Ontario

Website

www.mcanmortgage.com

Corporate Information

This MCAN Mortgage Corporation 2013 Annual Report is available for viewing/printing on our website at www.mcanmortgage.com, or additionally on SEDAR at www.sedar.com. To request a printed copy, please contact Ms. Sylvia Pinto, Corporate Secretary, 200 King Street West, Suite 600, Toronto, Ontario M5H 3T4, by phone 416-572-4880 or 1-855-213-6226, or e-mail spinto@mcanmortgage.com.

Registrar and Transfer Agent

For dividend information, change in share registration or address, lost certificates, estate transfers, or to advise of duplicate mailings, please call MCAN Mortgage Corporation's Transfer Agent and Registrar at 1-800-564-6253, or write to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario M5J 2Y1.

Dividend Reinvestment Plan

For information regarding MCAN's Dividend Reinvestment Plan, please visit the Company's website at <http://mcanmortgage.com/investor-relations/investor-materials>. An Enrolment Form may be obtained at any time upon written request addressed to the Plan Agent, Computershare. Registered Participants may also obtain Enrolment Forms online at www-us.computershare.com/investor/.

General Information

For general enquiries about MCAN Mortgage Corporation, please write to Ms. Sylvia Pinto, Corporate Secretary or e-mail mcanexecutive@mcanmortgage.com.

Annual Meeting

Wednesday, May 7, 2014
4:30 p.m. (Eastern Daylight Savings Time)
St. Andrew's Club & Conference Centre
150 King Street West
27th Floor
Toronto, Ontario