A Strategic Investor in Canadian Mortgages

Annual Report 2014

MCAN's VISION

To be recognized as a market leader in the investment of residential mortgages and residential construction loans

Investors

We achieve superior and sustainable returns for our shareholders by employing expert balance sheet management and by leveraging our investment expertise.

Term Deposits

MCAN's term deposits are eligible for CDIC insurance, have competitive rates and are distributed by a network of independent deposit brokers across Canada.

Mortgages

MCAN is a strategic investor in the Canadian real estate market. Our focus is residential mortgages and residential construction loans.

MCAN Mortgage Corporation, based in Toronto, is listed on the TSX under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN qualifies as a mortgage investment corporation under the Income Tax Act (Canada), is regulated by the Office of the Superintendent of Financial Institutions and issues term deposits eligible for deposit insurance from the Canada Deposit Insurance Corporation. MCAN also participates in securitization programs including the NHA Mortgage Backed Securities and Canada Mortgage Bonds programs. Xceed Mortgage Corporation, a wholly-owned subsidiary of MCAN, is an originator of single family mortgages in Canada.

DESCRIPTION OF BUSINESS

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

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

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

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation's ("MCAN", the "Company" or "we") net income for the year ended December 31, 2014 was $25.4 million, down from $30.8 million in the prior year. Earnings per share decreased from $1.57 to $1.23, while return on average shareholders' equity decreased from 15.84% to 11.50%.

The significant decrease in net income was primarily due to a $4.5 million gain recorded in 2013 on the dilution of our equity investment in MCAP Commercial LP ("MCAP"). In addition, in 2013 we recognized other non-recurring items as part of the acquisition of Xceed Mortgage Corporation ("Xceed") including a bargain purchase gain, which was mostly offset by transaction and restructuring expenses incurred as part of the transaction.

Financial highlights are as follows:

- Corporate assets totalled $1.04 billion as at December 31, 2014, up slightly from $1.03 billion as at December 31, 2013.
- We remained well capitalized with Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios of 23.37% on the transitional basis and 22.62% on the "all-in" basis as at December 31, 2014.
- We issued and sold $561 million of new mortgage-backed securities ("MBS") through the market MBS program during 2014.
- The Board of Directors (the "Board") declared a first quarter regular dividend of $0.28 per share to be paid March 31, 2015 to shareholders of record as of March 16, 2015.

Following the 2013 acquisition of Xceed, we focused our efforts throughout 2014 on re-launching the Xceed single family residential mortgage brand to mortgage brokers and completing the integration of Xceed and MCAN operations. In October 2013, Xceed re-entered the mortgage market with insured and uninsured single family mortgage products. Xceed funded over $200 million of newly originated mortgages in 2014, which represented a significant increase in originations from prior years. In addition, Xceed renewed $210 million of mortgages in 2014. This product contributed to our uninsured single family mortgage portfolio in corporate assets and insured market MBS mortgages in securitization assets.

We continued our participation in the MBS securitization market with regular issuances throughout 2014. Since re-entering the MBS market in the fourth quarter of 2013, we have issued $749 million of market MBS and will continue our participation based on favourable market spreads. For MBS issuances during that time period, we have retained the residual economics of the MBS (the "interest-only strip"). In 2014, we examined the merits of selling interest-only strips and have since concluded that we will retain the interest-only strips at the current time.

Our investment in MCAP continued to perform well. Equity income from MCAP was $6.2 million in 2014 compared to $6.6 million for 2013. Although our equity interest in MCAP decreased from 23.38% in the prior year to 14.75% in the current year, MCAP had higher gains from securitization investments and servicing income in the year resulting in equity income that was slightly lower by $0.4 million. MCAP's origination volumes were $11.5 billion in 2014. MCAP had $46.1 billion of assets under administration as at November 30, 2014.

Our corporate growth strategy remains focused on our insured and uninsured single family mortgage portfolios through our direct origination platform through Xceed as well as originations sourced by MCAP. We continue to observe growth in this asset class, and originations strengthened over 2014 which allowed us to grow our corporate assets, further diversify and re-balance our mortgage portfolio while optimizing returns and lowering our risk profile. In 2014, we updated our growth objective of growing our corporate assets by 10% per annum in the medium term. The growth rate target is driven in large part by market conditions and its impact on our noted origination capabilities. Not considering market conditions, our future pace of growth in corporate assets is also directly tied to our available income tax asset capacity and Total Capital (for further information, refer to the "Non-IFRS Measures" section of the MD&A). We will continue to provide updates in 2015 against this measure or any changes to it.

We expect construction activity to moderate nationally, with British Columbia and Ontario benefiting from the recent decline in the Canadian dollar and increased export gains on provincial GDP growth. The weakness in the Canadian dollar is expected to strengthen export activities for Ontario and British Columbia with building products and automotive industries seeing significant growth as the United States experiences a significant improvement in consumer spending and a housing recovery.

We continue to monitor the Alberta housing market closely, given the recent decline in oil prices. Our Alberta portfolio remains well balanced with projects supported by strong presales and experienced builders and developers. We expect the impact of

weakness in oil prices to result in a significant slowdown in economic activity in the region, which would result in a slowdown in housing starts and sales and some reduction in home prices.

Our focus in 2015 will be directed at the growth of corporate assets while closely monitoring and navigating the economic environment in Canada. We will continue to use Xceed originations through the mortgage broker channel, along with originations sourced from MCAP, to contribute to both our uninsured single family mortgages for corporate assets and for mortgages to be securitized through the market MBS program.

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, 2014 and December 31, 2013 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 presented in Canadian currency. This MD&A has been presented as at February 19, 2015.

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

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 this 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.

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

- the Company's ability to successfully implement and realize on its business goals and strategy;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- government regulation of the Company's business;
- computer failure or security breaches;
- future capital and funding requirements;
- the value of mortgage originations;
- the expected margin between the interest earned on mortgage portfolios and the interest to be paid on deposits;
- the relative continued health of real estate markets;
- acceptance of the Company's products in the marketplace;
- availability of key personnel;
- the Company's operating cost structure; and
- the current tax regime.

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;
- changes in MBS spreads and swap rates;
- MBS and mortgage prepayment rates;

- mortgage rate and availability changes;
- adverse legislation or regulation;
- availability of CMB and MBS issuer allocation;
- technology changes;
- confidence levels of consumers;
- ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- 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 this MD&A and our other public filings with the applicable Canadian regulatory authorities.

Subject to applicable securities law requirements, we undertake no obligation to publicly update 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.

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ACRONYMS

ALCO	*Asset and Liability Committee*	***HELOC***	*Home Equity Line of Credit*	***MBS***	*Mortgage Backed Securities*
BCBS	*Basel Committee on Banking Supervision*	***IAS***	*International Accounting Standard*	***MD&A***	*Management's Discussion & Analysis*
CAR	*Capital Adequacy Requirements*	***IASB***	*International Accounting Standards Board*	***MIC***	*Mortgage Investment Corporation*
CDIC	*Canada Deposit Insurance Corporation*	***IFRIC***	*IFRS Interpretations Committee*	***NHA***	*National Housing Act*
CET 1	*Common Equity Tier 1*	***IFRS***	*International Financial Reporting Standards*	***NSFR***	*Net Stable Funding Ratio*
CHT	*Canada Housing Trust*	***IMPP***	*Insured Mortgage Purchase Program*	***OSFI***	*Office of the Superintendent of Financial Institutions*
CMB	*Canada Mortgage Bonds*	***LAR***	*Liquidity Adequacy Requirements*	***RCB***	*Risk Committee of the Board*
CMHC	*Canada Mortgage and Housing Corporation*	***LCR***	*Liquidity Coverage Ratio*	***RAF***	*Risk Appetite Framework*
DRIP	*Dividend Reinvestment Plan*	***LP ARA***	*Limited Partner's At-Risk Amount*	***SEDAR***	*System for Electronic Document Analysis and Retrieval*
EIRM	*Effective Interest Rate Method*	***LTV***	*Loan to Value (ratio)*	***TSX***	*Toronto Stock Exchange*

SELECTED FINANCIAL INFORMATION

Table 1: Income Statement Highlights

(in thousands except for per share amounts and %)	2014	2013 [3,4]	2012 [3,4]	Change from 2013 ($)	Change from 2013 (%)
Operating Results					
Net investment income - corporate assets	$ 39,151	$ 39,187	$ 31,135	$ (36)	(0.1%)
Other income - corporate assets	782	5,363	-	(4,581)	(85.4%)
Net investment income - securitization assets before market value adjustment	1,282	(90)	2,778	1,372	(1524.4%)
Fair market value adjustment	(1,376)	(3,218)	(8,682)	1,842	(57.2%)
Net investment income - securitization assets	(94)	(3,308)	(5,904)	3,214	(97.2%)
Operating expenses	13,383	11,290	8,993	2,093	18.5%
Net income before income taxes	26,456	29,952	16,238	(3,496)	(11.7%)
Provision for (recovery of) income taxes	1,010	(853)	(256)	1,863	(218.4%)
Net income	$ 25,446	$ 30,805	$ 16,494	$ (5,359)	(17.4%)
Average mortgage portfolio yield - corporate [2,5]	5.60%	5.80%	5.81%		(0.20%)
Term deposit average interest rate [2]	2.46%	2.46%	2.44%		(0.00%)
Average mortgage portfolio yield - securitized [2]	2.90%	3.62%	4.00%		(0.72%)
Financial liabilities from securitization - average interest rate [2]	2.37%	3.03%	3.54%		(0.66%)
Basic and diluted earnings per share	$ 1.23	$ 1.57	$ 0.94	$ (0.34)	(21.7%)
Dividends per share	$ 1.12	$ 1.15	$ 1.42	$ (0.03)	(2.6%)
Taxable income per share [1]	$ 1.01	$ 0.78	$ 1.17	$ 0.23	29.5%
Return on average shareholders' equity [1]	11.50%	15.84%	10.00%		(4.34%)

[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 for a definition of this measure.*
[3] *2012 and 2013 financial information has been restated to reflect the change in accounting for income taxes. For further information, refer to Note 4 to the consolidated financial statements.*
[4] *2013 financial information only includes six months of the consolidation of Xceed operations as the acquisition did not occur until the third quarter of 2013. 2012 financial information does not include any consolidated Xceed operations.*
[5] *For the purposes of this table, mortgages acquired as part of the Xceed acquisition are excluded from the average corporate mortgage portfolio yield.*

Table 2: Balance Sheet Highlights

(in thousands except for per share amounts and %)	December 31 2014	December 31 2013 [3]	December 31 2012 [3]	Change from 2013 ($)	Change from 2013 (%)
Balance Sheet Highlights					
Assets					
Corporate	$ 1,044,579	$ 1,027,176	$ 958,116	$ 17,403	1.7%
Securitization	760,366	1,066,128	2,028,505	(305,762)	(28.7%)
Total assets	$ 1,804,945	$ 2,093,304	$ 2,986,621	$ (288,359)	(13.8%)
Mortgages - corporate	$ 895,467	$ 868,833	$ 747,242	$ 26,634	3.1%
Mortgages - securitized	$ 741,184	$ 585,196	$ 929,517	$ 155,988	26.7%
Liabilities					
Corporate	$ 833,537	$ 821,396	$ 790,526	$ 12,141	1.5%
Securitization	746,105	1,057,008	2,018,314	(310,903)	(29.4%)
Total liabilities	$ 1,579,642	$ 1,878,404	$ 2,808,840	$ (298,762)	(15.9%)
Shareholders' equity	$ 225,303	$ 214,900	$ 177,781	$ 10,403	4.8%
Capital Ratios [1]					
Income Tax Assets to Capital Ratio	5.05	5.35	5.66		(5.6%)
Common Equity Tier 1 Capital Ratio (transitional)	23.37%	21.36%	n/a		2.01%
Common Equity Tier 1 Capital Ratio (all-in)	22.62%	20.31%	n/a		2.31%
Tier 1 Capital Ratio (transitional)	23.37%	21.36%	n/a		2.01%
Tier 1 Capital Ratio (all-in) [4]	22.62%	20.31%	21.74%		2.31%
Total Capital Ratio (transitional)	23.37%	21.36%	n/a		2.01%
Total Capital Ratio (all-in) [4]	22.62%	20.31%	21.84%		2.31%
Assets to Capital Multiple (transitional) [2, 4]	8.14	5.80	5.70		40.3%
Credit Quality					
Impaired mortgage ratio (total) [1]	0.50%	0.51%	0.51%		(0.01%)
Impaired mortgage ratio (corporate) [1]	0.92%	0.84%	1.16%		0.08%
Total mortgage arrears	$ 38,405	$ 38,456	$ 63,489	$ (51)	(0.1%)
Common Share Information (end of period)					
Number of common shares outstanding	20,808	20,461	18,729		1.7%
Book value per common share [1]	$ 10.83	$ 10.50	$ 9.49	$ 0.33	3.1%
Common share price - close	$ 14.40	$ 13.00	$ 14.01	$ 1.40	10.8%
Market capitalization [1]	$ 299,635	$ 265,993	$ 262,393	$ 33,642	12.6%

[1] Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.
[2] Mortgages securitized through the market MBS program for which derecognition has not been achieved are included in regulatory assets in the Assets to Capital Multiple. For further information, refer to the "Capital Management" section of this MD&A.
[3] 2012 and 2013 financial information has been restated to reflect the change in accounting for income taxes.
[4] December 31, 2012 amounts are presented using Basel II, which did not have a "transitional" or "all-in" approach applicable under Basel III, which became effective January 1, 2013.

HIGHLIGHTS

- Net income for the year was $25.4 million ($1.23 per share), down from $30.8 million ($1.57 per share) in the prior year. Return on average shareholders' equity[1] was 11.50% in the current year compared to 15.84% in the prior year. The decrease from the prior year was a result of material non-recurring items related to the acquisition of Xceed and a significant dilution gain related to our equity investment in MCAP. All 2013 comparatives have been restated to reflect our change in accounting for income taxes.

- Corporate assets totalled $1.04 billion at December 31, 2014, up slightly from $1.03 billion at December 31, 2013.

- The impaired total mortgage ratio[1] was 0.50% at December 31, 2014, down slightly from 0.51% at December 31, 2013. The impaired corporate mortgage ratio[1] was 0.92%, up from from 0.84% at December 31, 2013. Total mortgage arrears were $38 million at December 31, 2014, unchanged from December 31, 2013.

- As at December 31, 2014, we had $145 million of income tax asset capacity[1] based on our target assets to capital ratio[1] of 5.75, which is measured on a tax basis and represents available room for the growth of corporate assets.

- Our Common Equity Tier 1, Tier 1 and Total Capital to risk-weighted assets ratios[1] were 23.37% at December 31, 2014 on the transitional basis and 22.62% on the "all-in" basis.

- We issued and sold $561 million of new MBS through the market MBS program during the year. Since recommencing the market mortgage-backed securities ("MBS") program in the fourth quarter of 2013, we have securitized $729 million of insured single family mortgages.

- The Board of Directors (the "Board") declared a 2015 first quarter dividend of $0.28 per share to be paid on March 31, 2015 to shareholders of record as of March 16, 2015.

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

OUTLOOK

Canadian real estate markets have remained balanced in 2014 and are expected to remain balanced, with the exception of Alberta, as unsold inventory levels remain moderate and developers adjust to market conditions. The housing market is expected to encounter economic headwinds in Western Canada as we expect reductions in sales volumes as a result of the recent declines in oil prices and the cancellations of capital expenditures in the oil and gas sector to affect employment and consumer demand. The recent interest rate cut by the Bank of Canada should help to soften the impact on the housing market as lower rates are priced into markets, facilitating lower borrowing costs and increased consumer spending. The lower Canadian dollar will strengthen export activities for Ontario and British Columbia with building products and automotive industries seeing significant growth as the United States experiences an improvement in consumer spending and a housing recovery.

In 2015, housing markets outside of Western Canada should continue to benefit from the low interest rate environment and stable job growth. Recent volatility in the stock market and the price of oil are expected to have a negative influence on the housing market throughout 2015 as they impact consumer confidence. We expect mortgage rates to remain at historical lows, supporting demand for housing such that markets will remain stable with the exception of western Canada.

MCAN's growth strategy remains focused on the insured and uninsured single family mortgage portfolios, through our direct origination platform through Xceed as well as originations sourced by MCAP. We continue to observe growth in this asset class, with originations strengthening during 2014. This allowed us to grow our corporate assets, further diversify and re-balance our mortgage portfolio while optimizing returns and improving our risk profile. Not considering market conditions, our future pace of growth is also directly tied to our income tax asset capacity and Total Capital (for further information, refer to the "Non-IFRS Measures" section of this MD&A).

Following a year where we issued and sold $561 million of market MBS, we plan to continue our participation in this program based on favourable market spreads.

We expect construction activity to moderate nationally, with Ontario and British Columbia benefiting from the recent decline in the Canadian dollar, which supports increased export gains, provincial GDP growth and strong employment growth. Attractive mortgage rates and consumer savings from cheaper fuel costs should strengthen consumer confidence in most of Canada.

We continue to monitor the Alberta housing market closely, given the recent decline in oil prices. Our Alberta portfolio remains well balanced with projects supported by strong presales and experienced builders and developers. We expect the impact of weakness in oil prices to result in a significant slowdown in economic activity in the region, which would result in a slowdown in housing starts and sales and some reduction in home prices.

The Basel III Liquidity Adequacy Requirements Guidelines came into effect on January 1, 2015. To ensure compliance with the new guidelines, we changed the composition of our liquid assets in late 2014. A key modification to our liquid asset position has been an increase in our holdings of "High Quality Liquid Assets" such as MCAN-issued NHA MBS securities. The Basel III Leverage Ratio, which replaces the Assets to Capital Multiple as the metric that governs our regulatory asset limits, also came into effect on January 1, 2015; however, we do not expect its implementation to significantly impact our operations or business plans.

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 all components of shareholders' equity.

Taxable Income Measures
Taxable Income Measures include taxable income and taxable income per share. Taxable income represents MCAN's net income on a non-consolidated basis calculated under the provisions of the *Income Tax Act* (Canada) (the "Tax Act") applicable to a mortgage investment corporation ("MIC").

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

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

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

Common Equity Tier 1, Tier 1, Total Capital and Assets to Capital Multiple and Risk Weighted Assets
These measures provided in this MD&A are in accordance with guidelines issued by OSFI and are located on Table 28 of this MD&A and Note 34 to the consolidated financial statements.

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

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

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

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

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

RESULTS OF OPERATIONS

Table 3: Net Income - For the Years Ended December 31

(in thousands)	2014	2013	Change from 2013 ($)	(%)
Net Investment Income - Corporate Assets				
Mortgage interest	$ 50,426	$ 50,740	$ (314)	(1%)
Equity income from MCAP Commercial LP	6,182	6,563	(381)	(6%)
Fees	2,733	2,347	386	16%
Marketable securities	1,925	1,308	617	47%
Whole loan gain on sale income	1,296	1,738	(442)	(25%)
Realized and unrealized gain (loss) on financial instruments	(1,729)	(558)	(1,171)	210%
Interest on financial investments and other loans	822	(62)	884	(1426%)
Interest on cash and cash equivalents	848	887	(39)	(4%)
Gain on sale of foreclosed real estate	1,115	-	1,115	-
	63,618	**62,963**	**655**	**1%**
Term deposit interest and expenses	20,709	19,163	1,546	8%
Mortgage expenses	3,820	3,290	530	16%
Interest on loans payable	921	954	(33)	(3%)
Provision for (recovery of) credit losses	(983)	369	(1,352)	(366%)
	24,467	**23,776**	**691**	**3%**
	39,151	**39,187**	**(36)**	**(0%)**
Other Income - Corporate Assets				
Gain on sale of investment in MCAP Commercial LP	711	736	(25)	(3%)
Gain on dilution of investment in MCAP Commercial LP	71	4,510	(4,439)	(98%)
Bargain purchase gain	-	2,127	(2,127)	(100%)
Transaction and restructuring expenses	-	(2,010)	2,010	(100%)
	782	**5,363**	**(4,581)**	**(85%)**
Net Investment Income - Securitization Assets				
Mortgage interest	12,383	7,134	5,249	74%
Interest on financial investments	428	1,806	(1,378)	(76%)
Interest on short-term investments	835	1,386	(551)	(40%)
Other securitization income	1,343	3,761	(2,418)	(64%)
	14,989	14,087	902	6%
Interest on financial liabilities from securitization	13,087	13,998	(911)	(7%)
Mortgage expenses	620	179	441	246%
	13,707	14,177	(470)	(3%)
Net investment income before fair market value adjustment	1,282	(90)	1,372	(1524%)
Fair market value adjustment - derivative financial instruments	(1,376)	(3,218)	1,842	(57%)
	(94)	**(3,308)**	**3,214**	**(97%)**
Operating Expenses				
Salaries and benefits	7,154	6,036	1,118	19%
General and administrative	6,229	5,254	975	19%
	13,383	11,290	2,093	19%
Net Income Before Income Taxes	26,456	29,952	(3,496)	(12%)
Provision for (recovery of) income taxes	1,010	(853)	1,863	(218%)
Net Income	**$ 25,446**	**$ 30,805**	**$ (5,359)**	**(17%)**
Basic and diluted earnings per share	$ 1.23	$ 1.57	$ (0.34)	(22%)
Dividends per share	$ 1.12	$ 1.15	$ (0.03)	(3%)

Certain items in the table above have been reclassified from prior years. For further details, refer to Note 38 to the consolidated financial statements.

Net Income

MCAN reported net income of $25.4 million for the year ended December 31, 2014, down from $30.8 million in the prior year on a restated basis (for further information, refer to Note 4 to the consolidated financial statements). Earnings per share were $1.23 compared to $1.57 in the prior year.

The decrease in net income was primarily due to non-recurring items from the prior year relating to the acquisition of Xceed, a significant gain on the dilution of our equity investment in MCAP in the prior year and higher operating expenses and income taxes in the current year. These items were partially offset by higher securitization income and a one-time gain on sale of foreclosed real estate in the current year.

Net Investment Income - Corporate Assets

Mortgage interest income

Mortgage interest income decreased by $0.3 million from the prior year. The average mortgage portfolio yield decreased from 6.37% in 2013 to 5.62% in 2014, while the average mortgage portfolio balance increased from $792 million in 2013 to $896 million in 2014.

The decrease in the average mortgage portfolio yield was primarily due to the impact of the higher effective interest rates earned in the prior year on the mortgages acquired as part of the acquisition of Xceed. Excluding the mortgages acquired from Xceed, the average yield decreased from 5.80% to 5.60%. For additional information, refer to Table 5 of this MD&A. Average mortgage portfolio yield is considered to be a non-IFRS measure. For a definition of this measure, refer to the "Non-IFRS Measures" section of this MD&A.

The balance of the decrease in the corporate yield from the prior year was due to a lower yield on our construction loan portfolio as a result of lower commitment fees earned in the current year. This decrease was offset by an increase in fees earned on the construction loan portfolio, discussed below in "Other net investment income".

The increase in the average mortgage portfolio balance related primarily to the residential construction and insured single family mortgage portfolios. The residential construction portfolio average balance increased by $46 million over 2013, whereas the increase in the insured single family mortgage portfolio was due to an increase in the volume of mortgages held on a short-term basis to be securitized into the market MBS program. We plan to target growth in our uninsured single family mortgage portfolio during 2015 through our Xceed origination platform.

Equity income from MCAP

Equity income from our ownership in MCAP decreased by $0.4 million from the prior year, primarily due to a decrease in our ownership share from 23.38% in the prior year to 14.75% in the current year. The decrease in our ownership share was partly offset by an increase in MCAP's net income as a result of higher gains from securitization investments and servicing income.

Other net investment income

Fees, which consist primarily of extension, renewal and letter of credit fees earned on our corporate mortgage portfolio, increased by $0.4 million from the prior year as a result of a larger average portfolio.

Marketable securities income increased by $0.6 million from the prior year as a result of a higher average yield and portfolio balance in the current year.

Whole loan gains on sale decreased by $0.4 million from the prior year, although the prior year included a $1.3 million sale on a portfolio of acquired mortgages. Whole loan gains on sale generally relate to the sale of insured single family mortgages. We regularly sell mortgages to third-party aggregators on a whole-loan basis with mortgage premiums received at the time of sale. The remaining $0.9 million increase from the prior year relating to regular whole loan sales is a result of a $52 million increase in sales volumes and the fact that we had only six months of consolidated operations in the prior year including Xceed.

The realized and unrealized loss on financial instruments relates to the hedging of mortgage funding commitments to mitigate interest rate risk. We enter into forward starting interest rate swaps with a financial institution as part of this hedge. To the extent that the related hedged mortgages are sold, offsetting gains or losses are recognized in the period that the mortgages are sold or over the term of the mortgage using the effective interest rate method for mortgages retained on the balance sheet. A significant decrease in GOC rates during 2014 led to the $1.7 million loss incurred during the year. The $1.2 million increase

in the loss from the prior year is a result of the aforementioned decrease in market interest rates and the fact that we had only six months of consolidated operations in the prior year.

Current year interest on loans and financial investments of $0.8 million consists primarily of a $0.7 million distribution received from a commercial real estate investment.

During 2014, we recognized a $1.1 million gain on the sale of real estate that we had previously foreclosed upon. For further information, refer to the "Corporate Assets" sub-section of the "Financial Position" section of this MD&A.

Term deposit interest and expenses increased by $1.5 million from the prior year as a result of a $60 million increase in the average term deposit balance from $751 million in 2013 to $811 million in 2014. The average term deposit rate was unchanged from 2013 at 2.46%.

Mortgage expenses, consisting primarily of mortgage servicing fees, increased by $0.5 million from the prior year as a result of the aforementioned increase in the average mortgage portfolio.

Interest on loans payable decreased slightly from the prior year as the average interest rate was slightly lower than the prior year. The loan facilities are used to warehouse mortgages prior to their sale as whole loans or through the market MBS program.

Details of the provision for credit losses are discussed in "Credit Quality".

Other Income - Corporate Assets

In the current year, we recorded a $0.7 million gain on the partial sale of our investment in MCAP, while in the prior year we also recognized a $0.7 million gain on a partial sale. Additionally, we recorded a $4.5 million gain on the dilution of our investment in the prior year and a $71,000 gain on dilution in the current year. For further details on these transactions, refer to the "Equity investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

As part of the acquisition of Xceed in the third quarter of 2013, 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. In addition, we incurred $2.0 million of transaction and restructuring expenses as part of the acquisition, including lease termination expense, severance expenses and professional fees.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to MCAN's participation in the market MBS program and the Canada Mortgage Bonds ("CMB") program. For further details on these programs, refer to the "Securitization Programs" section of this MD&A. We expect net investment income from the market MBS program to increase as we securitize additional mortgages through this program. As existing CMB issuances mature, we expect net investment income (loss) from CMB assets to decrease as the related mortgages and reinvestment assets are removed from our balance sheet.

The net investment loss from securitization assets was $94,000 in the current year compared to a loss of $3,308,000 in the prior year, net of a $1.4 million negative fair value adjustment on derivative financial instruments (2013 - $3.2 million). Current year activity consisted of income of $1,827,000 from the market MBS program and a loss of $1,921,000 from the CMB program.

Mortgage interest income increased by $5.2 million from the prior year. We earned $10.6 million of interest from the market MBS program from an average portfolio balance of $375 million and an average yield of 2.85%, up from $0.2 million in the prior year. CMB mortgage interest was $1.8 million in the current year, down from $7.0 million in the prior year as a result of a significant decline in the average principal balance from $682 million in the prior year to $146 million in the current year and a decrease in the average CMB mortgage yield from 3.64% in 2013 to 3.34% in 2014.

Interest on financial investments and interest on short-term investments both decreased from the prior year by $1.4 million and $0.6 million, respectively, as a result of a significant decrease in the average portfolios due to the continued maturity of CMB-related assets during the current year.

Other securitization income, consisting primarily of interest rate swap receipts, decreased by $2.4 million as a result of the continued decrease in CMB-related assets during 2014. As part of the CMB program, we enter into "pay floating, receive fixed" interest rate swaps to hedge interest rate risk on floating rate assets.

Interest on financial liabilities from securitization decreased by $0.9 million from the prior year. The current year consisted of $8.2 million from the market MBS program and $4.9 million from the CMB program, while the prior year consisted primarily of CMB program activity. In the current year, the market MBS liability average balance was $372 million and its average interest rate was 2.21%. The CMB program securitization liability average balance decreased significantly from $1.5 billion in the prior year to $396 million in the current year as a result of continued CMB issuance maturities during 2014 and the average CMB liability yield decreased from 3.04% to 2.71%.

The negative fair market value adjustment to derivative financial instruments of $1.4 million in the current year (2013 - negative adjustment of $3.2 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.

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 4: Net Interest Income

For the Years Ended December 31	2014			2013		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate[3]	Average Balance [1]	Income / Expense	Average Rate[3]
Assets						
Cash and cash equivalents	$ 75,841	$ 848	1.12%	$ 101,726	$ 887	0.87%
Marketable securities	25,149	1,925	6.54%	20,811	1,308	5.02%
Mortgages	896,272	50,426	5.62%	791,549	50,740	6.37%
Financial investments	24,072	758	1.71%	23,364	(122)	5.08%
Other loans	2,037	64	3.14%	2,468	60	2.43%
Corporate interest earning assets	1,023,371	54,021	5.39%	939,918	52,873	5.75%
Short term investments	210,047	835	0.89%	487,257	1,386	0.88%
Mortgages	520,908	12,383	2.90%	688,995	7,134	3.62%
Financial investments	57,815	428	1.65%	458,737	1,806	1.73%
Securitized interest earning assets	788,770	13,646	2.52%	1,634,989	10,326	2.16%
Total interest earning assets	1,812,141	67,667	4.14%	2,574,907	63,199	3.47%
Other assets	20,862	-	-	30,411	-	-
Total assets	$ 1,833,003	$ 67,667	4.09%	$ 2,605,318	$ 63,199	3.43%
Liabilities and shareholders' equity						
Term deposits	$ 811,271	$ 20,709	2.46%	$ 751,251	$ 19,163	2.46%
Loans payable	25,645	921	3.22%	22,673	954	3.39%
Corporate liabilities	836,916	21,630	2.49%	773,924	20,117	2.50%
Securitized liabilities	767,878	13,087	2.37%	1,628,440	13,998	3.03%
Total interest earning liabilities	1,604,794	34,717	2.43%	2,402,364	34,115	2.86%
Other liabilities	7,105	-	-	11,711	-	-
Shareholders' equity	221,104	-	-	191,243	-	-
Total liabilities and shareholders' equity	$ 1,833,003	$ 34,717	2.13%	$ 2,605,318	$ 34,115	2.64%
Net Interest Income [2]		$ 32,950			$ 29,084	
Spread of Mortgages (Corporate Portfolio) over Term Deposits [1]			3.16%			3.91%

[1] The average balances (excluding mortgages and term deposits) are calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. The average mortgage and term deposit balances are calculated using daily balances.
[2] Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, gain on sale of foreclosed real estate, other securitization income, mortgage expenses, provision for credit losses and fair market adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

[3] *Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items 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 years ended December 31, 2014 and December 31, 2013. Average rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

The increase in net interest income over 2013 is primarily due to higher securitization income. Although the average securitization balance decreased significantly, the prior year balance included CMB-related assets in which we only had a minority economic interest despite presenting 100% of the assets and liabilities on our balance sheet. During 2014, our market MBS program volumes grew significantly and securitization net interest income increased accordingly. Corporate net interest income in 2014 was comparable to 2013. The decrease in the average rate is a result of higher income earned in the prior year from the mortgage portfolios acquired as part of the acquisition of Xceed.

Table 5: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Years Ended December 31	**2014**			**2013**		
(in thousands except %)	**Average Balance**	**Interest Income**	**Average Rate [1]**	**Average Balance**	**Interest Income**	**Average Rate [1]**
Single family						
- Uninsured	$ 252,513	$ 13,273	5.23%	$ 267,901	$ 17,097	6.34%
- Uninsured (completed inventory)	48,002	2,652	5.50%	37,831	2,311	6.07%
- Insured	141,945	6,126	4.30%	76,302	5,542	7.22%
Construction loans						
- Residential	363,260	20,441	5.60%	316,950	19,076	5.98%
- Non residential	2,438	181	7.36%	17,471	1,116	6.34%
Commercial loans						
- Uninsured	88,114	7,753	8.76%	75,094	5,598	7.40%
Average mortgages - corporate portfolio	**$ 896,272**	**$ 50,426**	**5.62%**	**$ 791,549**	**$ 50,740**	**6.37%**

[1] *Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate. Non-recurring items are immaterial for the years ended December 31, 2014 and December 31, 2013. Average interest rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*

The uninsured single family, insured single family and overall yields for the year ended December 31, 2014 and December 31, 2013 include higher-yielding mortgages that were acquired as part of the Xceed acquisition. The respective yields excluding these mortgages were 5.17% (2013 - 5.36%), 4.07% (2013 - 3.98%) and 5.60% (2013 - 5.80%).

Credit Quality

Table 6: Provisions for Credit Losses and Write-offs

(in thousands except basis points)				
			Change from 2013	
For the Years Ended December 31	**2014**	**2013**	**($)**	**(%)**
Individual provision (recovery)				
Single family uninsured	$ 96	$ 124	$ (28)	(23%)
Single family uninsured - completed inventory	(550)	550	(1,100)	(200%)
Residential construction	275	-	275	-
Commercial uninsured	(15)	-	(15)	-
	$ (194)	$ 674	$ (868)	(129%)
Collective provision (recovery)				
Single family uninsured	$ 357	$ 206	$ 151	73%
Single family uninsured - completed inventory	(52)	64	(116)	(181%)
Construction	(5)	523	(528)	(101%)
Commercial	(120)	114	(234)	(205%)
Corporate mortgages - total	180	907	(727)	(80%)
Financial investments and other loans	(2)	(9)	7	(78%)
Other provisions (recoveries)	(967)	(1,203)	236	(20%)
	$ (789)	$ (305)	$ (484)	159%
Total provision for (recovery of) credit losses	$ (983)	$ 369	$ (1,352)	(366%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ (14)	$ 1,581	$ (1,595)	(101%)
Net write offs	$ 364	$ 665	$ (301)	(45%)
Net write offs (basis points)	4.1	8.5	n/a	(52%)

Individual mortgage allowances include all of the accumulated provisions for losses on particular assets required to reduce the related assets to estimated realizable value. In the first quarter of 2014, we reversed a previously recorded $550,000 allowance on an uninsured single family completed inventory loan as a result of the partial repayment of the loan and the associated impact to its net realizable value. Additionally, we recorded a $275,000 allowance on a residential construction loan in the fourth quarter of 2014 as a result of cost overruns which led to a borrower default.

Collective mortgage allowances represent losses that we believe have been incurred but not yet specifically identified. The collective provisions (recoveries) recorded during the year are consistent with the growth (reduction) in the size of the respective mortgage portfolios.

Other provisions (recoveries) in the current year consist primarily of a reduction in the liability associated with the Xceed off-balance sheet securitization portfolio. For further details, refer to the “Liabilities and Shareholders’ Equity” sub-section of the “Financial Position” section of this MD&A. In the prior year, we also reversed a $1.1 million allowance associated with a loan securitization program indemnity upon the buyout of the loan. The reversal was reflected in other provisions (recoveries).

Corporate mortgage arrears and impaired mortgages were $30 million as at December 31, 2014, up from $28 million as at December 31, 2013. The increase related to our residential construction loan portfolio. Securitized mortgage arrears were $9 million as at December 31, 2014, down from $11 million as at December 31, 2013. 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.

Table 7: Net Impaired Mortgages and Allowances

(in thousands except %) As at December 31	2014	2013	Change from 2013 ($)	(%)
Corporate portfolio				
Single family - uninsured	$ 2,782	$ 4,774	$ (1,992)	(42%)
Single family - uninsured completed inventory	-	2,564	(2,564)	(100%)
Single family - insured	250	60	190	317%
Residential construction	5,352	-	5,352	-
Net impaired mortgages	$ 8,384	$ 7,398	$ 986	13%
Impaired mortgage ratio (total) [1]	0.50%	0.51%		(0.01%)
Impaired mortgage ratio (corporate) [1]	0.92%	0.84%		0.08%
Collective allowance	$ 4,332	$ 4,265	$ 67	2%
Individual allowance	642	1,087	(445)	(41%)
Total allowance	$ 4,974	$ 5,352	$ (378)	(7%)

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

Operating Expenses

Table 8: Operating Expenses

(in thousands) For the Years Ended December 31	2014	2013	Change from 2013 ($)	(%)
Salaries and benefits	$ 7,154	$ 6,036	$ 1,118	19%
General and administrative	6,229	5,254	975	19%
	$ 13,383	**$ 11,290**	**$ 2,093**	**19%**

The increase in both salaries and benefits and general and administrative expenses is a result of the significant increase in our scale of operations since the acquisition of Xceed in July 2013. The prior year only includes six months of consolidated operations. The increase to salaries and benefits was partially offset by $514,000 of severance costs incurred in the prior year.

Income Taxes

Provision for Income Taxes

Table 9: Income Taxes

(in thousands) For the Years Ended December 31	2014	2013	Change from 2013 ($)	(%)
Current tax provision	$ 102	$ 5	$ 97	1,940%
Deferred tax provision (recovery)	908	(858)	1,766	(206%)
	$ 1,010	**$ (853)**	**$ 1,863**	**(218%)**

On January 1, 2014, we changed our accounting policy with respect to accounting for income taxes. As a MIC under the Tax Act, we are able to deduct from income for tax purposes dividends paid within 90 days of year-end. We intend to maintain our status as a MIC and intend to pay sufficient dividends in current and future years to ensure that we are not subject to income taxes. Accordingly, we elected to no longer record a provision for current and deferred taxes within the MIC entity.

The change in accounting policy has eliminated the annual volatility in income that previously occurred year over year when tax provisions that were recorded in one year would reverse in the following year upon the payment of the first quarter dividend. This change also aligns our accounting income tax accounting policy with other MICs to assist readers of the financial statements to compare results.

All subsidiaries of MCAN that are taxable entities continue to account for current and deferred income taxes. The change in accounting policy was applied retrospectively as at January 1, 2013.

The deferred tax provision in the current year was due to the partial application of loss carry forwards as a result of taxable income earned at the subsidiary level, while in the prior year we had deferred tax recoveries as a result of taxable losses in subsidiaries.

Taxable Income

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

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 the securitization program cash outflows, 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 securitization program 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.

During 2014, we reorganized our equity investment in MCAP. For further information on the reorganization, refer to the "Equity Investment in MCAP" sub-section of the "Financial Position" section of this MD&A. As a result of the reorganization, we recognized a $23.6 million gain on sale in MCAN on a non-consolidated basis. For taxable income purposes, we recognized a 50% capital gain to taxable income with an impact of $11.8 million ($0.57 per share). The reorganization had no impact on the consolidated balance sheet or consolidated statement of income.

As part of the re-entry into the market MBS program in the fourth quarter of 2013, we now purchase and originate insured mortgages that are securitized through the market MBS program (for further details on the market MBS program, refer to the "Securitization Programs" section of this MD&A). The purchase of mortgages involves the payment of an up-front origination fee that is deductible for tax purposes in the period that the mortgages are securitized, while for accounting purposes this fee is capitalized and amortized over the term of the associated mortgages. During 2014, we incurred $11.4 million of up-front costs on market MBS mortgages (2013 - $1.6 million).

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

Table 10: Taxable Income Reconciliation [1]

(in thousands) For the Periods Ended December 31	Q4 2014	Q4 2013 [2]	Annual 2014	Annual 2013 [2]
Net income for accounting purposes	$ 7,129	$ 12,969	$ 25,446	$ 30,805
Adjustments:				
Equity income from MCAP	(1,685)	670	(6,226)	(6,938)
Gain on dilution of investment in MCAP [3,5]	-	(4,510)	-	(4,510)
Tax reorganization of investment in MCAP	-	-	11,799	-
Bargain purchase gain [3]	-	-	-	(2,127)
Equity income from subsidiaries [3]	(2,351)	(1,360)	(4,756)	(3,285)
Provision for (recovery of) credit losses [3]	82	299	28	(319)
Fair market value adjustment - derivative financial instruments [3]	133	512	1,376	3,218
Capital gains	4	(616)	76	(1,214)
Amortization of upfront securitization program costs	842	313	2,384	1,578
Market MBS program upfront costs [4]	(3,438)	(1,595)	(11,447)	(1,595)
Other items	689	(304)	2,097	(312)
Taxable Income	**$ 1,405**	**$ 6,378**	**$ 20,777**	**$ 15,301**

[1] *Taxable income is presented above on a non-consolidated basis for the MIC entity.*
[2] *Net income for 2013 for accounting purposes has been revised as a result of the restatement of the consolidated financial statements. There was no impact to taxable income for 2013. For further information, refer to Note 4 to the consolidated financial statements.*
[3] *Not deductible/recognizable in the calculation of taxable income.*
[4] *Deductible in full for tax purposes as mortgages securitized; capitalized and amortized for accounting purposes.*
[5] *The 2014 gain on dilution is not incorporated into the taxable income calculation as the investment was not held in the MIC entity at the time of the transaction and was therefore recognized at the subsidiary level.*

Summary of Three Year Results of Operations

In 2012, earnings per share were $0.94, primarily due to significant negative fair market value adjustments to derivative financial instruments. 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 to $1.57, primarily due to one-time items associated with 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 to derivative financial instruments was lower than the prior year.

In 2014, earnings per share decreased to $1.23, which remained strong by historical standards. The decrease was primarily due to the above-noted non-recurring items associated with MCAP and the acquisition of Xceed, partially offset by an increase in securitization income from increased market MBS program activity and a one-time gain on sale of foreclosed real estate.

Cash Flows

Operating activities used cash flows of $443 million in 2014 and used $654 million in 2013. The net outflow from securitization liabilities was higher in 2013 as we had more market MBS program issuances in 2014. This was partially offset by higher net mortgage inflows in 2013.

Investing activities provided cash flows of $466 million in 2014 and provided $597 million in 2013. Net inflows from financial investments were significantly higher in 2013, partially offset by higher net inflows from short-term investments in 2014.

Financing activities used cash flows of $36 million in 2014 and used $1 million in 2013. Loans payable had a net outflow in 2014 compared to a net inflow in 2013.

FINANCIAL POSITION

Total assets were $1.8 billion as at December 31, 2014, consisting of $1.04 billion of corporate assets and $760 million of securitization assets. Corporate assets increased by $17 million during the year, which included increases of $27 million in mortgages and $9 million in financial investments and a decrease of $14 million in cash and cash equivalents.

As we securitize mortgages into the market MBS program, assets are effectively transferred from corporate mortgages to securitized mortgages on the balance sheet. The change contributes to changes in asset levels when mortgages purchased are securitized in the following quarter.

Securitization assets decreased by $306 million during the year. Assets related to the market MBS program increased by $554 million, while CMB-related assets decreased by $860 million as a result of continued CMB issuance maturities throughout 2014.

Table 11: Assets

(in thousands)			Change from 2013	
As at December 31	**2014**	**2013**	**($)**	**(%)**
Corporate Assets				
Cash and cash equivalents	$ 51,090	$ 64,945	$ (13,855)	(21%)
Marketable securities	24,900	21,687	3,213	15%
Mortgages	895,467	868,833	26,634	3%
Foreclosed real estate	686	5,667	(4,981)	(88%)
Financial investments	28,469	19,297	9,172	48%
Other loans	2,108	2,530	(422)	(17%)
Equity investment in MCAP Commercial LP	38,792	39,246	(454)	(1%)
Deferred tax asset	-	1,018	(1,018)	(100%)
Other assets	3,067	3,953	(886)	(22%)
	1,044,579	**1,027,176**	**17,403**	**2%**
Securitization Assets				
Short-term investments	16,763	370,400	(353,637)	(95%)
Mortgages	741,184	585,196	155,988	27%
Financial investments	907	108,877	(107,970)	(99%)
Derivative financial instruments	71	1,448	(1,377)	(95%)
Other assets	1,441	207	1,234	596%
	760,366	**1,066,128**	**(305,762)**	**(29%)**
	$ 1,804,945	**$ 2,093,304**	**$ (288,359)**	**(14%)**

Corporate Assets

Cash and cash equivalents

Cash and cash equivalents, which include cash balances with banks and overnight term deposits, decreased by $14 million during the year. These investments are considered to be Tier 1 liquid assets and provide liquidity to meet maturing term deposit and new mortgage commitments. For further information, refer to the “Liquidity Management” section of this MD&A.

Marketable securities

Marketable securities, consisting of corporate bonds and real estate investment trusts, increased by $3 million during the year. Marketable securities provide additional liquidity at yields in excess of cash and cash equivalents and are considered to be Tier 2 liquid assets (for further details, refer to the “Liquidity Management” section of this MD&A).

Mortgages

The corporate mortgage portfolio increased by $27 million during the year. Activity for the year included increases of $61 million in uninsured single family mortgages and $1 million in construction loans and decreases of $24 million in uninsured completed inventory loans, $3 million in insured single family mortgages and $9 million in commercial loans. For further information, refer to the “Corporate Mortgage Portfolio Analysis” sub-section below.

Single family mortgages

We invest in insured and uninsured single family mortgages in Canada. In addition, we originate insured and uninsured single family mortgages through Xceed for our own corporate portfolio and for securitization activities. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, value is the appraised value of the property as determined by a qualified appraiser at the time of funding. Residential mortgages insured by CMHC or Genworth Financial Mortgage Insurance Company Canada Inc. ("Genworth") may exceed this ratio.

For further information on MCAN-issued market MBS retained for liquidity purposes and included in corporate insured single family mortgages, refer to the "Securitization Programs" section of this MD&A.

Completed inventory, construction and commercial loans

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.

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, which provide construction financing for retail shopping developments, office buildings and industrial developments, may comprise up to one half of this limit. Per our internal limits, the maximum single conventional construction loan may not exceed $20 million.

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

Mortgage renewal rights

Through Xceed, we have retained the renewal rights to CMHC-insured single family mortgages previously originated and sold to third parties, on which we achieved derecognition from the consolidated balance sheet. At renewal, we may be able to renew these mortgages by offering clients competitive rates, thereby contributing to future revenues.

As at December 31, 2014, we had the renewal rights to $735 million of single family mortgages.

Corporate Mortgage Portfolio Analysis

Figure 1: Total Corporate Mortgage Portfolio (in thousands)

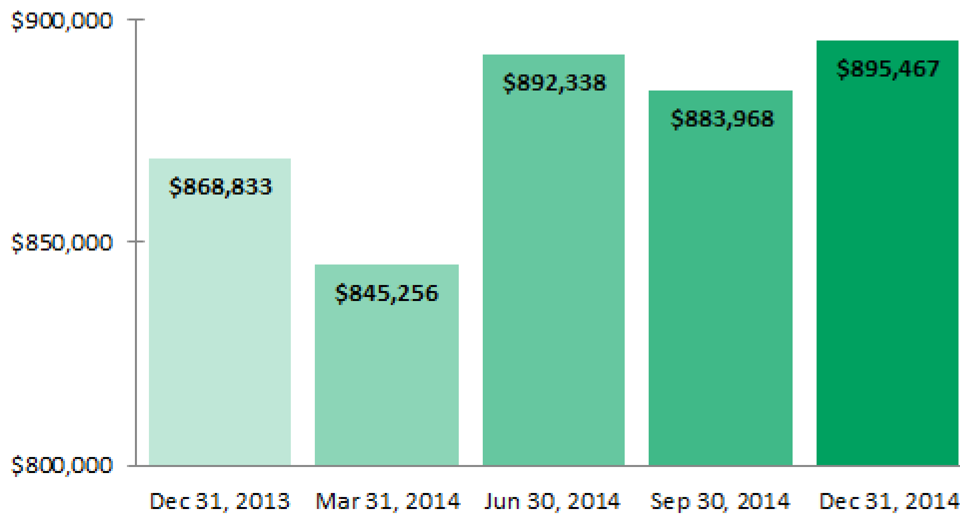
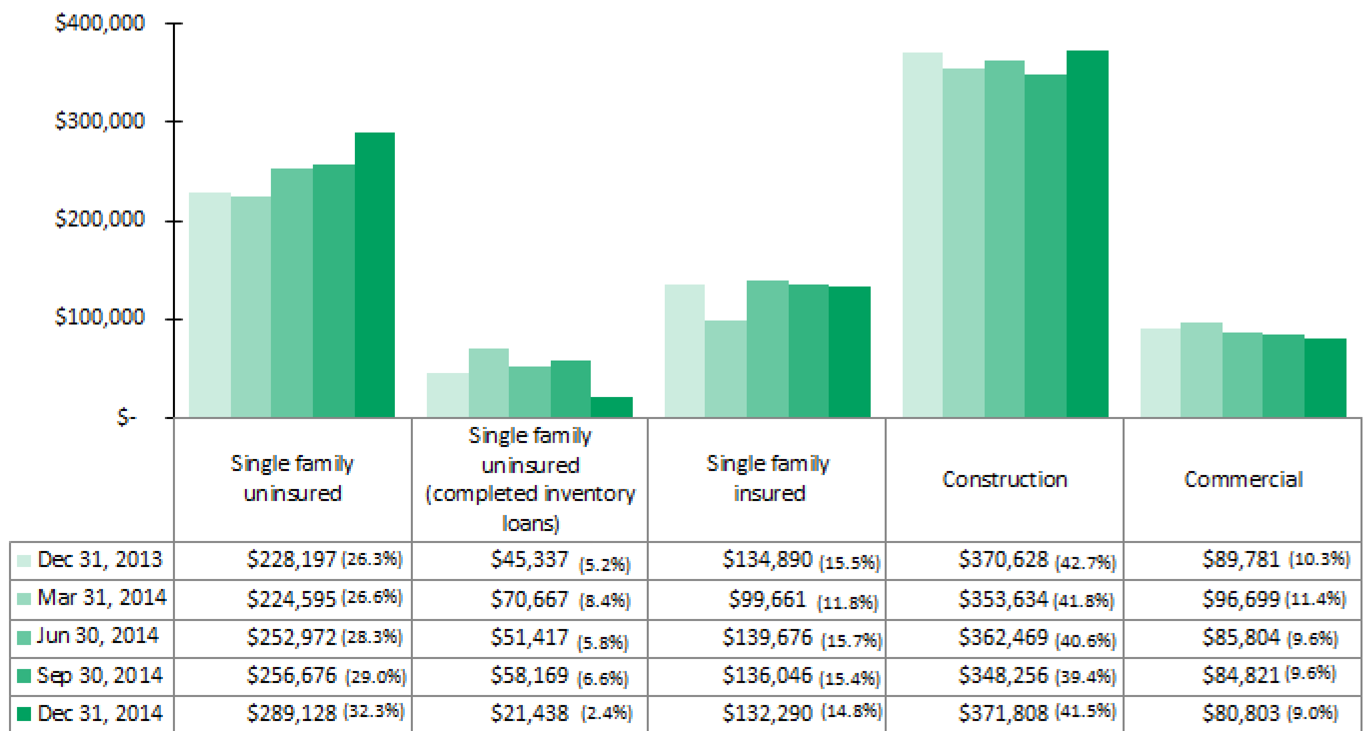
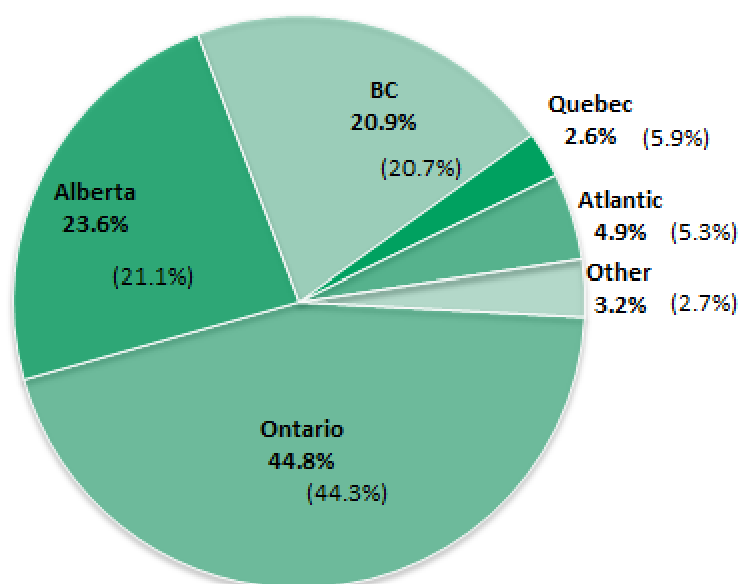


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Single family uninsured	Single family uninsured (completed inventory loans)	Single family insured	Construction	Commercial
Dec 31, 2013	$228,197 (26.3%)	$45,337 (5.2%)	$134,890 (15.5%)	$370,628 (42.7%)	$89,781 (10.3%)
Mar 31, 2014	$224,595 (26.6%)	$70,667 (8.4%)	$99,661 (11.8%)	$353,634 (41.8%)	$96,699 (11.4%)
Jun 30, 2014	$252,972 (28.3%)	$51,417 (5.8%)	$139,676 (15.7%)	$362,469 (40.6%)	$85,804 (9.6%)
Sep 30, 2014	$256,676 (29.0%)	$58,169 (6.6%)	$136,046 (15.4%)	$348,256 (39.4%)	$84,821 (9.6%)
Dec 31, 2014	$289,128 (32.3%)	$21,438 (2.4%)	$132,290 (14.8%)	$371,808 (41.5%)	$80,803 (9.0%)

Figure 3: Corporate Mortgage Portfolio Geographic Distribution 2014 (with 2013 in brackets)



The average loan to value ("LTV") ratio of our mortgage portfolio is as follows: construction - 65.5% (2013 - 64.5%); commercial - 72.0% (2013 - 48.4%); corporate - 77.2% (2013 - 73.9%). For details on LTV for single family mortgages, refer to the "Additional Information on Residential Mortgages and Home Equity Lines of Credit" sub-section of the "Financial Position" section of this MD&A.

Table 12: Mortgage Originations

(in thousands) For the period ended December 31	Q4 2014	Q4 2013	Annual 2014	Annual 2013
Single family - insured	$ 51,133	$ 9,089	$ 119,921	$ 64,060
Single family - uninsured	63,660	15,623	157,449	39,955
Single family - uninsured completed inventory	10,688	17,489	28,522	58,428
Residential construction (advances)	148,100	147,015	408,847	423,675
Commercial	10,169	15,842	30,605	44,982
	$ 283,750	**$ 205,058**	**$ 745,344**	**$ 631,100**

Foreclosed real estate

Foreclosed real estate consists of a real estate investment which was previously an impaired residential construction loan. This investment is carried at the lower of the carrying amount and fair market value less estimated costs to sell. We held two foreclosed real estate investments as at December 31, 2013, however during 2014 we sold one of the investments, recognizing a gain of $1.1 million on sale.

Financial investments

Corporate financial investments include a $24 million equity investment in a commercial real estate investment fund in which we have a 14.1% equity interest. The fund invests primarily in commercial office buildings and its fair value is based on independent appraisals of the buildings. As property acquisitions are made by the fund, we advance our proportionate share to finance the acquisitions. During 2014, we recorded a $4.4 million gross increase in the fair value of the investment, which is recognized in the consolidated statements of comprehensive income net of deferred taxes. In addition, we received $0.7 million of partnership distributions from the investment during 2014.

During 2014, we also made an initial $4.5 million investment in the KingSett High Yield Fund, in which we have a 9% equity interest. The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the fund, we advance our proportionate share. The fund pays a base monthly distribution

of 9%, and distributes any remaining income on a quarterly basis. Our total funding commitment is $36 million, which consists of $24 million of capital advances for the fund and $12 million that will be supported by credit facilities.

Equity investment in MCAP

We hold a 14.75% equity interest in MCAP. The investment had a net book value of $39 million as at December 31, 2014.

In the first quarter of 2014, we sold 250,000 class C units to another partner of MCAP at a price of $11.72 per unit, recognizing a gain of $711,000. The sale reduced our equity interest from 15.68% to 14.82%.

During the second quarter of 2014, we executed a reorganization through a transfer of our equity investment in MCAP to a wholly-owned subsidiary. This reorganization created $112 million of additional income tax asset capacity and generated a $23.6 million gain on sale in MCAN on a non-consolidated basis. For tax purposes, we recognized a 50% capital gain, which increased taxable income by $11.8 million ($0.57 per share). As part of the reorganization, the LP ARA (a "Non-IFRS Measure" which represents the value of the investment for tax purposes) increased from $22 million to $46 million. The reorganization did not have a direct impact on the consolidated financial statements of MCAN for accounting purposes. Taxable income and income tax asset capacity are also considered to be Non-IFRS measures. For further information, refer to the "Non-IFRS Measures" section of this MD&A.

The difference between the carrying value of the equity investment in MCAP per the consolidated balance sheet and the LP ARA consists of the difference between lifetime to date equity income recognized for accounting purposes and tax purposes.

MCAP issued additional class B units to other partners of MCAP in the fourth quarter of 2014 at a price of $13.84 per unit which decreased our equity interest from 14.82% to 14.75%. As a result of the issuance of the new units at a price in excess of the carrying value per unit, we recorded a dilution gain of $71,000.

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 23.38% to 15.68%.

Our investment in MCAP creates a deduction from Total Capital under Basel III (refer to the "Capital Management" section of this MD&A), which is measured on an accounting basis and is phased in by 20% on an annual basis to 2018. Our primary objective in reducing our investment level in MCAP has been to minimize this deduction from Total Capital under Basel III while optimizing the economic benefits of the investment.

MCAP is an originator and servicer of mortgages for third party investors in Canada. MCAP's origination volumes were $11.5 billion in 2014. MCAP had $46.1 billion of assets under administration as at November 30, 2014.

Securitization Assets

Securitization assets decreased by $306 million during the year. Assets related to the market MBS program increased by $554 million, while CMB-related assets decreased by $860 million as a result of continued CMB issuance maturities throughout 2014.

Short-term investments

Short-term investments consist of commercial paper held as reinvestment assets for the CMB program and CMB cash held in trust. Short-term investments decreased by $354 million during the year due to the maturity of $319 million of CMB reinvestment assets from the CMB issuances that matured during the year and a decrease of $35 million in CMB cash held in trust and pledged as collateral.

Mortgages

Securitized mortgages consist of insured mortgages securitized through the market MBS program and CMB program. The securitized mortgage portfolio increased by $156 million during the year, consisting primarily of $561 million of new mortgages retained on the balance sheet through new market MBS program issuances and the maturity of $398 million of securitized mortgages from the CMB program. The newly securitized market MBS program mortgages remained on the consolidated balance sheet as a result of MCAN's retention of risks and rewards associated with these mortgages. For further information, refer to the "Securitized Mortgage Portfolio Analysis" sub-section below.

Financial investments

Securitization financial investments consist primarily of insured MBS from third party issuers held as reinvestment assets for the CMB program. The balance decreased by $108 million during the year, consisting primarily of the maturity of insured MBS held as reinvestment assets for the CMB program.

Derivative financial instruments

Derivative financial instruments at December 31, 2014 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 $1,377,000 in derivative financial instruments during the year related primarily to net interest rate swap receipts.

Securitized Mortgage Portfolio Analysis

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

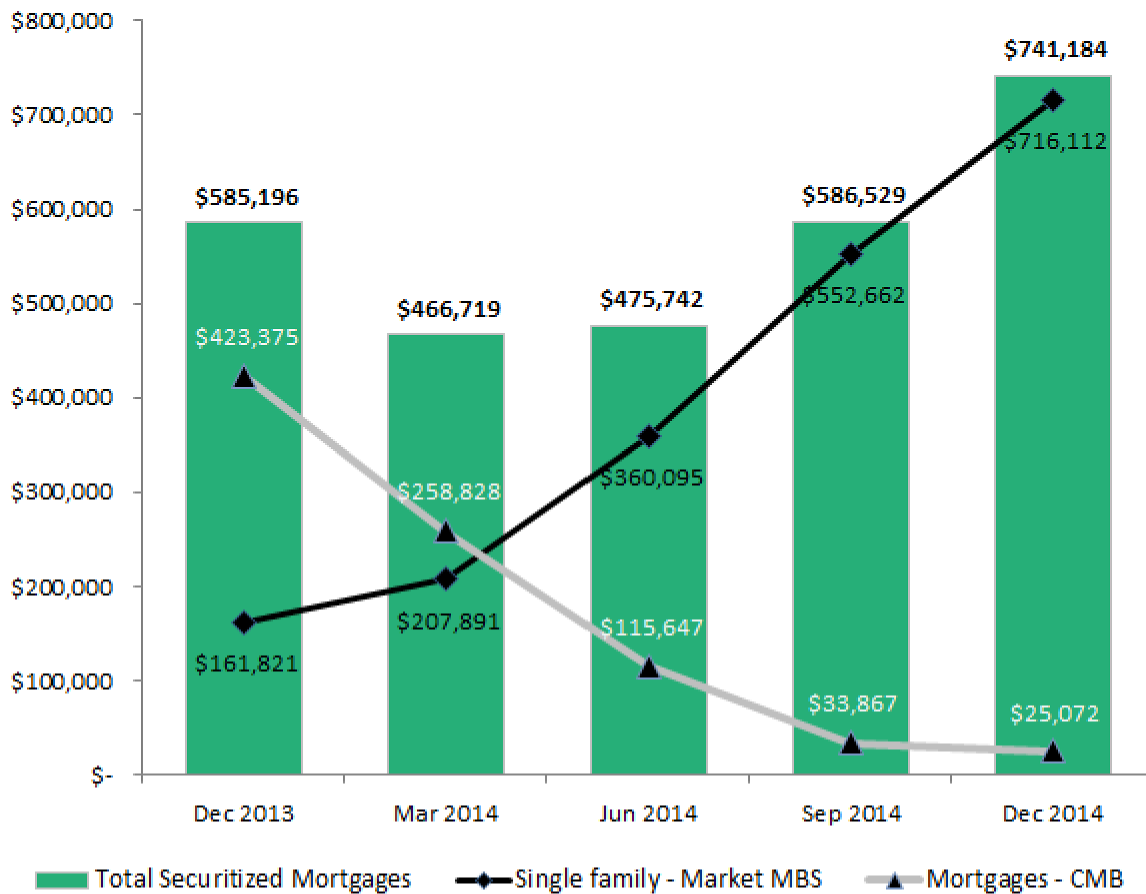
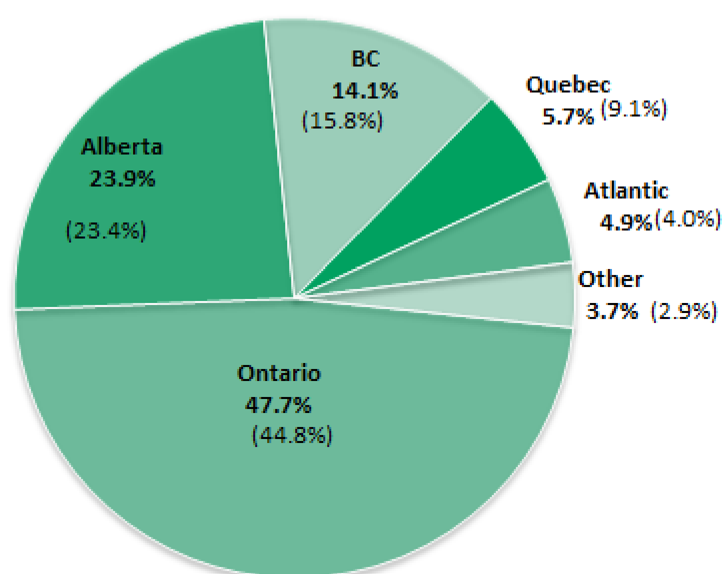


Figure 5: Securitized Mortgage Portfolio Geographic Distribution 2014 (with 2013 in brackets)



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

In accordance with OSFI Guideline B-20, *Residential Mortgage Underwriting Practices and Procedures*, additional information is provided on the composition of MCAN's single family mortgage portfolio by insurance status and province, as well as amortization periods and 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.

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

Table 13: Single Family Mortgages by Province as at December 31, 2014

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 63,438	48.1%	$ 176,176	56.7%	$ 116	41.1%	$ 353,340	47.7%	$ 593,070	50.1%
Alberta	33,847	25.6%	43,749	14.1%	86	30.5%	177,481	23.9%	255,163	21.6%
British Columbia	6,841	5.2%	51,140	16.5%	80	28.4%	104,243	14.1%	162,304	13.7%
Quebec	9,751	7.4%	13,317	4.3%	-	0.0%	42,579	5.7%	65,647	5.5%
Atlantic Provinces	14,226	10.8%	17,680	5.7%	-	0.0%	36,205	4.9%	68,111	5.8%
Other	3,905	2.9%	8,504	2.7%	-	0.0%	27,336	3.7%	39,745	3.3%
Total	**$ 132,008**	**100.0%**	**$ 310,566**	**100.0%**	**$ 282**	**100.0%**	**$ 741,184**	**100.0%**	**$ 1,184,040**	**100.0%**

Table 14: Single Family Mortgages by Province as at December 31, 2013

(in thousands except %)

	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 49,997	37.2%	$ 129,407	47.3%	$ 165	40.9%	$ 241,923	44.6%	$ 421,492	44.3%
Alberta	38,545	28.7%	45,777	16.7%	168	41.7%	130,075	24.0%	214,565	22.6%
British Columbia	13,129	9.8%	51,637	18.9%	70	17.4%	93,767	17.3%	158,603	16.7%
Quebec	13,580	10.1%	19,610	7.2%	-	0.0%	35,837	6.6%	69,027	7.3%
Atlantic Provinces	11,275	8.4%	22,733	8.3%	-	0.0%	23,588	4.3%	57,596	6.1%
Other	7,961	5.8%	4,370	1.6%	-	0.0%	17,630	3.2%	29,961	3.0%
Total	**$ 134,487**	**100.0%**	**$ 273,534**	**100.0%**	**$ 403**	**100.0%**	**$ 542,820**	**100.0%**	**$ 951,244**	**100.0%**

Table 15: Single Family Mortgages by Amortization Period as at December 31, 2014

(in thousands except %)

As at December 31, 2014	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	>35 to 40 Years	Total
Corporate	$ 73,653	$ 113,988	$ 222,565	$ 30,479	$ 2,171	$ 442,856
	16.6%	25.7%	50.3%	6.9%	0.5%	100.0%
Securitized	$ 65,530	$ 385,504	$ 167,279	$ 122,334	$ 537	$ 741,184
	8.8%	52.0%	22.6%	16.5%	0.1%	100.0%
Total	**$ 139,183**	**$ 499,492**	**$ 389,844**	**$ 152,813**	**$ 2,708**	**$ 1,184,040**
	11.8%	**42.2%**	**32.9%**	**12.9%**	**0.2%**	**100.0%**

Table 16: Single Family Mortgages by Amortization Period as at December 31, 2013

(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	$ 85,960	$ 108,740	$ 115,996	$ 91,543	$ 6,185	$ 408,424
	21.0%	26.6%	28.4%	22.4%	1.6%	100.0%
Securitized	$ 104,728	$ 143,617	$ 128,946	$ 161,867	$ 3,662	$ 542,820
	19.3%	26.5%	23.8%	29.8%	0.6%	100.0%
Total	**$ 190,688**	**$ 252,357**	**$ 244,942**	**$ 253,410**	**$ 9,847**	**$ 951,244**
	20.0%	**26.5%**	**25.7%**	**26.6%**	**1.2%**	**100.0%**

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

(in thousands) For the period ended December 31	Q4 2014	Average LTV	Annual 2014	Average LTV	Q4 2013	Average LTV	Annual 2013	Average LTV
Ontario	$ 53,238	73.5%	$ 120,915	73.4%	$ 7,709	75.2%	$ 34,361	71.1%
Alberta	7,585	76.4%	17,549	73.9%	5,532	74.0%	28,757	73.8%
British Columbia	10,921	58.6%	37,370	78.7%	16,661	70.9%	27,415	68.9%
Quebec	192	76.6%	2,384	71.1%	2,716	69.6%	5,067	72.4%
Atlantic Provinces	157	69.8%	2,055	61.9%	266	62.0%	1,732	70.2%
Other	2,255	75.0%	5,698	73.0%	228	65.0%	1,051	73.0%
	$ 74,348	**74.2%**	**$ 185,971**	**74.3%**	**$ 33,112**	**72.2%**	**$ 98,383**	**71.3%**

Based on past experience and relative to the specifics of the then prevailing economic conditions, we would expect to observe an increase in overall mortgage default and arrears rates in the event of an economic downturn as realization periods on collateral become longer and borrowers adjust to the new economic conditions and changing real estate values. This would also result in a corresponding increase in our allowance for credit losses. An economic downturn, for example, could include changes to employment and unemployment rates, income levels and consumer spending which would have the above noted impact on our single family mortgage portfolio. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages. In addition, MCAN's corporate single family mortgage portfolio is also secured with an average LTV of less than 72.0% based on value at origination.

Table 18: Liabilities and Shareholders' Equity

(in thousands) As at December 31	2014	2013	Change from 2013 ($)	Change from 2013 (%)
Corporate Liabilities				
Term deposits	$ 821,742	$ 790,222	$ 31,520	4%
Loans payable	-	17,991	(17,991)	(100%)
Current tax liabilities	120	13	107	823%
Deferred tax liabilities	473	-	473	-
Other liabilities	11,202	13,170	(1,968)	(15%)
	833,537	**821,396**	**12,141**	**1%**
Securitization Liabilities				
Financial liabilities from securitization	746,063	1,054,656	(308,593)	(29%)
Other liabilities	42	2,352	(2,310)	(98%)
	746,105	**1,057,008**	**(310,903)**	**(29%)**
	1,579,642	**1,878,404**	**(298,762)**	**(16%)**
Shareholders' Equity				
Share capital	183,939	179,215	4,724	3%
Contributed surplus	510	510	-	0%
Retained earnings	34,481	32,145	2,336	7%
Accumulated other comprehensive income	6,373	3,030	3,343	110%
	225,303	**214,900**	**10,403**	**5%**
	$ 1,804,945	**$ 2,093,304**	**$ (288,359)**	**(14%)**

Term deposits increased by $32 million over 2013. To fund our corporate operations, we issue term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. The role of term deposits in managing liquidity risk is discussed in the "Liquidity Risk" sub-section of the "Risk Governance and Management" section of this MD&A.

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 Governance and Management" section of this MD&A.

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, 2014, the balance of the reserve was $487,000 (December 31, 2013 - $1.5 million) and the portion of the off balance sheet securitized mortgage balance that attracts a reserve was $22 million (December 31, 2013 - $67 million).

Financial liabilities from securitization relate to our participation in the market MBS program and the CMB program. To the extent that we fail derecognition upon the sale of MBS to third parties, we recognize a liability. The balance decreased by $309 million during the year, consisting primarily of $561 million of new liabilities from our participation in the market MBS program during the quarter and the maturity of $848 million of CMB-related financial liabilities from securitization. For further information on the market MBS program, 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, 2014 mature as follows: 2015 - $38 million (CMB program), 2018 - $158 million (market MBS program), 2019 - $550 million (market MBS program).

Share capital increased by $5 million during the year through the issuance of new common shares through the dividend reinvestment plan.

Retained earnings increased by $2 million, consisting of net income of $25 million less dividends of $23 million.

Accumulated other comprehensive income represents unrealized gains or losses on available for sale marketable securities and financial investments. The increase of $3.3 million during the year was primarily due to an increase in the fair market value of a commercial real estate investment, partly offset by a small decline in the fair market value of the marketable securities portfolio and the realization of $280,000 of gains on the sales of marketable securities.

Table 19: Selected Quarterly Financial Data

	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13
Net investment income - corporate assets	$ 10,262	$ 8,709	$ 9,888	$ 10,292	$ 10,993	$ 12,195	$ 8,696	$ 7,302
Other income - corporate assets	71	-	-	711	5,246	1,253	(406)	(722)
Gross investment income - securitization assets	603	317	175	187	534	(590)	(14)	(19)
Fair market value adjustment	(133)	(414)	(365)	(464)	(512)	(385)	(1,680)	(641)
Net investment income - securitization assets	470	(97)	(190)	(277)	(34)	(975)	(1,694)	(660)
Operating expenses	3,201	3,596	3,221	3,365	3,809	3,491	2,079	1,919
Net income before income taxes	7,602	5,016	6,477	7,361	12,452	8,982	4,517	4,001
Provision for (recovery of) income taxes	473	165	385	(13)	(517)	(304)	1	(33)
Net income	$ 7,129	$ 4,851	$ 6,092	$ 7,374	$ 12,969	$ 9,286	$ 4,516	$ 4,034
Average mortgage portfolio yield - corporate [1]	5.43%	5.54%	5.58%	6.04%	6.70%	7.32%	5.66%	5.67%
Average term deposit interest rate [1]	2.43%	2.45%	2.46%	2.49%	2.46%	2.44%	2.44%	2.49%
Basic and diluted earnings per share	$ 0.34	$ 0.23	$ 0.30	$ 0.36	$ 0.65	$ 0.46	$ 0.25	$ 0.21
Return on average shareholders' equity [1]	12.76%	8.74%	11.01%	13.52%	24.74%	18.40%	9.91%	8.77%
Dividends per share								
Regular	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28
Extra	-	-	-	-	-	-	-	0.03
Total	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.28	$ 0.31

[1] *Refer to the "Average Interest Rate" section of the "Non-IFRS Measures" section of this MD&A for a definition of this measure.*
[2] *Certain quarterly amounts from 2013 have been revised as a result of the restatement of the consolidated financial statements for the change in accounting for income taxes. For further information, refer to Note 4 to the consolidated financial statements.*

The significant 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, which continued into the first quarter of 2014. Excluding the second half of 2013, net investment income from our corporate portfolio has been stable and consistent for the past eight quarters.

Net investment income from securitization assets was negative for most of 2013 and 2014 as a result of the repayment of mortgages securitized through the CMB program, although our re-entry into the market MBS program has generated new securitization revenues and, combined with a significantly decreased CMB program size, generated positive securitization income in the fourth quarter of 2014. The fair market value adjustment is driven by changes in the forward interest rate curve and accordingly may be volatile.

The average mortgage portfolio yield increased significantly during the third and fourth quarters of 2013 and the first quarter of 2014 as we earned higher than usual yields from the mortgage portfolio acquired as part of the Xceed acquisition. This portfolio paid out during the second quarter of 2014. Since that time, we have experienced a small decrease in our overall mortgage portfolio yield, primarily due to decreases in our construction loan portfolio yield. As this portfolio is near its authorized limit, we plan to target growth in the uninsured single family portfolio in 2015 through our Xceed mortgage origination platform.

Table 20: 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
2014 (IFRS)	$ 25,446	$ 1.23	$ 1.12	$ 1,044,579	$ 225,303	$ 299,635
2013 (IFRS)	30,805	1.57	1.15	1,027,176	214,900	265,993
2012 (IFRS)	16,494	0.94	1.42	950,686	177,781	262,393
2011 (IFRS)	24,262	1.50	1.81	753,799	158,465	225,951
2010 (IFRS)	31,667	2.20	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

[1] 2010-2014 consist of corporate assets only as reported under IFRS. 2005-2009 consist of total assets as reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

SUMMARY OF FOURTH QUARTER RESULTS

Table 21: Quarterly Net Income

(in thousands) For the Quarters Ended	December 31 2014	September 30 2014	December 31 2013
Net Investment Income - Corporate Assets			
Mortgage interest	$ 12,519	$ 12,924	$ 15,067
Equity income from MCAP Commercial LP	1,767	835	303
Fees	901	744	923
Marketable securities	591	558	269
Whole loan gain on sale income	255	175	1,652
Realized and unrealized gain (loss) on financial instruments	(971)	(119)	(341)
Interest on financial investments and other loans	59	24	37
Interest on cash and cash equivalents	177	205	263
Gain on sale of foreclosed real estate	1,115	-	-
	16,413	**15,346**	**18,173**
Term deposit interest and expenses	5,233	5,312	5,108
Mortgage expenses	928	945	972
Interest on loans payable	294	327	680
Provision for (recovery of) credit losses	(304)	(73)	420
	6,151	**6,511**	**7,180**
	10,262	**8,835**	**10,993**
Other Income - Corporate Assets			
Gain on dilution of investment in MCAP Commercial LP	71	-	4,510
Gain on sale of investment in MCAP Commercial LP	-	-	736
	71	**-**	**5,246**
Net Investment Income - Securitization Assets			
Mortgage interest	4,252	2,947	1,607
Interest on financial investments	8	48	246
Interest on short-term investments	90	239	319
Other securitization income	131	414	945
	4,481	3,648	3,117
Interest on financial liabilities from securitization	3,647	3,277	2,545
Mortgage expenses	231	180	38
	3,878	3,457	2,583
Net investment income before fair market value adjustment	603	191	534
Fair market value adjustment - derivative financial instruments	(133)	(414)	(512)
	470	**(223)**	**22**
Operating Expenses			
Salaries and benefits	1,795	1,808	1,896
General and administrative	1,406	1,788	1,913
	3,201	3,596	3,809
Net Income Before Income Taxes	7,602	5,016	12,452
Provision for (recovery of) income taxes	473	165	(517)
Net Income	**$ 7,129**	**$ 4,851**	**$ 12,969**
Basic and diluted earnings per share	$ 0.34	$ 0.23	$ 0.65
Dividends per share	$ 0.28	$ 0.28	$ 0.28

Certain items in the table above have been reclassified from prior periods.

Net income for the quarter ended December 31, 2014 was $7.1 million ($0.34 per share), down from $13.0 million ($0.65 per share) in the prior year and up from $4.9 million ($0.23 per share) in the third quarter of 2014.

Q4 2014 vs. Q4 2013

Net Investment Income - Corporate Assets

Mortgage interest income decreased by $2.5 million as a result of a decrease in the average mortgage yield from 6.70% in 2013 to 5.43% in 2014, which was primarily due to income in the prior year from the higher-yielding mortgages acquired through the Xceed acquisition. Excluding the mortgages acquired from Xceed, the mortgage yield decreased from 5.60% to 5.43%. The average mortgage portfolio increased slightly from $905 million in 2013 to $914 million in 2014.

Equity income from our ownership interest in MCAP increased by $1.5 million from 2013 as a result of significantly higher origination fee income and gains from securitization investments earned in MCAP.

For a discussion of whole loan gain on sale income, realized and unrealized losses on financial instruments and gain on sale of foreclosed real estate, 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 $0.1 million from 2013 as a result of a $28 million increase in the average outstanding balance from $792 million in 2013 to $820 million in 2014. The average term deposit interest rate decreased from 2.46% in 2013 to 2.43% in 2014.

Interest on loans payable decreased by $0.4 million as a result of a significantly lower average balance in the current year.

For details of the provision for credit losses, refer to Table 24 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 in 2013 and the $71,000 dilution gain in 2014, 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 increased by $2.6 million, while interest on financial liabilities from securitization also increased by $1.1 million. The current year consists almost entirely of interest from the market MBS program as it grew significantly during 2014 while almost all CMB issuances had matured by the fourth quarter. Prior year activity consists almost entirely of interest from the CMB program as we did not issue our first market MBS until late 2013.

Other securitization income decreased by $0.8 million from the prior year as a result of a decrease in interest rate swap receipts from the continued maturity of CMB issuances.

There was a negative fair market value adjustment to derivative financial instruments of $0.1 million (2013 - negative $0.5 million) for the quarter relating to the CMB interest rate swaps.

Q4 2014 vs. Q3 2014

Net Investment Income - Corporate Assets

Mortgage interest income decreased by $0.4 million from Q3 2014. The average mortgage yield decreased by 0.11% from Q3 2014, while the average mortgage balance increased by $5 million.

Equity income from our ownership interest in MCAP increased by $0.9 million from Q3 2014, primarily due to higher mortgage origination fee income in the fourth quarter earned in MCAP.

For a discussion of whole loan gain on sale income and gain on sale of foreclosed real estate, 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 decreased by $0.1 million from Q3 2014. The average outstanding balance decreased by $2 million and the average interest rate decreased by 0.02% from Q3 2014.

Net Investment Income - Securitization Assets

The increases of $1.3 million in mortgage interest income and $0.4 million in interest on financial liabilities from securitization from Q3 2014 are primarily due to increases of $196 million and $194 million, respectively, in the average market MBS mortgage and financial liability from securitization balances. Interest on financial investments and interest on short-term investments decreased from Q3 2014 as the CMB program reinvestment asset balances continued to decline.

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 22: Net Interest Income

For the Quarters Ended December 31	2014			2013		
(in thousands except %)	Average Balance [1]	Income / Expense	Average Rate [3]	Average Balance [1]	Income / Expense	Average Rate [3]
Assets						
Cash and cash equivalents	$ 70,623	$ 177	0.99%	$ 92,518	$ 263	1.13%
Marketable securities	23,934	591	6.52%	18,621	269	5.49%
Mortgages	914,186	12,519	5.43%	904,843	15,067	6.70%
Financial investments	21,196	43	2.32%	23,052	23	3.41%
Other loans	1,830	16	3.62%	2,221	14	2.57%
Corporate interest earning assets	1,031,769	13,346	5.23%	1,041,255	15,636	6.08%
Short term investments	60,048	90	1.19%	457,243	319	0.83%
Mortgages	646,608	4,252	2.74%	506,577	1,607	3.51%
Financial investments	3,414	8	1.86%	214,316	246	2.07%
Securitized interest earning assets	710,070	4,350	2.67%	1,178,136	2,172	2.37%
Total interest earning assets	1,741,839	17,696	4.19%	2,219,391	17,808	4.11%
Other assets	22,591	-	-	34,690	-	-
Total assets	$ 1,764,430	$ 17,696	4.14%	$ 2,254,081	$ 17,808	4.05%
Liabilities and shareholders' equity						
Term deposits	$ 819,722	$ 5,233	2.43%	$ 791,777	$ 5,108	2.46%
Loans payable	28,056	294	3.52%	72,805	680	3.35%
Corporate liabilities	847,778	5,527	2.49%	864,582	5,788	2.56%
Securitized liabilities	686,595	3,647	2.22%	1,170,555	2,545	2.79%
Total interest earning liabilities	1,534,373	9,174	2.37%	2,035,137	8,333	2.56%
Other liabilities	6,527	-	-	11,984	-	-
Shareholders' equity	223,530	-	-	206,960	-	-
Total liabilities and shareholders' equity	$ 1,764,430	$ 9,174	2.06%	$ 2,254,081	$ 8,333	2.43%
Net Interest Income [2]		$ 8,522			$ 9,475	
Spread of Mortgages (Corporate Portfolio) over Term Deposits			3.00%			4.24%

[1] The average balances (excluding mortgages and term deposits) are calculated with reference to opening and closing monthly balances and as such may not be as precise as if daily balances were used. The average mortgage and term deposit balances are calculated using daily balances.
[2] Net interest income is equal to net investment income less equity income from MCAP, fees, whole loan gain on sale income, realized and unrealized gain (loss) on financial instruments, gain on sale of foreclosed real estate, other securitization income, mortgage expenses, provision for credit losses and fair market adjustment - derivative financial instruments. Net interest income is a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.
[3] Average rate is equal to income/expense divided by the average balance on an annualized basis. The average rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items 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 quarters ended December 31, 2014 and December 31, 2013. Average rate is considered to be a non-IFRS measure. Refer to the "Non-IFRS Measures" section of this MD&A for a definition of this measure.

The decrease in net interest income over the prior year is primarily due to significant income earned from the mortgage portfolios acquired as part of the Xceed acquisition, which also caused the decrease in average rate. These portfolios had paid

out prior to the fourth quarter of 2014. The decrease was partially offset by significantly higher net income from securitization assets as a result of our increased participation in the market MBS program throughout 2014.

Table 23: Interest Income and Average Rate by Mortgage Portfolio (Corporate)

For the Quarters Ended December 31	2014			2013		
(in thousands except %)	Average Balance	Interest Income	Average Rate [1]	Average Balance	Interest Income	Average Rate [1]
Single family						
- Uninsured	$ 282,333	$ 3,566	5.00%	$ 254,298	$ 4,637	7.34%
- Uninsured (completed inventory)	33,795	428	5.01%	54,376	899	6.66%
- Insured	159,537	1,619	4.02%	144,437	2,166	6.04%
Construction loans						
- Residential	358,920	4,933	5.45%	362,694	5,529	6.14%
- Non residential	-	-	-	2,892	57	7.96%
Commercial loans						
- Uninsured	79,601	1,973	9.83%	86,146	1,779	8.31%
Average mortgages - corporate portfolio	**$ 914,186**	**$ 12,519**	**5.43%**	**$ 904,843**	**$ 15,067**	**6.70%**

[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, 2014 and 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 uninsured single family, insured single family and overall yields for the quarter December 31, 2013 include higher-yielding mortgages that were acquired as part of the Xceed acquisition. The respective yields excluding these mortgages were 5.36%, 3.98% and 5.60%. These mortgages paid out by June 30, 2014 and therefore had no impact on the corporate mortgage yield in the fourth quarter of 2014.

Credit Quality

Table 24: Provisions for Credit Losses and Write-offs

(in thousands except basis points)			Change from 2013	
For the Quarters Ended December 31	**2014**	**2013**	**($)**	**(%)**
Individual provision (recovery)				
Single family uninsured	$ (29)	$ 49	$ (78)	(159%)
Residential construction	275	-	275	-
Commercial uninsured	(15)	-	(15)	-
	$ 231	$ 49	$ 182	371%
Collective provision (recovery)				
Single family uninsured	$ 306	$ 167	$ 139	83%
Single family uninsured - completed inventory	(158)	70	(228)	(326%)
Construction	176	155	21	14%
Commercial	(94)	39	(133)	(341%)
Corporate mortgages - total	230	431	(201)	(47%)
Financial investments and other loans	1	-	1	-
Other provisions (recoveries)	(766)	(60)	(706)	1,177%
	$ (535)	$ 371	$ (906)	(244%)
Total provision for (recovery of) credit losses	$ (304)	$ 420	$ (724)	(172%)
Corporate mortgage portfolio data:				
Provision for (recovery of) credit losses	$ 461	$ 480	$ (19)	(4%)
Net write offs	$ 263	$ 138	$ 125	91%
Annualized net write offs (basis points)	11.5	6.1		189%

Current year other provisions (recoveries) are discussed in the analysis of provisions for credit losses and write-offs for the years ended December 31, 2014 and December 31, 2013.

Table 25: Operating Expenses

(in thousands) For the Quarters Ended December 31	2014	2013	Change from 2013 ($)	(%)
Salaries and benefits	$ 1,795	$ 1,896	$ (101)	(5%)
General and administrative	1,406	1,913	(507)	(27%)
	$ 3,201	**$ 3,809**	**$ (608)**	**(16%)**

The decrease in general and administrative expenses in the current year was a result of lower professional fees incurred.

Table 26: Income Taxes

(in thousands) For the Quarters Ended December 31	2014	2013	Change from 2013 ($)	(%)
Current tax provision (recovery)	$ 102	$ 30	$ 72	240%
Deferred tax provision	371	(547)	918	(168%)
	$ 473	**$ (517)**	**$ 990**	**(191%)**

The deferred tax provision in the current year was due to the partial application of loss carry forwards as a result of taxable income earned at the subsidiary level, whereas in the prior year we had deferred tax recoveries as a result of taxable losses.

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 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 MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, we have sold MBS as part of the market MBS program, the CMB 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 program oversight or these specific responsibilities when selling MBS to other parties.

Market MBS Program

We participate 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. The MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing. As part of this program, we originate and purchase insured single family mortgages to sell as MBS.

We commenced the sale of interest-only strips to third parties in 2011 and continued sales in 2012. We achieved derecognition of the underlying mortgages from our consolidated balance sheet as a result of the transfer of substantially all risks and rewards on sale. As a result of regulatory changes at that time, we stopped the sale of interest-only strips in the second half of 2012. As part of the re-introduction of the market MBS program in late 2013, we have elected not to sell any interest-only strips to date and thereby we have retained the associated economics and mortgages on our consolidated balance sheet as securitized mortgages. We retain the ability to sell interest-only strips at any point in time and may revisit this position in the future should market levels and/or the need to obtain balance sheet derecognition change.

During 2014, we pooled certain mortgages purchased from MCAP with Xceed-originated mortgages and sold $561 million of MBS to third parties. As we retained all risks and rewards of ownership (e.g. prepayment risk, Timely Payment Guarantee), the

sales did not achieve derecognition and the associated mortgages remained on the balance sheet while a corresponding liability was incurred. We did not have any interest-only strip sales during 2014 or 2013.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes. As at December 31, 2014, we held $26 million of retained MBS on our balance sheet (December 31, 2013 - $7 million), which is included in the insured single family classification within corporate mortgages.

The primary risks associated with the market MBS program are prepayment, 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 securitization liability 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 the balance sheet as securitized assets 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” and “Non-IFRS Measures” sections of this MD&A.

MCAN has capitalized certain acquisition costs for mortgages acquired from MCAP. These costs are amortized using the effective interest rate method (“EIRM”), which incorporates mortgage prepayment assumptions.

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 in the “Timely Payment Guarantee” sub-section) and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

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.

As at December 31, 2014, we had $38 million of remaining CMB-related financial liabilities from securitization, which mature in June 2015.

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, 2014 was 50% (December 31, 2013 - 35%). MCAP has indemnified MCAN for the remaining 50% of CMB program obligations (December 31, 2013 - 65%).

The sales of MBS to CHT failed to meet derecognition criteria, since we did not transfer substantially all risks and rewards of ownership 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 CMB 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 50% 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.

Other MBS Programs

Insured Mortgage Purchase Program

We previously participated in the IMPP, which involved the sale of MBS to CMHC by MCAN and matured during the first quarter of 2014. Although we had 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.

The 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 we recognized a corresponding financial investment (representing a receivable from MCAP) and financial liability from securitization (representing the securitization proceeds received from CMHC).

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, to ensure that the Timely Payment Guarantee of principal and interest to MBS investors is effected. 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.

Market MBS Program

As part of the market MBS program, we are required to fund 100% of any cash shortfall unless we have sold the interest-only strip, in which case the purchaser of the interest-only strip is obligated to fund 100% of any cash shortfall. 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 our 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.

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.

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 liabilities 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.

Income Tax Capital

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

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

Table 27: Income Tax Capital [1]

(in thousands except ratios) **As at December 31**	**2014**	**2013**
Income tax assets [1]		
Consolidated assets	$ 1,804,945	$ 2,093,304
Less: assets in subsidiaries	9,141	(5,316)
Non-consolidated assets in MIC entity	1,814,086	2,087,988
Add: mortgage allowances	4,397	4,369
Less: securitization assets [2]	(758,936)	(1,065,763)
Less: equity investments	(18,551)	(21,574)
Other adjustments	(965)	(309)
	$ 1,040,031	$ 1,004,711
Income tax liabilities [1]		
Consolidated liabilities	$ 1,579,642	$ 1,878,404
Less: liabilities in subsidiaries	(730)	(750)
Non-consolidated liabilities in MIC entity	1,578,912	1,877,654
Less: securitization liabilities [2]	(744,888)	(1,056,355)
Other adjustments	-	(4,503)
	$ 834,024	$ 816,796
Income tax capital [1]	$ 206,007	$ 187,915
Income tax asset capacity [1]	$ 144,509	$ 75,800
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.05	5.35
Income tax liabilities to capital ratio	4.05	4.35

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*
[2] *Market MBS and CMB program assets and liabilities per balance sheet (less accrued interest) are excluded from income tax assets, liabilities and capital to the extent that they are held in the MIC entity.*

Regulatory Capital

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

Over the last few years, OSFI and the BCBS have taken measures to promote a more resilient banking sector and strengthen global capital standards. The BCBS issued a revised capital framework referred to as Basel III, which impacts MCAN through the CAR Guideline, Leverage Ratio and other items as follows:

- 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. For 2014, 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. For 2014, the "transitional" basis phases the adjustment in by a factor of 20%, while the "all-in" basis incorporates the entire adjustment. The adjustment factor will increase to 40% in 2015.

- Capital, for purposes of the assets to capital multiple, can be calculated on a transitional basis to December 31, 2014. As of January 1, 2015, OSFI replaced the assets to capital multiple with the leverage ratio. The leverage ratio is largely similar to the assets to capital multiple, however it contains additional off-balance sheet items, such as mortgage funding commitments, in the calculation of regulatory assets. The implementation of the leverage ratio in 2015 will not significantly impact MCAN's operations or business plans.

- 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 will 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 expected 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.

In August 2013, OSFI advised banks that it would begin phasing in the Credit Valuation Adjustment ("CVA") risk capital charge for Canadian financial institutions in the first quarter of 2014. The CVA risk capital charge applicable to CET 1 was 57% of the fully implemented charge during 2014, and will increase to 64% in 2015. This will increase each year until it reaches 100% by 2019.

Our internal target minimum CET 1, Tier 1 and Total Capital ratios are 20%. We expect to be able to meet OSFI's requirements and expectations above without materially adversely affecting the Company's business plan. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 28: Regulatory Capital

(in thousands except %) As at December 31	2014	2013 [3]
Regulatory Ratios (OSFI)		
Share capital	$ 183,939	$ 179,215
Contributed surplus	510	510
Retained earnings	34,481	32,145
Accumulated other comprehensive income	6,373	3,030
Adjustment for equity investment in MCAP [1]	(3,252)	-
Common Equity Tier 1, Tier 1 and Total Capital (Transitional) [2]	$ 222,051	$ 214,900
Adjustment for equity investment in MCAP (All-in adjustment) [1]	(13,008)	(17,756)
Common Equity Tier 1, Tier 1 and Total Capital (All-in) [2]	$ 209,043	$ 197,144
Regulatory Assets [2]		
Consolidated assets	$ 1,804,945	$ 2,093,304
Less: CMB-related assets	(33,286)	(884,493)
Letters of credit	36,357)	33,895
Less: capital deductions (transitional)	(3,252)	-
Other adjustments	2,017	2,738
	$ 1,806,781	$ 1,245,444
Assets to capital multiple [2]	8.14	5.80
Risk weighted assets (transitional) [2]	$ 950,263	$ 1,006,130
Risk weighted assets (all-in) [2]	$ 924,243	$ 970,618
Regulatory Capital Ratios [2]		
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	23.37%	21.36%
Tier 1 capital to risk-weighted assets ratio (transitional)	23.37%	21.36%
Total capital to risk-weighted assets ratio (transitional)	23.37%	21.36%
Tier 1 capital to risk-weighted assets ratio (all-in)	22.62%	20.31%
Total capital to risk-weighted assets ratio (all-in)	22.62%	20.31%
Total capital to risk-weighted assets ratio (all-in)	22.62%	20.31%

[1] *The deduction for the equity investment in MCAP on an all-in basis is equal to the equity investment balance less 10% of the Company's shareholders' equity. In 2014, the deduction on the transitional basis is equal to 20% of the all-in adjustment.*
[2] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*
[3] *Regulatory ratios as at December 31, 2013 have been restated to reflect the change in accounting for income taxes, discussed in Note 4 to the consolidated financial statements.*

Table 29: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	2014			2013		
As at December 31	Per Balance Sheet	Average Rate	Risk Weighted Assets	Per Balance Sheet	Average Rate	Risk Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 51,090	21%	$ 10,622	$ 64,945	21%	$ 13,536
Marketable securities	24,900	100%	24,900	21,687	100%	21,687
Mortgages	895,467	67%	600,391	868,833	68%	587,953
Foreclosed real estate	686	100%	686	5,667	100%	5,667
Financial investments	28,469	118%	33,720	19,297	127%	24,548
Other loans	2,108	100%	2,108	2,530	100%	2,530
Equity investment in MCAP (all-in) [2]	38,792	58%	22,529	39,246	54%	21,038
Other assets	4,508	100%	4,508	4,160	97%	4,041
	$ 1,046,020		$ 699,464	$ 1,026,365		$ 681,000
Off-Balance Sheet Assets						
Letters of credit	36,357	50%	18,178	33,895	50%	16,947
Commitments	368,656	38%	140,259	410,594	50%	205,297
	$ 405,013		$ 158,437	$ 444,489		$ 222,244
Derivative Financial Instruments						
CMB interest rate swaps						
Potential credit exposure			218			24
Positive replacement cost			71			1,504
Credit equivalent			289	`		1,528
Risk weighting			20%			20%
Risk-weighted equivalent			58			306
Charge for operational risk			66,284			65,600
Risk-Weighted Assets (all-in)			924,243			969,150
Equity investment in MCAP (transitional adjustment) [2]			26,020			36,412
Risk-Weighted Assets (transitional)			**$ 950,263**			**$ 1,005,562**

[1] *Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of risk-weighted assets.*

[2] *In calculating risk-weighted assets on the "all-in" basis, the capital deduction related to the investment in MCAP is risk weighted at 0%, while the component not deducted from capital is risk weighted at 100%. In calculating risk-weighted assets on the transitional basis, the difference between the all-in deduction and the transitional deduction is risk weighted at 200%.*

LIQUIDITY MANAGEMENT

Our liquidity management process includes a Liquidity Risk Management Framework that incorporates multi scenario stress testing. Results of the stress testing are reported to management on a monthly basis and to the RCB on a quarterly basis. For further information on how we manage liquidity risk, refer to the "Liquidity Risk" sub-section of the "Risk Governance & Management" section of this MD&A.

The table below shows the composition of our internal liquidity ratios over the last two years. These internal ratios include assumptions relating to the value of liquid assets such as the ability to sell these assets in a stressed market scenario. We manage our liquid assets based on term deposit liabilities maturing within 100 days.

Table 30: Liquidity Ratios

(in thousands except %) **As at December 31**	**2014**	**2013**
Tier 1 liquid assets [1]		
Cash and cash equivalents	$ 51,090	$ 64,945
Tier 2 liquid assets [1]		
Marketable securities	24,900	21,687
Less: marketable securities adjustment [2]	(7,100)	(6,044)
Market MBS retained by MCAN [3]	25,638	7,220
	43,438	22,863
Tier 3 liquid assets [1]		
Single family insured mortgages	92,769	58,218
Less: single family insured mortgages adjustment [4]	(28,562)	(19,024)
	64,207	39,194
Total liquid assets [1]	$ 158,735	$ 127,002
100 day term deposit maturities	$ 99,284	$ 72,255
Liquidity ratios [1]		
Tier 1 & 2 liquid assets to 100 day term deposit maturities	95%	122%
Total liquid assets to 100 day term deposit maturities	160%	176%

[1] *Refer to the "Non-IFRS Measures" section of this MD&A for a definition of these measures.*
[2] *Adjusted to reflect estimated impact to fair market value in a stressed scenario. Corporate bonds are reduced as follows: BBB- or higher (30%); below BBB- (45%). REITs are reduced as follows: constituent in TSX/S&P Composite Index (20%); not a constituent in TSX/S&P Composite Index (40%).*
[3] *Included in corporate mortgages - insured single family. For further information, refer to the "Securitization Programs" section of this MD&A.*
[4] *Adjusted to reflect lower liquidity than Tier 1 and Tier 2 liquidity, as follows: CMHC insured (25%), CMHC insured second mortgages (50%), privately insured (50%).*

OSFI finalized the guideline on Liquidity Adequacy Requirements ("LAR") in 2014. The LAR guideline establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") effective January 1, 2015, and the Net Stable Funding Ratio ("NSFR") effective January 1, 2018. These requirements are supplemented by additional supervisory monitoring metrics including the liquidity monitoring tools and the intraday liquidity monitoring tools as considered in the Basel III framework, and the OSFI-designed Net Cumulative Cash Flow metric that we have already been reporting on a monthly basis to OSFI. Our estimated LCR was 267% as at December 31, 2014, compared to a minimum requirement of 100%. We believe that we will be able to comply with these new standards.

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 31: 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 2014	December 31 2013
Sources of liquidity							
Cash and cash equivalents	$ 51,090	$ -	$ -	$ -	$ -	$ 51,090	$ 64,945
Marketable securities	-	1,531	2,728	733	19,908	24,900	21,687
Mortgages - corporate	85,758	460,303	280,477	45,006	23,923	895,467	868,833
Financial investments	-	-	-	-	28,469	28,469	19,297
Other loans	435	164	-	-	1,509	2,108	2,530
	137,283	461,998	283,205	45,739	73,809	1,002,034	977,292
Uses of liquidity							
Term deposits	79,131	470,000	233,071	39,540	-	821,742	790,222
Loans payable	-	-	-	-	-	-	17,991
Other liabilities	11,202	-	-	-	-	11,202	13,170
	90,333	470,000	233,071	39,540	-	832,944	821,383
Net liquidity surplus (deficit)	**$ 46,950**	**$ (8,002)**	**$ 50,134**	**$ 6,199**	**$ 73,809**	**$ 169,090**	**$ 155,909**
Off-Balance Sheet							
Unfunded mortgage commitments	$ 201,910	$ 87,626	$ 47,620	$ -	$ -	$ 337,156	$ 410,594
Commitment - KingSett High Yield Fund	-	-	-	-	31,500	31,500	-
	$ 201,910	$ 87,626	$ 47,620	$ -	$ 31,500	$ 368,656	$ 410,594

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

RISK GOVERNANCE AND MANAGEMENT

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

We operate in changing regulatory and economic environments. As a result, 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 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 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.

Risk Governance

The Risk Committee of the Board (“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 is supported by an Enterprise Risk Management framework (“ERMF”) consisting of policies, procedures and controls. The goal of the ERMF is to manage 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 RAF and ERMF for approval by the Board. They are responsible for fostering a strong risk culture through 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 Executive Committee recommends a risk appetite that aligns with the Mission Statement, Operating Philosophies and Goals and Objectives of the Company and the Operating Committee provides governance over the operations of MCAN to ensure that the strategy and tactics used by MCAN in its funding and investing activities are effective in meeting the Company'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 department 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.

Risk Appetite

MCAN's RAF sets out the approach to risk management used by the Company in pursuing its strategic and business objectives.

Key principles that guide MCAN's approach to risk appetite are as follows:

- MCAN's strategy, including business objectives, business plans and stakeholder expectations should be reflected in the risk appetite.

- The approach should engage both top down senior management and Board leadership and bottom up involvement of employees at all levels.

- Risk appetite considerations should be embedded in both strategic and day-to-day decisions and supported by a reinforced risk culture aligning decision making and risk.

- The approach to risk appetite should reflect good industry practices and relevant regulatory guidance.

- The approach should be forward looking and enable adaptation to changing business and market conditions; it should also give consideration to the skills, resources and technology required to manage and monitor identified risk exposures and the potential impacts of stressed conditions.

The RAF purposes and objectives are as follows:

- Define maximum levels of risk that are within MCAN's risk capacity including regulatory constraints in order to achieve its strategic objectives within appropriate and approved target returns.

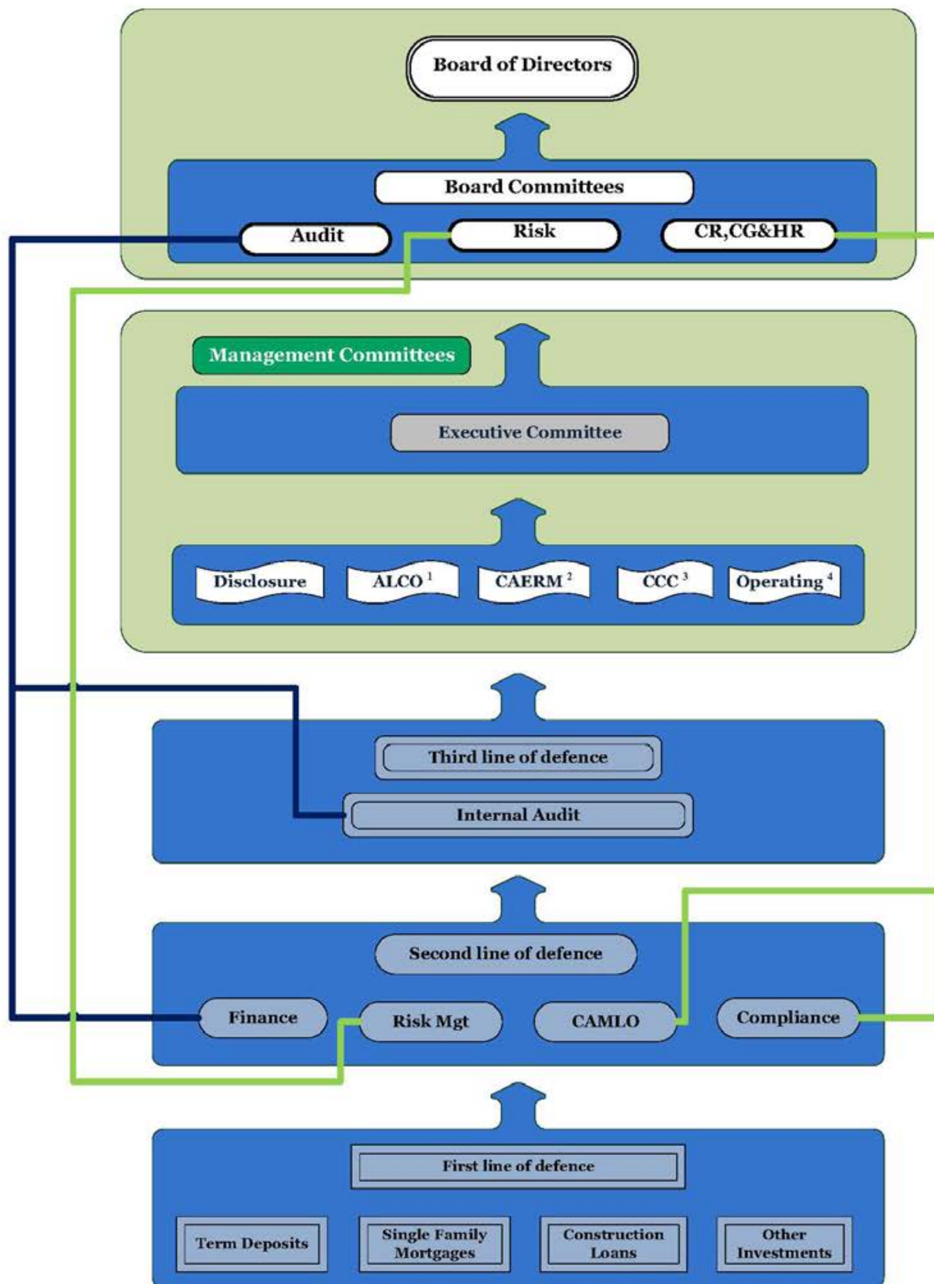
- Give consideration to all material risks reflecting all key aspects of the business.

- Contain both qualitative and quantitative elements to define acceptable risk levels within MCAN's risk capacity.

- Set out limits and targets to enable the Board and senior management to assess MCAN's performance and current risk levels relative to risk appetite.

- Consider MCAN's current capital position and ability to handle the range of results that may occur under normal operating conditions and under a range of stress scenarios.

The Board has overall responsibility for risk governance within MCAN. They provide oversight and carry out their risk management mandate primarily through the RCB, the Audit Committee of the Board (the "Audit 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

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.

Liquidity Risk Management

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, MCAN-issued market MBS retained our our balance sheet, 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 $50 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.

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.

For a discussion regarding liquidity risk relating to the maturity of CMB program, market MBS program and other MBS program liabilities, refer to the "Timely Payment Guarantee" sub-section of the "Securitization Programs" section of this MD&A.

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 from events such as cyber security issues, unfavourable media coverage, and changes or actions of the corporation's leadership. Failure to effectively manage reputation risk can result in reduced market capitalization, loss of client loyalty, and the inability to achieve our strategic objectives.

Reputational Risk Management

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 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.

Strategic and Business Risk Management

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

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.

Operational Risk Management

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.

Cyber Risk

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

Cyber Risk Management

We manage cyber risk through oversight by management, including an IT Management Committee, as well as the use of external third party advisors to provide technical expertise.

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 the majority of our mortgage and loan origination, servicing and collections to MCAP and other third parties.

Outsourcing Risk Management

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

Credit Risk Management

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 CRO 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.

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

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.

Interest Rate Risk Management

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" sub-section of the "Securitization Programs" 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

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.

Market Risk Management

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.

Other Risk Factors

General Litigation

In the ordinary course of business, MCAN and its service providers (including MCAP), their subsidiaries and related parties may be party to legal proceedings that may result in unplanned payments to third parties. To the best of our knowledge, MCAN management does not expect the outcome of any of any existing proceedings to have a material adverse effect on the consolidated financial position or results of operations of MCAN.

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.

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.

Mortgage Renewal Risk

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

Mortgage Prepayment Risk

In acquiring certain mortgages from third parties, we pay a premium to the mortgage par value based on the expected term of the mortgage. To the extent that mortgages repay prior to maturity, we may be required to accelerate the amortization of the premium and sustain a financial loss.

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At December 31, 2014, there were 20,807,761 common shares outstanding. For additional information related to share capital, refer to Note 22 to the consolidated financial statements. As at February 19, 2015, there were 20,943,968 common shares outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to an operating lease, in addition to outstanding commitments for future fundings of corporate mortgages and our investment in the KingSett High Yield Fund.

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 32: Contractual Obligations

(in thousands) **As at December 31, 2014**	**Less than one year**	**One to three years**	**Three to five years**	**Over five years**	**Total**
Mortgage fundings	$ 289,536	$ 47,620	$ -	$ -	$ 337,156
Commitment - KingSett High Yield Fund	-	-	-	31,500	31,500
Operating lease	455	1,364	931	1,771	4,521
	$ 289,991	**$ 48,984**	**$ 931**	**$ 33,271**	**$ 373,177**

We retain mortgage servicing obligations relating to mortgages securitized through the market MBS program where balance sheet derecognition has been achieved. For further information, refer to Note 6 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. For further information, refer to Note 32 to the consolidated financial statements.

As at December 31, 2014, we had the renewal rights to $366 million of off-balance sheet mortgages sold to third parties on a whole loan basis.

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 was as follows:

Table 33: 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.

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

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.

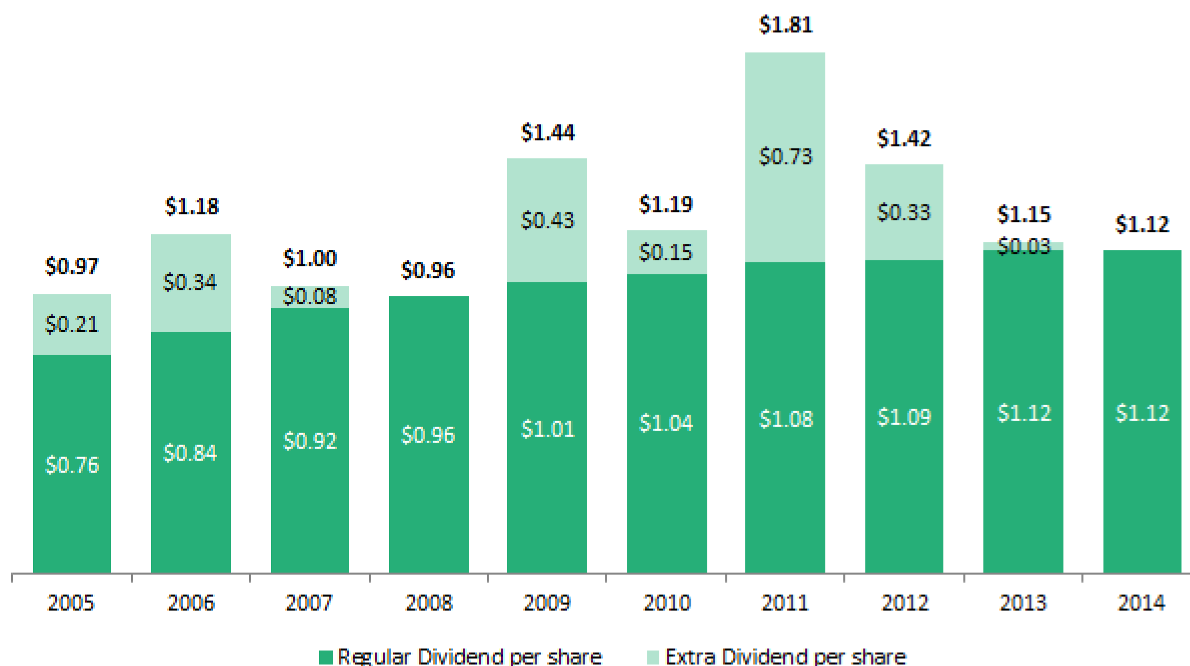
Dividends per share over the past three years are as follows:

Table 34: Dividends

Fiscal Period	**2014**	**2013**	**2012**
First Quarter - Regular Dividend	$ 0.28	$ 0.28	$ 0.27
First Quarter - Extra Dividend	-	0.03	0.33
Second Quarter	0.28	0.28	0.27
Third Quarter	0.28	0.28	0.27
Fourth Quarter	0.28	0.28	0.28
	$ 1.12	**$ 1.15**	**$ 1.42**
Taxable Dividends	1.12	1.15	1.37
Capital Gains Dividends	-	-	0.05
	$ 1.12	**$ 1.15**	**$ 1.42**

The Board declared a first quarter dividend of $0.28 per share to be paid March 31, 2015 to shareholders of record as of March 16, 2015.

Figure 6: Dividend History



Historically, extra dividends have been paid with the regular March 31st quarterly dividend.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2014 and December 31, 2013 are discussed in Note 30 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, 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 Governance and Management" section of this MD&A.

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

PEOPLE

As at December 31, 2014, we had 53 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 Regulatory 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 ESTIMATES AND JUDGMENTS

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

Critical Accounting Estimates

Fair value of financial instruments

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

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgage assets 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 review our individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

the performance of different individual groups). There have been no recent changes to the methodology, nor are any expected in the foreseeable future. No trends, events or uncertainties exist that may affect the methodology and assumptions used.

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. 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.

Mortgage prepayment rates

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

Taxes

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

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

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

Impairment of financial assets

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

Critical Accounting Judgments

Going concern

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

Significant influence

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

Taxes

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective 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*

In July 2014, the IASB issued a final revised IFRS 9 standard. 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 includes an expected credit loss model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. We have not yet determined the impact of IFRS 9 on our consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. We have not yet determined the impact of IFRS 15 on our consolidated financial statements.

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, 2014, 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, 2014.

Ernst & Young LLP, our Independent Registered Chartered Accountants, have audited our consolidated financial statements for the year ended December 31, 2014.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1 and ending on December 31, 2014 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 20,2015

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, 2014 and 2013, and January 1, 2013, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended December 31, 2014 and 2013, and a summary of significant accounting policies and other explanatory information.

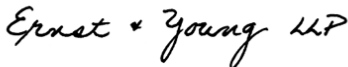
Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is 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, 2014 and 2013, and January 1, 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 20, 2015

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

As at	Note	December 31 2014	December 31 2013	January 1 2013 (Note 4)
Assets				
Corporate Assets				
Cash and cash equivalents	7	$ 51,090	$ 64,945	$ 123,825
Marketable securities	8	24,900	21,687	20,390
Mortgages	9	895,467	868,833	747,242
Foreclosed real estate	10	686	5,667	4,355
Financial investments	11	28,469	19,297	18,067
Other loans	12	2,108	2,530	3,164
Equity investment in MCAP Commercial LP	13	38,792	39,246	36,386
Current taxes receivable	19	-	-	116
Deferred tax asset	19	-	1,018	54
Other assets	14	3,067	3,953	4,687
		1,044,579	**1,027,176**	**958,286**
Securitization Assets				
Short-term investments	15	16,763	370,400	378,443
Mortgages	16	741,184	585,196	929,517
Financial investments	11	907	108,877	714,631
Derivative financial instruments	17	71	1,448	4,666
Other assets	14	1,441	207	1,248
		760,366	**1,066,128**	**2,028,505**
		$ 1,804,945	**$ 2,093,304**	**$ 2,986,791**
Liabilities and Shareholders' Equity				
Liabilities				
Corporate Liabilities				
Term deposits	18	$ 821,742	$ 790,222	$ 777,077
Loans payable	32	-	17,991	-
Current taxes payable	19	120	13	-
Deferred tax liabilities	19	473	-	-
Other liabilities	20	11,202	13,170	9,493
		833,537	**821,396**	**786,570**
Securitization Liabilities				
Financial liabilities from securitization	21	746,063	1,054,656	2,015,046
Other liabilities	20	42	2,352	3,268
		746,105	**1,057,008**	**2,018,314**
		1,579,642	**1,878,404**	**2,804,884**
Shareholders' Equity				
Share capital	22	183,939	179,215	155,005
Contributed surplus	22	510	510	510
Retained earnings		34,481	32,145	23,859
Accumulated other comprehensive income	24	6,373	3,030	2,533
		225,303	**214,900**	**181,907**
		$ 1,804,945	**$ 2,093,304**	**$ 2,986,791**

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

On behalf of the Board:

William Jandrisits
President and Chief Executive Officer

Karen Weaver
Director, Chair of the Audit Committee

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

Years Ended December 31	Note	2014	2013
Net Investment Income - Corporate Assets			
Mortgage interest		$ 50,426	$ 50,740
Equity income from MCAP Commercial LP	13	6,182	6,563
Fees	25	2,733	2,347
Marketable securities		1,925	1,308
Whole loan gain on sale income	29	1,296	1,738
Realized and unrealized gain (loss) on financial instruments	17	(1,729)	(558)
Interest on financial investments and other loans		822	(62)
Interest on cash and cash equivalents		848	887
Gain on sale of foreclosed real estate	10	1,115	-
		63,618	**62,963**
Term deposit interest and expenses		20,709	19,163
Mortgage expenses	26	3,820	3,290
Interest on loans payable		921	954
Provision for (recovery of) credit losses	27	(983)	369
		24,467	**23,776**
		39,151	**39,187**
Other Income - Corporate Assets			
Gain on sale of investment in MCAP Commercial LP	13	711	736
Gain on dilution of investment in MCAP Commercial LP		71	4,510
Bargain purchase gain	13	-	2,127
Transaction and restructuring expenses		-	(2,010)
		782	**5,363**
Net Investment Income - Securitization Assets			
Mortgage interest		12,383	7,134
Interest on financial investments		428	1,806
Interest on short-term investments		835	1,386
Other securitization income	28	1,343	3,761
		14,989	14,087
Interest on financial liabilities from securitization		13,087	13,998
Mortgage expenses	26	620	179
		13,707	14,177
Net investment income before fair market value adjustment		1,282	(90)
Fair market value adjustment - derivative financial instruments		(1,376)	(3,218)
		(94)	**(3,308)**
Operating Expenses			
Salaries and benefits		7,154	6,036
General and administrative		6,229	5,254
		13,383	**11,290**
Net Income Before Income Taxes		**26,456**	**29,952**
Provision for (recovery of) income taxes			
Current	19	102	5
Deferred	19	908	(858)
		1,010	(853)
Net Income		$ **25,446**	$ **30,805**
Basic and diluted earnings per share		$ 1.23	$ 1.57
Dividends per share		$ 1.12	$ 1.15
Weighted average number of basic and diluted shares (000's)		20,639	19,591

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

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

Years Ended December 31	2014	2013
Net income	$ 25,446	$ 30,805
Other comprehensive income		
Change in unrealized gain on available for sale marketable securities	(193)	(872)
Transfer of losses (gains) on sale of marketable securities to net income	(280)	(264)
Change in unrealized gain on available for sale financial investments	4,399	1,882
Less: deferred taxes	(583)	(249)
	3,343	497
Comprehensive income	**$ 28,789**	**$ 31,302**

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

Years Ended December 31	Note	2014	2013
Share capital			
Balance, beginning of period		$ 179,215	$ 155,005
Common shares issued	22	4,724	24,210
Balance, end of period		**183,939**	**179,215**
Contributed surplus			
Balance, beginning of period		510	510
Changes to contributed surplus		-	-
Balance, end of period		**510**	**510**
Retained earnings			
Balance, beginning of period		32,145	23,859
Net income		25,446	30,805
Dividends declared	23	(23,110)	(22,519)
Balance, end of period		**34,481**	**32,145**
Accumulated other comprehensive income			
Balance, beginning of period		3,030	2,533
Other comprehensive income		3,343	497
Balance, end of period		**6,373**	**3,030**
Total shareholders' equity		$ **225,303**	$ **214,900**

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

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

Years Ended December 31	**2014**	**2013**
Cash provided by (used for):		
Operating Activities		
Net income	$ 25,446	$ 30,805
Adjusted for non-cash items:		
Current taxes	102	5
Deferred taxes	908	(858)
Equity income	(6,182)	(6,563)
Bargain purchase gain	-	(2,127)
Gain on dilution of MCAP Commercial LP	(71)	(4,510)
Gain on sale of investment in MCAP Commercial LP	(711)	(736)
Provision for (recovery of) credit losses	(983)	369
Fair market value adjustment - derivative financial instruments	1,376	3,218
Amortization of securitized mortgage and liability transaction costs	2,027	(558)
Amortization of other assets	617	72
Amortization of mortgage discounts (premiums)	(1,169)	(5,033)
Amortization of premium on marketable securities	48	219
Mortgage advances	(1,844,183)	(1,505,225)
Mortgage reductions	1,193,761	1,119,456
Proceeds on sale of mortgages	467,411	661,083
Issuance of term deposits	507,398	523,466
Repayment of term deposits	(475,878)	(510,321)
Issuance of financial liabilities from securitization	562,998	168,023
Repayment of financial liabilities from securitization	(871,715)	(1,128,772)
Decrease (increase) in other assets	(855)	4,291
Decrease in other liabilities	(3,836)	(417)
Cash flows for operating activities	**(443,491)**	**(654,113)**
Investing Activities		
Increase in marketable securities	(3,735)	(2,649)
Decrease in short-term investments	353,637	8,043
Decrease in financial investments	103,197	606,402
Decrease (increase) in foreclosed real estate	4,981	(1,312)
Proceeds on sale of investment in MCAP Commercial LP	2,930	2,788
Decrease in other loans	422	634
Distributions from MCAP Commercial LP	4,488	6,162
Net investment in Xceed	-	(23,479)
Cash flows from investing activities	**465,920**	**596,589**
Financing Activities		
Issue of common shares	4,724	2,687
Increase (decrease) in loans payable	(17,991)	17,991
Dividends paid	(23,017)	(22,034)
Cash flows for financing activities	**(36,284)**	**(1,356)**
Decrease in cash and cash equivalents	(13,855)	(58,880)
Cash and cash equivalents, beginning of period	64,945	123,825
Cash and cash equivalents, end of period	**$ 51,090**	**$ 64,945**

Supplementary Information

	2014	**2013**
Interest received	$ 61,557	$ 50,316
Interest paid	30,795	30,387
Taxes paid	-	5

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

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1. Corporate Information

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

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

MCAN's primary objective is to generate a reliable stream of income by investing its corporate funds in a portfolio of mortgages (including single family residential, residential construction, non-residential construction and commercial loans), as well as other types of financial investments, loans and real estate investments. MCAN employs leverage by issuing term deposits eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance up to a maximum of five times capital (on a non-consolidated tax basis in the MIC entity) as limited by the provisions of the Tax Act applicable to a MIC. The term deposits are sourced through a network of independent financial agents. As a MIC, MCAN is entitled to deduct from income for tax purposes 50% of capital gains dividends and 100% of other dividends paid. Such dividends are received by shareholders as capital gains dividends and interest income, respectively.

MCAN's 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. Xceed is incorporated in the province of Ontario.

MCAN also participates in the market mortgage-backed securities ("MBS") program, the Canada Mortgage Bonds ("CMB") program and other securitizations of insured mortgages. For further details, refer to Note 6.

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

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors on February 20, 2015.

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 (Note 5(a)) and estimates (Note 5(b)) applicable to the preparation of the consolidated financial statements.

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets represent the Company's core strategic investments, and are funded by term deposits and share capital. Securitization assets consist primarily of mortgages that have been securitized through the market MBS program and the CMB program and subsequently sold to third parties, in addition to reinvestment assets such as short-term investments purchased with CMB program mortgage principal repayments. These assets are funded by the cash received from the sale of the associated securities and are 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, 2014.

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.

3. Basis of Consolidation (continued)

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. Certain policies adopted in or relevant to fiscal 2013 and 2014 are also discussed below.

(1) Financial instruments - initial recognition and subsequent measurement

(i) Date of recognition

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

In order for a derivative to qualify as an accounting hedge, the hedging relationship must be designated and formally documented at its inception, detailing the particular risk management objective and strategy for the hedge and the specific asset, liability or cash flow being hedged, the hedging instruments, as well as how its effectiveness is being assessed. Changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged asset or liability. Hedge effectiveness is evaluated at the inception of the hedging relationship and on an ongoing basis, retrospectively and prospectively, primarily using quantitative statistical measures of correlation.

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;

4. Summary of Significant Accounting Policies (continued)

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

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

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

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

(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.

4. Summary of Significant Accounting Policies (continued)

(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:

- 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.

4. Summary of Significant Accounting Policies (continued)

(ii) Financial liabilities

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

(3) Determination of fair value

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.

4. Summary of Significant Accounting Policies (continued)

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.

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, risk rating, past-due status and other relevant factors. Risk ratings are mapped to rating agency assessments of corporate bonds. Corporate bond historical default rates are used for an actual historical period similar to the environment at the time of measurement, using factors such as housing starts, unemployment rate, and GDP growth.

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

(ii) Available for sale financial investments

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

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

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

4. Summary of Significant Accounting Policies (continued)

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.

(7) Taxes

(i) Current tax

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

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

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

(ii) Deferred tax

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

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

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

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

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

4. Summary of Significant Accounting Policies (continued)

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.

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

(8) Dividends on common shares

Dividends on common shares are deducted from shareholders' equity in the quarter that they are approved. Dividends that are approved after the consolidated financial statement date are disclosed as an event after the consolidated financial statement date.

(9) Investment in associate

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

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

The consolidated statements of income reflect the 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.

4. Summary of Significant Accounting Policies (continued)

(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 30. 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.

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 to five years straight line
Computer software	One year to five years straight line
Leasehold improvements	Lease term and one renewal straight line

4. Summary of Significant Accounting Policies (continued)

(15) Change in Accounting Policy

Income Taxes

On January 1, 2014, the Company changed its accounting policy with respect to accounting for income taxes. This change in accounting policy provides more reliable information to readers of the financial statements and is consistent with the practice adopted by a majority of similar entities. As a MIC under the Tax Act, the Company is able to deduct from income for tax purposes dividends paid within 90 days of year-end. The Company intends to maintain its status as a MIC and intends to pay sufficient dividends in current and future years to ensure that it is not subject to income taxes. Accordingly, the Company has elected to no longer record a provision for current and deferred income taxes within the MIC entity. All subsidiaries of the Company that are taxable entities will continue to account for current and deferred income taxes. The change in accounting policy has been applied retrospectively as at January 1, 2013.

The provisions for income taxes recorded prior to the change in accounting policy created income statement volatility when dividends were paid within the first 90 days of the following year, which reversed the previous year's tax liability at that time.

The impact on the consolidated balance sheets and income statements was as follows:

	Original	Revised	Difference
Retained earnings, January 1, 2013	$ 19,985	$ 23,859	$ 3,874
Retained earnings, December 31, 2013	27,669	32,145	4,476
Accumulated other comprehensive income, January 1, 2013	$ 2,281	$ 2,533	$ 252
Accumulated other comprehensive income, December 31, 2013	3,002	3,030	28
Current taxes payable (receivable), January 1, 2013	$ 2,114	$ (116)	$ (2,230)
Current taxes payable, December 31, 2013	13	13	-
Deferred taxes payable (receivable), January 1, 2013	$ 1,842	$ (54)	$ (1,896)
Deferred taxes payable (receivable), December 31, 2013	3,486	(1,018)	(4,504)
Net income, 2013	$ 30,203	$ 30,805	$ 602
Earnings per share, 2013	$ 1.54	$ 1.57	$ 0.03
Current tax expense (recovery), 2013	$ (2,226)	$ 5	$ 2,231
Deferred tax expense (recovery), 2013	$ 1,975	$ (858)	$ (2,833)

(16) Newly adopted standards, interpretations and amendments

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 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. The adoption of IAS 32 had no impact on the financial statements of the Company.

IFRIC 21*, Levies*

In May 2013, the IFRS Interpretations Committee ("IFRIC"), with the approval by the IASB, issued IFRIC 21, Levies. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. The Company has adopted IFRIC 21 and it did not result in a material impact on the financial position, cash flows, or earnings of the Company.

5. Significant Accounting Judgments and Estimates

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

(a) Significant Accounting Judgments

Going concern

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

Significant influence

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

Taxes

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

(b) Significant Accounting Estimates

Fair value of financial instruments

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

Impairment losses on mortgages

The Company reviews its individually significant mortgage balances at each consolidated financial statement date to assess whether an impairment loss should be recorded. In particular, estimates by management are required in the calculation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Company makes assumptions about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

5. Significant Accounting Judgments and Estimates (continued)

Mortgage prepayment rates

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

Taxes

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

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

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

Further details on taxes are disclosed in Note 19.

Impairment of financial assets

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

6. Securitization Activities

The Company participates in the National Housing Act ("NHA") MBS program, which involves the securitization of insured mortgages to create MBS. Pursuant to the MBS program, investors of MBS receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. Canada Mortgage and Housing Corporation ("CMHC") makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the timely payment obligation to investors. To date, the Company has sold MBS as part of the market MBS program, the CMB 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 program oversight or these specific responsibilities when selling MBS to other parties.

Market MBS Program

MCAN participates 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. The

MBS portion of the mortgage represents the core securitized mortgage principal and the right to receive coupon interest at a specified rate. The interest-only strips represent the right to receive excess cash flows after satisfying the MBS coupon interest payment and any other expenses such as mortgage servicing. As part of this program, MCAN originates and purchases insured single family mortgages to sell as MBS.

6. Securitization Activities (continued)

During 2014, MCAN pooled certain mortgages purchased from MCAP with Xceed-originated mortgages and sold $561,203 of MBS to a third party (2013 - $168,023). Since MCAN retained all risks and rewards of ownership (e.g. prepayment risk, Timely Payment Guarantee), the sales did not achieve derecognition and the associated mortgages remained on MCAN's balance sheet while a corresponding liability was incurred (Notes 16 and 21). MCAN did not have any interest-only strip sales during 2014 or 2013.

The primary risks associated with the market MBS program are prepayment, 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 as securitized assets and are also included in regulatory assets for OSFI purposes (Note 34). However, for tax purposes, all mortgages securitized by MCAN achieve derecognition and are not included in income tax assets (Note 34).

MCAN has capitalized certain acquisition costs for mortgages acquired from MCAP. These costs are amortized using the EIRM, which incorporates mortgage prepayment assumptions.

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.

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 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, 2014 was 50% (December 31, 2013 - 35%). MCAP has indemnified MCAN for the remaining 50% of CMB program obligations (December 31, 2013 - 65%).

The sales to CHT failed to meet derecognition criteria since MCAN did not transfer substantially all risks and rewards of ownership on sale. The primary risks retained were mortgage prepayment risk and reinvestment 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 16), reinvestment assets (Notes 11 and 15) and securitization liabilities (Note 21) on the consolidated balance sheets until the maturity of the CMB issuance. MCAN recognizes its 50% 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.

6. Securitization Activities (continued)

The Company enters into “pay floating, receive fixed” interest rate swaps as part of the CMB program (Note 17). 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 all interest payments on the securitization liabilities are at a fixed rate for 2014 and substantially all interest payments on the securitization liabilities were at a fixed rate for 2013.

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.

Other MBS Programs

Insured Mortgage Purchase Program

MCAN participated in the IMPP in 2013, which involved the sale of MBS to CMHC by MCAN. The MBS matured in the first quarter of 2014. Although MCAN had 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 was 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 11) and financial liability from securitization representing the securitization proceeds received from CMHC (Note 21).

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

Transferred financial assets that are not derecognized in their entirety

Market MBS Program

As a result of the failure to meet derecognition criteria, the above-noted 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, 2014 was $716,112 (December 31, 2013 - $161,821) (Note 16). The financial liabilities from securitization balance as at December 31, 2014 was $708,122 (December 31, 2013 - $167,501) (Note 21).

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, 2014 was $25,072 (December 31, 2013 - $423,375) (Note 16). The reinvestment asset balance as at December 31, 2014 was $12,395 (December 31, 2013 - $436,953) (Notes 11 and 15). The financial liabilities from securitization balance as at December 31, 2014 was $37,941 (December 31, 2013 - $885,466) (Note 21).

6. Securitization Activities (continued)

Insured Mortgage Purchase Program

As a result of the failure to meet derecognition criteria, the IMPP mortgage sale transactions resulted in MCAN recognizing a loan receivable from MCAP and a loan payable to the IMPP counterparty on its consolidated balance sheet prior to the IMPP maturity in 2014. The balance of both loans as at December 31, 2013 was $1,689 (Notes 11 and 21).

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

Market MBS Program

During 2011 and 2012, MCAN sold MBS and interest-only strips to third parties and derecognized the assets from its consolidated balance sheet as a result of the transfer of substantially all risks and rewards on sale. The Company's continuing involvement is the ongoing obligation in its role as MBS issuer to service the mortgages and MBS until maturity.

The total outstanding derecognized MBS balance related to the market MBS program as at December 31, 2014 was $230,578 (December 31, 2013 - $270,952), which was not reflected as an asset or liability on MCAN's consolidated balance sheets at either date. The MBS mature as follows: 2016 - $38,335, 2017 - $192,243. No MBS sales through the market MBS program during 2014 achieved derecognition (2013 - nil).

7. Cash and Cash Equivalents

As at December 31	2014	2013
Cash balances with banks	$ 51,090	$ 64,945
	$ 51,090	**$ 64,945**

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

Refer to Note 32 for an analysis of the Company's available credit facilities.

8. Marketable Securities

As at December 31	2014	2013
Real estate investment trusts	$ 19,876	$ 13,928
Corporate bonds	5,024	7,759
	$ 24,900	**$ 21,687**

Marketable securities are designated as available for sale. Corporate bonds mature between 2015 and 2022 while real estate investment trusts 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.

9. Mortgages - Corporate

(a) Summary

As at December 31, 2014	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 290,715	$ 1,220	$ 367	$ 1,587	$ 289,128
- Uninsured completed inventory	21,530	92	-	92	21,438
- Insured	132,290	-	-	-	132,290
Construction loans					
- Residential	374,468	2,385	275	2,660	371,808
Commercial loans					
- Uninsured	81,438	635	-	635	80,803
	$ 900,441	**$ 4,332**	**$ 642**	**$ 4,974**	**$ 895,467**

As at December 31, 2013	Gross Principal	Allowance Collective	Allowance Individual	Allowance Total	Net Principal
Corporate portfolio:					
Single family mortgages					
- Uninsured	$ 229,444	$ 976	$ 271	$ 1,247	$ 228,197
- Uninsured completed inventory	46,181	144	700	844	45,337
- Insured	134,890	-	-	-	134,890
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
	$ 874,185	**$ 4,265**	**$ 1,087**	**$ 5,352**	**$ 868,833**

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

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.

As at December 31, 2014, single family insured mortgages included $25,638 of mortgages that had been securitized through the market MBS program, however the underlying MBS security has been retained by the Company for liquidity purposes (December 31, 2013 - $7,220).

9. Mortgages - Corporate (continued)

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

As at December 31	2014	2013
Single family - uninsured	4.78%	5.63%
Single family - uninsured completed inventory	5.41%	5.34%
Single family - insured	4.05%	6.03%
Construction	5.67%	6.20%
Commercial	8.31%	8.13%
Total	**5.37%**	**6.17%**

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, 2014 was $911,882 (December 31, 2013 - $882,162). 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 33.

Outstanding commitments for future fundings of mortgages intended for the Company's corporate portfolio were $337,156 as at December 31, 2014 (December 31, 2013 - $410,594), as follows: residential construction - $238,102 (2013 - $376,406); single family - $97,445 (2013 - $33,229); commercial - $1,609 (2013 - $959).

As at December 31, 2014, the Company had $11,304 (December 31, 2013 - $11,719) of insured single family mortgages pledged as collateral as part of the CMB program. The Company had $nil of insured single family mortgages pledged as collateral as part of its credit warehouse facility as at December 31, 2014 (December 31, 2013 - $10,168), which is discussed further in Note 32.

As at December 31, 2014, the Company held $nil of mortgages in the corporate portfolio that were in the process of being securitized and sold through the market MBS program (December 31, 2013 - $45,998). Once securitized, they are reclassified to the securitized mortgage portfolio.

The Company holds a residential construction loan with a net discount of $9,124 as at December 31, 2014. The loan was previously held in a residential construction loan securitization program. During 2013, the Company purchased the interest of the other investor in the loan at a discount. At the time of purchase, the Company established a $1,100 individual allowance. The remaining allowance was reversed in full during the first quarter of 2014 as a result of the partial repayment of the loan and the associated impact to its net realizable value.

The principal value net of the discount represents the Company's best estimate of net realizable value given the mortgage's impaired status and the uncertainty of the resolution period.

(b) Geographic Analysis

As at December 31, 2014	Single Family	Construction	Commercial	Total	
Ontario	$ 239,694	$ 128,110	$ 33,086	$ 400,890	44.8%
Alberta	77,730	101,607	31,716	211,053	23.6%
British Columbia	58,014	125,873	3,523	187,410	20.9%
Quebec	23,081	-	-	23,081	2.6%
Atlantic Provinces	31,927	-	12,246	44,173	4.9%
Other	12,410	16,218	232	28,860	3.2%
	$ 442,856	**$ 371,808**	**$ 80,803**	**$ 895,467**	**100.0%**

9. Mortgages - Corporate (continued)

As at December 31, 2013	Single Family	Construction	Commercial	Total	
Ontario	$ 179,568	$ 164,706	$ 40,714	$ 384,988	44.3%
Alberta	84,491	69,271	29,358	183,120	21.1%
British Columbia	64,836	111,574	3,524	179,934	20.7%
Quebec	33,190	13,871	3,783	50,844	5.9%
Atlantic Provinces	34,008	-	12,096	46,104	5.3%
Other	12,331	11,206	306	23,843	2.7%
	$ 408,424	**$ 370,628**	**$ 89,781**	**$ 868,833**	**100.0%**

(c) Mortgage Allowances

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

	Collective	Individual	2014 Total	Collective	Individual	2013 Total
Balance, beginning of year	$ 4,265	$ 1,087	$ 5,352	$ 3,723	$ 713	$ 4,436
Provisions	180	686	866	907	1,504	2,411
Recoveries	-	(880)	(880)	-	(830)	(830)
Write-offs, net	(113)	(251)	(364)	(365)	(300)	(665)
Balance, end of year	**$ 4,332**	**$ 642**	**$ 4,974**	**$ 4,265**	**$ 1,087**	**$ 5,352**

(d) Arrears and Impaired Mortgages

Mortgages past due but not impaired are as follows:

As at December 31, 2014	1 to 30 days	31 to 60 days	61 to 90 days	Over 90 days	Total
Single family - uninsured	$ 7,877	$ 3,593	$ 2,600	$ -	$ 14,070
Single family - insured	1,997	1,969	899	2,540	7,405
	$ 9,874	**$ 5,562**	**$ 3,499**	**$ 2,540**	**$ 21,475**

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**

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

As at December 31, 2014	SF Insured	SF Uninsured	SF (Completed Inventory)	Residential Construction	Total
Ontario	$ -	$ 388	$ -	$ 4,826	$ 5,214
Alberta	-	386	-	-	386
British Columbia	-	1,124	-	526	1,650
Quebec	250	694	-	-	944
Atlantic Provinces	-	190	-	-	190
	$ 250	**$ 2,782**	**$ -**	**$ 5,352**	**$ 8,384**

9. Mortgages - Corporate (continued)

As at December 31, 2013	SF Insured	SF Uninsured	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
	$ 60	**$ 4,774**	**$ 2,564**	**$ -**	**$ 7,398**

10. Foreclosed Real Estate

As at December 31, 2013, the Company held two real estate investments, both of which were impaired residential construction loans that were foreclosed. The investments are carried at the lower of their carrying amount and fair market value less estimated costs to sell.

In the fourth quarter of 2014, the Company sold one of these investments for a realized gain of $1,115. The Company assessed the remaining investment as at December 31, 2014 and noted no decrease in the fair value below the carrying amount. Accordingly, the Company did not recognize a loss during 2014 (2013 - nil).

11. Financial Investments

As at December 31	2014	2013
Corporate assets:		
Investment - commercial real estate	$ 23,512	$ 18,451
Investment - KingSett High Yield Fund	4,500	-
Asset-backed commercial paper	457	457
Retained interest	-	145
Other financial investments	-	244
	$ **28,469**	$ **19,297**
Securitization assets:		
Insured mortgage-backed securities (in trust for CMB program)	$ 907	$ 107,188
Receivables - IMPP	-	1,689
	$ **907**	$ **108,877**

Corporate Assets

The Company holds an equity investment in a commercial real estate investment fund in which it has a 14.1% equity interest. The fund invests primarily in commercial office buildings and its fair value is based on independent appraisals of the buildings. As property acquisitions are made by the fund, the Company advances its proportionate share to finance the acquisitions. During 2014, the Company recorded a $4,399 gross increase in the fair value of the investment (2013 - $1,882), which is recognized in the consolidated statements of comprehensive income net of deferred taxes. In addition, the Company received $676 of partnership distributions during 2014 (2013 - $nil), which are reflected in interest on loans and other investments in the consolidated statement of income.

In 2014, the Company made an initial $4,500 investment in the KingSett High Yield Fund in which it has a 9% equity interest. The fund invests in mortgages secured by real estate with a focus on mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the fund, the Company advances its proportionate share. The fund pays a base monthly distribution of 9%, and distributes any remaining income on a quarterly basis. The Company's total funding commitment is $36,000, which consists of $24,000 of capital advances for the fund and $12,000 that will be supported by credit facilities. As at December 31, 2014, the Company's unfunded commitment was $31,500 (December 31, 2013 - n/a).

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

11. Financial Investments (continued)

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 1.53% as at December 31, 2014 (December 31, 2013 - 2.05%). The fair market value of MBS held in trust for the CMB program as at December 31, 2014 was $907 (December 31, 2013 - $107,457).

The IMPP receivable matured during the first quarter of 2014. As at December 31, 2013, Receivables - IMPP represented the Company's loan receivable from MCAP associated with the Company's involvement in the IMPP (Note 6), although it had no economic interest and therefore recognized no associated income.

All financial investments are classified as loans and receivables and carried at amortized cost except for the investment - commercial real estate, investment - mortgage fund and retained interest. The retained interest was 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.

12. Other Loans

As at December 31	Note	2014	2013
Loans receivable - employees	30	$ 1,523	$ 1,815
Loans receivable - MCAP	30	164	715
Loans receivable - other		421	-
		$ 2,108	**$ 2,530**

All other loans are classified as loans and receivables.

13. Equity Investment in MCAP Commercial LP

As at December 31, 2014, the Company held a 14.75% equity interest in MCAP (December 31, 2013 - 15.68%), consisting of 15.0% of voting class A units (December 31, 2013 - 15.0%), 0% of non-voting class B units (December 31, 2013 - 0%) and 17.0% of non-voting class C units (December 31, 2013 - 18.2%).

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, 2014, 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 15.0% voting interest in MCAP through its class A units (December 31, 2013 - 15.0%). The remaining 85.0% of the class A units (December 31, 2013 - 85.0%) and remaining 83.0% of the class C units (December 31, 2013 - 81.8%) are held by a subsidiary of the Caisse de dépôt et placement du Québec (the "Caisse").

The following transactions occurred during 2014:

- The Company sold 250,000 class C units to another partner of MCAP at a price of $11.72 per unit, recognizing a gain of $711 on sale. This resulted in a reduction of MCAN's equity interest in MCAP from 15.68% to 14.82%.

- The Company executed a reorganization through a transfer of its equity investment in MCAP to a wholly-owned limited partnership subsidiary. The reorganization increased the tax cost base of the investment from $22,282 to $45,881 and created $11,799 of taxable income in MCAN on a non-consolidated basis. Tax losses from the wholly-owned limited partnership subsidiary can only be recognized on a non-consolidated basis to the extent that they can offset previously recognized taxable income.

13. Equity Investment in MCAP Commercial LP (continued)

- The Company's equity interest was reduced from 14.82% to 14.75% upon the issuance of new Class B units to another partner of MCAP at a price of $13.82 per unit. As a result of this transaction, MCAN recognized a $71 gain on dilution.

In 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, the Company 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, the Company 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. The combination of the two transactions reduced the Company's equity interest in MCAP from 23.38% to 15.68%.

Years Ended December 31	2014	2013
Balance, beginning of year	$ 39,246	$ 36,386
Equity income	6,182	6,563
Dilution (loss) gain	71	4,510
Carrying value of portion of investment sold	(2,219)	(2,052)
Distributions received	(4,488)	(6,161)
Balance, end of year	**$ 38,792**	**$ 39,246**

As at November 30	2014	2013
MCAP's balance sheet:		
Assets	$ 13,918,671	$ 8,548,149
Liabilities	13,623,804	8,251,224
Equity	294,867	296,925

Year Ended November 30	2014	2013
MCAP revenue and net income:		
Revenue	$ 312,044	$ 258,017
Net income	$ 40,558	$ 27,274

14. Other Assets

Other corporate assets include receivables, capital assets and prepaid expenses. Other securitization assets, totalling $1,441 as at December 31, 2014 (December 31, 2013 - $207), consist of miscellaneous assets relating to the Company's participation in the market MBS and CMB programs. Other assets are carried at cost.

As at December 31	Note	2014	2013
Corporate assets:			
Receivables		$ 1,247	$ 1,626
Capital assets		1,222	1,236
Derivative financial instruments		-	123
Related party receivable - MCAP	17	53	-
Other		545	968
		$ 3,067	**$ 3,953**

15. Short-Term Investments

As at December 31	2014	2013
Commercial paper (in trust for CMB program)	$ 11,488	$ 329,765
CMB cash held in trust	5,275	40,635
	$ 16,763	**$ 370,400**

Short-term investments consist of commercial paper held as reinvestment assets for the CMB program and CMB cash held in trust. The weighted average yield of the commercial paper is 1.18% (December 31, 2013 - 1.17%). CMB cash held in trust represents securitized mortgage principal collections from borrowers to be used to acquire principal reinvestment assets in the following month.

Short-term investments mature within 90 days. The carrying value of short-term investments approximates fair value.

16. Mortgages - Securitized

MCAN's securitized mortgage portfolio consists of insured mortgages securitized through the market MBS program and the CMB program. These mortgages are held as collateral against the market MBS and CMB liabilities (Notes 6 and 21).

(a) Summary

As at December 31, 2014	Gross Principal	Allowance	Net Principal
Market MBS Program:			
Single family - insured	$ 716,112	$ -	$ 716,112
CMB Program:			
Single family - insured	25,072	-	25,072
	$ 741,184	**$ -**	**$ 741,184**

As at December 31, 2013	Principal	Allowance	Principal
Market MBS Program:			
Single family - insured	$ 161,821	$ -	$ 161,821
CMB Program:			
Single family - insured	380,999	-	380,999
Commercial - insured	42,376	-	42,376
	423,375	-	423,375
	$ 585,196	**$ -**	**$ 585,196**

Certain capitalized transaction costs are included in mortgages and are amortized using the EIRM. As at December 31, 2014, the unamortized capitalized cost balance was $9,089 (December 31, 2013 - $1,764). The amortization of these transaction costs incorporates a 12% annual mortgage prepayment rate.

All mortgages in the securitized portfolio are insured, therefore they do not have a collective allowance. The fair market value of the securitized mortgage portfolio as at December 31, 2014 was $762,537 (December 31, 2013 - $594,725).

16. Mortgages - Securitized (continued)

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

As at December 31	2014	2013
Market MBS Program:		
Single family	2.94%	3.21%
CMB Program:		
Single family	4.02%	2.97%
Commercial	-	3.39%
	4.02%	3.01%
Total	**2.98%**	**3.07%**

(b) Geographic Analysis

	December 31, 2014			December 31, 2013		
Ontario	$	353,340	47.7%	$	261,431	44.8%
Alberta		177,481	23.9%		135,147	23.4%
British Columbia		104,243	14.1%		93,767	15.8%
Quebec		42,579	5.7%		53,633	9.1%
Atlantic Provinces		36,205	4.9%		23,588	4.0%
Other		27,336	3.7%		17,630	2.9%
	$	**741,184**	**100.0%**	**$**	**585,196**	**100.0%**

Mortgages past due but not impaired are as follows:

As at December 31, 2014		1 to 30 days		31 to 60 days		61 to 90 days		Over 90 days		Total
Single family - Market MBS program	$	5,684	$	947	$	80	$	825	$	7,536
Single family - CMB program		757		-		108		145		1,010
	$	**6,441**	**$**	**947**	**$**	**188**	**$**	**970**	**$**	**8,546**

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

There were no impaired securitized mortgages as at December 31, 2014 or December 31, 2013.

17. 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.

17. Derivative Financial Instruments (continued)

As at December 31, 2014	Less than one year	One to three years	Three to five years	Over five years	Total
CMB interest rate swaps - fair value	$ 71	$ -	$ -	$ -	$ 71
CMB interest rate swaps - outstanding notional	$ 6,066	$ -	$ -	$ -	$ 6,066
Mortgage commitment interest rate swaps - fair value	$ -	$ -	$ (133)	$ -	$ (133)
Mortgage commitment interest rate swaps - outstanding notional	$ -	$ -	$ 43,500	$ -	$ 43,500

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

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

Years Ended December 31	2014	2013
Balance, beginning of year	$ 1,448	$ 4,666
Net interest rate swap payments (receipts)	(1,343)	(3,376)
Unrealized derivative financial instrument (loss) gain	(34)	158
	(1,377)	(3,218)
Balance, end of year	**$ 71**	**$ 1,448**

During the year, the Company incurred net realized and unrealized losses of $1,729 (2013 - $583) on the interest rate swaps used to hedge interest rate risk on mortgage funding commitments. Any related gains from the hedged mortgage commitments are recognized when the mortgages are sold to third parties.

The Company does not apply hedge accounting on either derivative and accordingly, changes in the fair market value of the derivatives are not netted against income recognized from the instruments being hedged (e.g. income from CMB program floating rate assets, whole loan gains on sale).

18. Term Deposits

As at December 31	2014	2013
Term deposits	$ 813,870	$ 782,836
Accrued interest	7,872	7,386
	$ 821,742	**$ 790,222**

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, 2014 was 2.41% (December 31, 2013 - 2.48%). The Company's term deposits are eligible for CDIC deposit insurance.

The term deposits mature as follows: less than one year - $549,131 (December 31, 2013 - $451,132); one to three years - $233,070 (December 31, 2013 - $300,851); three to five years - $39,541 (December 31, 2013 - $38,239).

18. Term Deposits (continued)

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, 2014 was $825,755 (December 31, 2013 - $791,537), and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

19. Income Taxes

As at January 1, 2014, the Company elected to no longer record its provision for current and deferred income taxes on a non-consolidated basis retrospective to January 1, 2013. For further details, refer to Note 4. Any income tax expense reflected in the consolidated statements of income relate to subsidiaries of the Company, including Xceed.

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

Years Ended December 31	**2014**	**2013**
Income before income taxes	$ 26,456	$ 29,952
Statutory rate of tax	0%	0%
Tax provision (recovery) before the following:	-	-
Adjustment in respect of current income tax of prior years	-	5
Income subject to tax in subsidiaries	1,010	(858)
	$ 1,010	**$ (853)**

Years Ended December 31	**2014**	**2013**
Current tax		
Current tax provision (recovery)	$ 102	$ -
Adjustment in respect of current income tax of prior years	-	5
Deferred tax provision (recovery)		
Financial investment	155	-
Relating to loss carry forward benefit	813	(1,269)
Other	(60)	411
	$ 1,010	**$ (853)**

The composition of the deferred tax liabilities is as follows:

As at and for the year ended December 31, 2014	**Deferred Tax Asset (Liability)**	**Statement of Income**	**Other Comprehensive Income**
Financial investments	$ (1,178)	$ 155	$ 583
Loss carry forward benefit	582	813	-
Other	123	(60)	-
	$ (473)	**$ 908**	**$ 583**

19. Income Taxes (continued)

As at and for the year ended December 31, 2013	Deferred Tax Asset (Liability)	Statement of Income	Other Comprehensive Income
Financial investments	$ (440)	$ -	$ 249
Loss carry forward benefit	1,395	(1,269)	-
Other	63	411	-
	$ 1,018	**$ (858)**	**$ 249**

The Company has loss carry forward amounts in the non-consolidated MIC entity of $6,175 (2013 - $210), the benefit of which has not been recorded to deferred taxes, expiring as follows:

2032	$ 210
2033	$ 5,965

20. Other Liabilities

As at December 31	Note	2014	2013
Corporate liabilities:			
Accounts payable and accrued charges		$ 5,243	$ 6,797
Related party payable - MCAP		-	644
Dividends payable		5,826	5,729
Derivative financial instruments	17	133	-
		$ 11,202	**$ 13,170**
Securitization liabilities:			
CMB liabilities - MCAP		$ 42	$ 2,340
Other		-	12
		$ 42	**$ 2,352**

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 6).

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

21. Financial Liabilities from Securitization

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

As at December 31	Note	2014	2013
Financial liabilities - Market MBS program	6	$ 708,122	$ 167,501
Financial liabilities - CMB program	6	37,941	885,466
Financial liabilities - IMPP	6	-	1,689
		$ 746,063	**$ 1,054,656**

The financial liabilities - market MBS program had a weighted average interest rate of 2.07% (December 31, 2013 - 2.27%) as at December 31, 2014. The financial liabilities - CMB program had a weighted average interest rate of 3.21% (December 31, 2013 - 2.70%).

21. Financial Liabilities from Securitization (continued)

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, 2014 mature as follows:

	Market MBS	CMB	Total
2015	$ -	$ 37,941	$ 37,941
2018	158,450	-	158,450
2019	549,672	-	549,672
	$ 708,122	**$ 37,941**	**$ 746,063**

The remaining CMB liability matures in June 2015.

Certain capitalized transaction costs are included in financial liabilities from securitization and are amortized using the EIRM. As at December 31, 2014, the unamortized capitalized cost balance was $5 (December 31, 2013 - $141).

As at December 31, 2013, MCAN did not participate in the economics of the IMPP (Note 6) and therefore paid no interest on this liability, nor did it recognize interest income from the associated receivable (Note 11).

22. Share Capital and Contributed Surplus

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

	Number of Shares	2014	Number of Shares	2013
Balance, January 1	20,460,936	$ 179,215	18,728,500	$ 155,005
Issued				
Xceed acquisition	-	-	1,531,903	21,523
Dividend reinvestment plan	346,825	4,724	165,598	2,237
Executive Share Purchase Plan	-	-	34,935	450
Balance, December 31	**20,807,761**	**$ 183,939**	**20,460,936**	**$ 179,215**

During the year, the Company issued 346,825 (2013 - 165,598) shares under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the 5 days preceding such issue less a discount of 2%. The DRIP participation rate for the December 31, 2014 dividend was 31% (December 31, 2013 - 10%).

For details on the Executive Share Purchase Plan, refer to Note 30.

The Company had no potentially dilutive instruments as at December 31, 2014 or December 31, 2013.

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

23. Dividends

	2014	2013
Dividends on common shares declared in the prior year and paid in the current 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 declared and paid during the year 2014: $0.84 per share (2013: $0.87 per share)	$ 17,284	$ 16,790
Dividends on common shares declared during the year (recognized as a liability at December 31, 2014 and 2013) Fourth quarter dividend, 2014: $0.28 per share (2013: $0.28 per share)	$ 5,826	$ 5,729
Dividends on common shares approved in the first quarter (not recognized as a liability at December 31, 2014 and 2013) First quarter dividend, 2015: $0.28 per share (2014: $0.28 per share)	$ 5,864	$ 5,742

24. Accumulated Other Comprehensive Income

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

As at December 31	2014	2013
To be reclassified to the income statement in subsequent periods:		
Unrealized gain (loss) on available for sale marketable securities	$ (325)	$ 148
Unrealized gain on available for sale financial investments	7,718	3,322
Less: deferred taxes	(1,020)	(440)
	6,698	2,882
	$ **6,373**	$ **3,030**

25. Fees

Years Ended December 31	Note	2014	2013
Mortgagor fees		$ 2,733	$ 2,253
Fee income from profit sharing	30	-	94
		$ 2,733	**$ 2,347**

Mortgagor fees include extension, renewal and letter of credit fees earned on our corporate mortgage portfolio.

26. Mortgage Expenses

Corporate Assets

Years Ended December 31	2014	2013
Mortgage servicing expense	$ 2,952	$ 2,614
Letter of credit expense	618	462
Other mortgage expenses	250	214
	$ 3,820	**$ 3,290**

Letter of credit expense relates to outstanding letters of credit in one of the Company's credit facilities, discussed in note 32.

Securitization Assets

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

27. Provision for Credit Losses

Years Ended December 31	Note	2014	2013
Mortgages - collective provisions, net	9	$ 180	$ 907
Mortgages - individual provisions (recoveries), net	9	(194)	674
Financial investments and other loans - collective provisions (recoveries), net		(2)	(9)
Other provisions (recoveries), net		(967)	(1,203)
		$ (983)	**$ 369**

28. Other Securitization Income

Years Ended December 31	2014	2013
Net interest rate swap receipts	$ 1,343	$ 3,376
Refinancing and renewal gains	-	385
	$ 1,343	**$ 3,761**

29. Whole Loan Gain on Sale Income

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

During the year, the Company sold $69,590 of insured mortgages (2013 - $17,944) and recorded a gross gain of $1,296 (2013 - $281).

In 2013, the company sold a portfolio of single family mortgages purchased at a discount, recognizing a gain of $1,282.

30. 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 14.75% equity interest in MCAP (December 31, 2013 - 15.68%), 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 $547 (2013 - $695) and purchased certain mortgage origination and administration services from MCAP in the amount of $2,182 (2013 - $2,052). Also, the Company received $1,720 (2013 - $3,967) of mortgage fees from MCAP.

During the year, the Company paid $7,814 in mortgage premiums to MCAP as part of the acquisition of mortgages securitized through the market MBS program (2013 - $834).

MCAN holds loans receivable from MCAP bearing interest at 5% that mature in 2015. As at December 31, 2014, the outstanding loan balance was $164 (December 31, 2013 - $715).

In 2013, the Company paid fees in the amount of $1,263 to MCAP and received $94 from MCAP relating to a profit sharing arrangement on a portfolio of discounted mortgages. The portfolio was sold in the fourth quarter of 2013.

MCAN held a retained interest in insured single family mortgages that was acquired from MCAP and repaid during 2014. The balance as at December 31, 2013 was $145 (Note 11).

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:

Years Ended December 31	2014	2013
Salaries and short term employee benefits	$ 1,961	$ 2,545
Other long term benefits	202	51
	$ 2,163	**$ 2,596**

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 2014, there were no common shares issued out of treasury under the Share Purchase Plan (2013 - 34,935). 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, 2014, $1,523 of loans were outstanding (December 31, 2013 - $1,815) (Note 12). The loans under the Share Purchase Plan bear interest at prime plus 1% (4%) as at December 31, 2014 (December 31, 2013 - prime plus 1%, 4%) and have a five-year term. The shares are pledged as security for the loans and had a fair market value of $2,738 as at December 31, 2014 (December 31, 2013 - $2,829).

During the year, MCAN recognized $62 of interest income (2013 - $59) on the Share Purchase Plan loans.

30. Related Party Disclosures (continued)

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, 2014, 44,905 units had vested (December 31, 2013 - 30,000).

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 the year was $147 (2013 - $49). As at December 31, 2014, the accrued DSU Plan liability was $643 (December 31, 2013 - $495).

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. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years.

During 2014, the RSU Participants were granted 14,999 units under the RSU Plan (2013 - 11,200). As at December 31, 2014, 27,984 units were outstanding (December 31, 2013 - 11,200). As at December 31, 2014, no units had vested (December 31, 2013 - nil).

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 the year was $75 (2013 - $2). As at December 31, 2014, the accrued RSU Plan liability was $77 (December 31, 2013 - $2).

31. 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, 2014	Less than one year	One to three years	Three to five years	Over five years	Total
Mortgage fundings	$ 289,536	$ 47,620	$ -	$ -	$ 337,156
Investment - mortgage fund	-	-	-	31,500	31,500
Operating lease	455	1,364	931	1,771	4,521
	$ 289,991	**$ 48,984**	**$ 931**	**$ 33,271**	**$ 373,177**

The Company incurred $418 of operating lease expenses during the year (2013 - $360), included in general and administrative expenses.

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.

To September 30, 2014, the Company guaranteed the premises lease with respect to the premises occupied by MCAP and the Company at 200 King Street West, Toronto with a monthly rent of $116. CDP Capital - Real Estate Advisory Inc. ("CDP Capital - Real Estate Advisory") indemnified 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 was that the cost of any claim was borne by the Company and CDP Capital - Real Estate Advisory. The guarantee ceased as at September 30, 2014.

31. Commitments and Contingencies (continued)

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.

32. 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 0.75% (3.75%) at December 31, 2014 (December 31, 2013 - 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, 2014, the outstanding overdraft balance was $nil (December 31, 2013 - $8,053). 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, 2014, there were letters of credit in the amount of $36,357 issued (December 31, 2013 - $33,895) and additional letters of credit in the amount of $16,347 committed but not issued (December 31, 2013 - $27,175).

The Company maintains a credit warehouse facility with a Schedule III Canadian bank which can be drawn as required as mortgage fundings occur. The facility bears interest at the prime rate and carries a standby charge on the unused portion of the facility equal to 0.25% of amounts up to $35,000 and 0.50% of amounts over $35,000. The facility provides for up to $50,000 of borrowings. 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, 2014, the Company had borrowed $nil from this facility (December 31, 2013 - $9,938).

33. 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, 2014 and December 31, 2013 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.

33. Interest Rate Sensitivity (continued)

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 6 and 17.

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

As at December 31, 2014	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	$ 426,156	$ 60,460	$ 224,321	$ 158,482	$ 61,745	$ 27,483	$ 85,932	$ 1,044,579
Securitization	2,796	21,392	18,913	-	715,825	-	1,440	760,366
	428,952	81,852	243,234	158,482	777,570	27,483	87,372	1,804,945
Liabilities								
Corporate	-	79,264	470,000	233,071	39,538	-	11,664	833,537
Securitization	-	-	37,941	-	708,122	-	42	746,105
	-	79,264	507,941	233,071	747,660	-	11,706	1,579,642
Shareholders' Equity	-	-	-	-	-	-	225,303	225,303
GAP	**$ 428,952**	**$ 2,588**	**$ (264,707)**	**$ (74,589)**	**$ 29,910**	**$ 27,483**	**$ (149,637)**	-
YIELD SPREAD	**4.64%**	**3.20%**	**3.18%**	**2.96%**	**1.02%**	**4.37%**		

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	$ 516,594	$ 60,869	$ 166,809	$ 97,733	$ 86,007	$ 17,028	$ 81,117	$ 1,026,157
Securitization	95,646	525,285	234,704	40,255	168,343	-	1,896	1,066,129
	612,240	586,154	401,513	137,988	254,350	17,028	83,013	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	**$ 513,717**	**$ 523,164**	**$ (750,911)**	**$ (203,515)**	**$ 48,610**	**$ 17,028**	**$ (148,093)**	**-**
YIELD SPREAD	**1.11%**	**0.70%**	**2.38%**	**2.19%**	**0.84%**	**3.98%**		

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, 2014, these mortgages have been reflected in the table above as fixed rate mortgages, as follows: within 3 months - $5,401 (December 31, 2013 - $2,292), 3 months to 1 year - $11,179 (December 31, 2013 - $14,910) and 1 to 5 years - $6,700 (December 31, 2013 - $17,359).

An immediate and sustained 1% increase to market interest rates as at December 31, 2014 would have a positive effect of $3,148 (December 31, 2013 - $2,976) to net income over the following twelve month period. An immediate and sustained 1% decrease to market interest rates as at December 31, 2014 would have an adverse effect of $2,995 (December 31, 2013 - $2,976) to net income over the following twelve month period. An immediate and sustained 1% increase (decrease) to market interest rates as at December 31, 2014 would have an adverse (positive) effect to accumulated other comprehensive income of $65 (December 31, 2013 - $143).

33. Interest Rate Sensitivity (continued)

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.

34. 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.

Income Tax Capital

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

The Company manages its income tax assets to a level of 5.75 times income tax capital on a non-consolidated tax basis to provide a prudent cushion between 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 at December 31	2014	2013
Tax Act Ratios		
Income tax assets		
Consolidated assets	$ 1,804,945	$ 2,093,304
Less: assets in subsidiaries	9,141	(5,316)
Non-consolidated assets in MIC entity	1,814,086	2,087,988
Add: Mortgage allowances	4,397	4,369
Less: securitization assets	(758,936)	(1,065,763)
Less: equity investments	(18,551)	(21,574)
Other adjustments	(965)	(309)
	$ 1,040,031	$ 1,004,711
Income tax liabilities		
Consolidated liabilities	$ 1,579,642	$ 1,878,404
Less: liabilities in subsidiaries	(730)	(750)
Non-consolidated liabilities in MIC entity	1,578,912	1,877,654
Less: securitization liabilities	(744,888)	(1,056,355)
Other adjustments	-	(4,503)
	$ 834,024	$ 816,796
Income tax capital	$ 206,007	$ 187,915
Income tax capital ratios		
Income tax assets to capital ratio	5.05	5.35
Income tax liabilities to capital ratio	4.05	4.35

34. Capital Management (continued)

Regulatory Capital

As a Loan Company under the Trust Act, OSFI oversees the adequacy of the Company's capital. For this purpose, OSFI has imposed minimum capital-to-regulatory (or risk-weighted) assets ratios and a maximum assets to capital ratio which is calculated on a different basis from the aforementioned MIC leverage ratio. Assets securitized through the CMB program prior to June 30, 2010 are excluded from the calculation of 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, that 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.

As at December 31	2014	2013 [2]
Regulatory Ratios (OSFI)		
Share capital	$ 183,939	$ 179,215
Contributed surplus	510	510
Retained earnings	34,481	32,145
Accumulated other comprehensive income	6,373	3,030
Adjustment for equity investment in MCAP [1]	(3,252)	-
Common Equity Tier 1, Tier 1 and Total Capital (Transitional)	222,051	214,900
Adjustment for equity investment in MCAP (All-in adjustment) [1]	(13,008)	(17,756)
Common Equity Tier 1, Tier 1 and Total Capital (All-in)	$ 209,043	$ 197,144
Regulatory Assets		
Consolidated assets	$ 1,804,945	$ 2,093,304
Less: CMB-related assets	(33,286)	(884,493)
Letters of credit	36,357	33,895
Less: capital deductions (transitional)	(3,252)	-
Other adjustments	2,017	2,738
	$ 1,806,781	$ 1,245,444
Assets to capital multiple	8.14	5.80
Risk weighted assets (transitional)	$ 950,263	$ 1,006,130
Risk weighted assets (all-in)	$ 924,243	$ 970,618
Capital ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio (transitional)	23.37%	21.36%
Tier 1 capital to risk-weighted assets ratio (transitional)	23.37%	21.36%
Total capital to risk-weighted assets ratio (transitional)	23.37%	21.36%
Common Equity Tier 1 capital to risk-weighted assets ratio (all-in)	22.62%	20.31%
Tier 1 capital to risk-weighted assets ratio (all-in)	22.62%	20.31%
Total capital to risk-weighted assets ratio (all-in)	22.62%	20.31%

[1] *The deduction for the equity investment in MCAP is equal to the amount of the investment in excess of 10% of the Company's shareholders' equity on an all-in basis. In 2014, the deduction on the transitional basis is equal to 20% of the all-in adjustment.*
[2] *Regulatory ratios as at December 31, 2013 have been restated to reflect the change in accounting for income taxes discussed in Note 4.*

As at December 31, 2014 and December 31, 2013, the Company was in compliance with the capital guidelines issued by OSFI under Basel III.

34. 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.

	December 31, 2014			December 31, 2013		
(in thousands)	per B/S	Rate	RWA	per B/S	Rate	RWA
On-Balance Sheet Assets						
Cash and cash equivalents	$ 51,090	21%	$ 10,622	$ 64,945	21%	$ 13,536
Marketable securities	24,900	100%	24,900	21,687	100%	21,687
Mortgages	895,467	67%	600,391	868,833	68%	587,953
Foreclosed real estate	686	100%	686	5,667	100%	5,667
Financial investments	28,469	118%	33,720	19,297	127%	24,548
Other loans	2,108	100%	2,108	2,530	100%	2,530
Equity investment in MCAP (all-in)	38,792	58%	22,529	39,246	54%	21,038
Other assets	4,508	100%	4,508	4,160	97%	4,041
	$ 1,046,020		$ 699,464	$ 1,026,365		$ 681,000
Off-Balance Sheet Assets						
Letters of credit	36,357	50%	18,178	33,895	50%	16,947
Commitments	368,656	38%	140,259	410,594	50%	205,297
	405,013		158,437	444,489		222,244
Derivative Financial Instruments						
CMB interest rate swaps						
Potential credit exposure			218			24
Positive replacement cost			71			1,504
Credit equivalent			289			1,528
Risk weighting			20%			20%
Risk-weighted equivalent			58			306
Charge for operational risk			66,284			65,600
Risk-Weighted Assets (all-in)			924,243			969,150
Equity investment in MCAP (transitional adjustment)			26,020			36,412
Risk-Weighted Assets (transitional)			**$ 950,263**			**$ 1,005,562**

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.

35. 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, loans payable 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, 2014	Level 1	Level 2	Level 3	Total	Carrying value
Assets measured at fair value					
Marketable securities	$ 19,876	$ 5,024	$ -	$ 24,900	$ 24,900
Financial investments - commercial real estate [1]	-	-	23,512	23,512	23,512
Financial investments - mortgage fund [2]	-	-	4,500	4,500	4,500
Derivative financial instruments - securitization	-	71	-	71	71
	$ 19,876	$ 5,095	$ 28,012	$ 52,983	$ 52,983
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 911,882	$ 911,882	$ 895,467
Financial investments					
- asset-backed commercial paper [4]	-	-	457	457	457
Other loans [4]	-	-	2,108	2,108	2,108
Short-term investments	-	11,488	-	11,488	11,488
Mortgages - securitized [3]	-	-	762,537	762,537	741,184
Financial investments - securitization	-	907	-	907	907
	$ -	$ 12,395	$ 1,676,984	$ 1,689,379	$ 1,651,611
Liabilities measured at fair value					
Derivative financial instruments - corporate	$ -	$ 133	$ -	$ 133	$ 133
Liabilities for which fair values are disclosed					
Term deposits [5]	$ -	$ -	$ 825,755	$ 825,755	$ 821,742
Financial liabilities from securitization [6]	-	-	756,984	756,984	746,063
	$ -	$ -	$ 1,582,739	$ 1,582,739	$ 1,567,805

[1] Fair value of investment is based on the underlying real estate properties determined by the discount cash flow method and direct capitalization method. The significant unobservable inputs are the capitalization rate and discount rate.
[2] Fair value is based on returns earned by the fund in excess of its base 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. The Company classifies its mortgages as level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.
[4] Fair value is assumed to be the carrying value as underlying mortgages and loans are variable rate.
[5] 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.

35. Financial Instruments (continued)

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
	$ 13,928	$ 9,330	$ 18,596	$ 41,854	$ 41,854
Assets for which fair values are disclosed					
Mortgages - corporate [3]	$ -	$ -	$ 882,162	$ 882,162	$ 868,833
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]	-	-	594,725	594,725	585,196
Financial investments - securitization	-	109,146	-	109,146	108,877
	$ -	$ 438,911	$ 1,480,118	$ 1,919,029	$ 1,895,902
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
	$ -	$ -	$ 1,870,169	$ 1,870,169	$ 1,862,869

[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. The Company classifies its mortgages as level 3 given the fact that although many of the inputs to the valuation models used are observable, the mortgages are not specifically quoted in an open market.
[4] Fair value is assumed to be the carrying value as underlying mortgages and loans are variable rate.
[5] 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.

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

Balance, December 31, 2013	$ 18,596
Advances	5,162
Repayments	(145)
Changes in fair value, recognized in other comprehensive income	4,399
Balance, December 31, 2014	**$ 28,012**

An increase of 0.25% to capitalization rates as at December 31, 2014 would result in a decrease to the fair value at Level 3 financial investments - commercial real estate by $399 (December 31, 2013 - $272). A decrease of 0.25% to capitalization rates as at December 31, 2014 would result in an increase to the fair value of Level 3 financial investments - commercial real estate by $417 (December 31, 2013 - $284).

There were no transfers between levels during the years ended December 31, 2014 or December 31, 2013.

35. Financial Instruments (continued)

Risk Management

The types of risks to which the Company is exposed include but are not limited to interest rate, credit, liquidity and market risk. The Company's enterprise risk management framework includes policies, guidelines and procedures, with oversight by senior management and the Board 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 Governance and Management section of the MD&A. Certain disclosures required under IFRS 7, *Financial Instruments: Disclosures*, related to the management of credit, interest rate, liquidity and market risks inherent with financial instruments are included in the MD&A. The relevant MD&A sections are identified by shading within boxes and the content forms an integral part of these consolidated financial statements.

36. 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, *Business* Combinations, the share consideration was 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. 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.

37. Standards Issued But Not Yet Effective

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

IFRS 9, Financial Instruments

In July 2014, the IASB issued a final revised IFRS 9 standard. 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 includes an expected credit loss model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 provides a single principle-based framework that applies to contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company has not yet determined the impact of IFRS 15 on its consolidated financial statements.

38. Comparative Amounts

As at December 31, 2013, the Company classified mortgages that had been securitized through the market MBS program where the underlying MBS was retained by the Company as securitized insured single family mortgages. As at December 31, 2014, these mortgages were reclassified to corporate insured single family mortgages.

The balance sheet reclassification from securitized mortgages to corporate mortgages was $7,220 as at December 31, 2013 and $7,430 as at January 1, 2013. The income statement reclassification from securitized mortgage interest to corporate mortgage interest for 2013 was $231.

DIRECTORS

Scott Coates
Managing Director, Mortgage Investments, KingSett Capital
Member of Audit Committee
Member of Risk Committee
Director since May 2014

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 Conduct Review, Corporate Governance and Human Resources Committee Member of Risk Committee
Director since September 2013

Susan Doré
Corporate Director
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
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

Ian Sutherland
Chair, MCAN Mortgage Corporation
Director since January 1991

Karen Weaver
Executive Vice President and Chief Financial Officer, DH Corporation
Chair of Audit 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

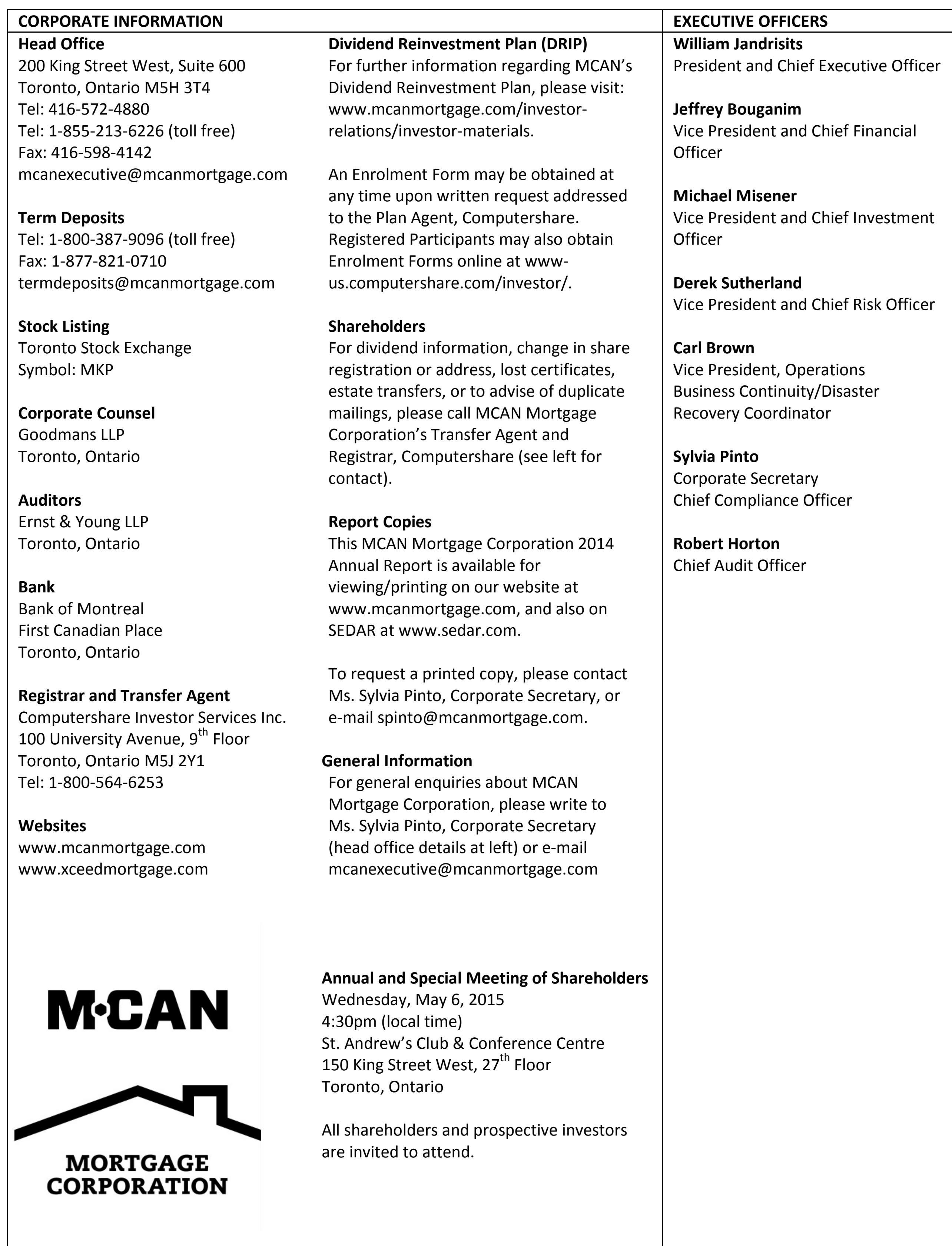
Board Composition

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. Subsequent to quarter end, the proposal was adopted by the OSC. 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 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 NI 58-101 upon its adoption and will monitor any further developments.

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



CORPORATE INFORMATION

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

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

Stock Listing
Toronto Stock Exchange
Symbol: MKP

Corporate Counsel
Goodmans LLP
Toronto, Ontario

Auditors
Ernst & Young LLP
Toronto, Ontario

Bank
Bank of Montreal
First Canadian Place
Toronto, Ontario

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

Websites
www.mcanmortgage.com
www.xceedmortgage.com

MCAN
MORTGAGE
CORPORATION

Dividend Reinvestment Plan (DRIP)
For further information regarding MCAN's Dividend Reinvestment Plan, please visit: www.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/.

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

Report Copies
This MCAN Mortgage Corporation 2014 Annual Report is available for viewing/printing on our website at www.mcanmortgage.com, and also on SEDAR at www.sedar.com.

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

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

Annual and Special Meeting of Shareholders
Wednesday, May 6, 2015
4:30pm (local time)
St. Andrew's Club & Conference Centre
150 King Street West, 27th Floor
Toronto, Ontario

All shareholders and prospective investors are invited to attend.

EXECUTIVE OFFICERS

William Jandrisits
President and Chief Executive Officer

Jeffrey Bouganim
Vice President and Chief Financial Officer

Michael Misener
Vice President and Chief Investment Officer

Derek Sutherland
Vice President and Chief Risk Officer

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

Sylvia Pinto
Corporate Secretary
Chief Compliance Officer

Robert Horton
Chief Audit Officer

MCAN

www.mcanmortgage.com

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

Toll Free Phone: 1-855-213-6226
Toronto Phone: 416-572-4880
Fax: 416-598-4142
Email: mcanexecutive@mcanmortgage.com