MCAN

QUARTERLY REPORT
Q2 2021

DESCRIPTION OF BUSINESS

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 is a public company listed on the Toronto Stock Exchange under the symbol MKP.

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

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are treated as interest income to shareholders for income tax purposes. We are also able to pay capital gains dividends, which would be treated as capital gains to shareholders for income tax purposes. Dividends paid to foreign investors may be subject to withholding taxes. To meet the MIC criteria, 67% of our non-consolidated assets measured on a tax basis are required to be held in cash or cash equivalents and residential mortgages.

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

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MESSAGE TO SHAREHOLDERS

MCAN Mortgage Corporation ("MCAN", the "Company" or "we") reported strong net income of $19.4 million ($0.73 earnings per share) for the second quarter ended June 30, 2021, an increase of 149% from net income of $7.8 million ($0.32 earnings per share) in the second quarter of 2020. Second quarter 2021 return on average shareholders' equity was 21.28% compared to 9.96% in the prior year. Results for the second quarter of 2021 were impacted by an increase in fair value gains on our marketable securities, increased equity income from MCAP and growth in our core business compared to the second quarter of 2020.

Year to date, we reported net income of $35.3 million ($1.38 earnings per share), an increase of 1,925% from a net loss of $1.9 million ($0.08 loss per share) for the same period in 2020. Year to date return on average shareholders' equity was 19.75% compared to (1.21)% in the prior year. Year to date 2021 results were impacted by fair value gains on our marketable securities compared to fair value losses at the onset of the pandemic, increased equity income from MCAP and growth in our core business.

The Board of Directors (the "Board") declared a third quarter dividend of $0.34 per share to be paid September 30, 2021 to shareholders of record as of September 15, 2021.

Business Activities

In the second quarter of 2021, we continued to focus on managing all our business activities in the context of the COVID-19 pandemic, the housing market and economic outlook. We have been very pleased with the performance of the Company. In June 2021, we raised $20.4 million in capital through a rights offering. This additional capital provides a larger foundation for our investments and funding our pipelines.

We continue to grow our corporate mortgage portfolio in both of our single family and residential construction businesses. At June 30, 2021, our total corporate mortgage portfolio was $1.4 billion, a 12% increase since the beginning of the year.

Single family mortgage originations continued to remain strong during the quarter. In Q2 2021, we originated $157 million of insured single family mortgages compared to $102 million in Q2 2020 and securitized $175 million single family mortgages through the National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") program compared to $154 million in Q2 2020. Additionally, we originated $147 million of uninsured single family mortgages during the quarter compared to $51 million in Q2 2020.

Construction and commercial portfolio originations increased 200% totaling $246 million during the quarter compared to $82 million in Q2 2020. We continue to be selective and are pleased with our loan portfolio in terms of product composition and geographic mix. Strong strategic partnerships provide a broad origination pool with known borrowers and terms in line with our risk appetite. Our construction and commercial portfolio is comprised of assets in various stages of development and construction, which we expect will position us for more growth in the balance of 2021.

Growth in our mortgage portfolio and securitization activities is driven by our team's commitment and their success with efficiencies in our lending platforms, our strategic partner relationships and capitalizing on the lower interest rate environment which is driving increased mortgage and housing market activities. We will continue to focus on opportunities in the market and pivot accordingly to grow our business.

Single family mortgages comprised 56% of our total corporate mortgage portfolio at quarter end. That being said, we expect that the pipeline of construction and commercial mortgages will provide a more balanced corporate mortgage profile by the end of the year. The credit quality of the portfolio is strong and we are not seeing any increases in distress from borrowers within our residential mortgage portfolio since the optional six-month mortgage payment deferral program ended by the latter part of 2020.

We are also focused on increased investment in marketable and non-marketable securities. Year to date, we have invested $10 million in additional REIT positions and $6 million in non-marketable securities with $26 million in remaining capital commitments on our non-marketable securities. We are seeking further investments and expect to grow this component of our balance sheet.

We finished the quarter in a strong position that will provide the Company with flexibility in pursuing opportunities or facing any challenges given the current economic environment. I am proud of our team at MCAN, who have not only stepped up to the business challenges faced due to COVID-19, but have exceeded our growth targets for the Company during this time. We expect to consider more investment opportunities in the context of our strategic focus, risk appetite and market dynamics.

Company growth and team development are the foundations of the MCAN journey to provide our target returns to our shareholders. To the entire team at MCAN, thank you for your continued dedication in execution of our day-to-day business and growth in the quarter. Our executive team continues to provide excellent leadership in achieving our business objectives. We believe in an inclusive, diverse and equal environment and strong support of our community. We call this #MCAN**LIFE**. We look forward to building MCAN in the post-pandemic phase and helping all of our borrowers achieve their objectives.

Karen Weaver
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter and the six months ended June 30, 2021 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2020. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2020 remain substantially unchanged. Information has been presented as of August 12, 2021.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

- the current business environment and outlook;
- the impact of global health pandemics on the Canadian economy and globally, including the continuing impact of COVID-19;
- possible or assumed future results;
- our ability to create shareholder value;
- our business goals and strategy;
- the potential impact of new regulations and changes to existing regulations;
- the stability of home prices;
- the effect of challenging conditions on us;
- performance of our investments;
- factors affecting our competitive position within the housing markets;
- international trade and geopolitical uncertainties and their impact on the Canadian economy;
- sufficiency of our access to capital resources;
- the timing of the effect of interest rate changes on our cash flows; and
- the declaration and payment of dividends.

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

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

- our ability to successfully implement and realize on our business goals and strategy;
- government regulation of our business and the cost to us of such regulation, including the anticipated impact of government actions related to COVID-19;
- the economic and social impact, management, duration and potential worsening of the impact of COVID-19 or any other future pandemic;
- factors and assumptions regarding interest rates;
- housing sales and residential mortgage borrowing activities;
- the effect of competition;
- systems failure or cyber and security breaches;
- the availability of funding and capital to meet our requirements;
- the value of mortgage originations;
- the expected spread between interest earned on mortgage portfolios and interest paid on deposits;
- the relative uncertainty and volatility of real estate markets;
- acceptance of our products in the marketplace;
- the stage of the real estate cycle and the maturity phase of the mortgage market;
- impact on housing demand from changing population demographics and immigration patterns;
- our ability to forecast future changes to borrower credit and credit scores, loan to value ratios and other forward-looking factors used in assessing expected credit losses and rates of default;
- availability of key personnel;
- our operating cost structure;
- the current tax regime; and
- operations within our equity investments.

The COVID-19 pandemic has cast particular uncertainty on the Company’s internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. Given the rapid pace of change with respect to the impact of the COVID-19 pandemic, it is premature to make further assumptions about these matters. The duration, extent and severity of the impact the COVID-19 pandemic or any further outbreaks, including measures to prevent its spread and related government actions adopted in response, will have on our business continues to be highly uncertain and difficult to predict at this time.

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information include, but are not limited to, the risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2020, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Quarter

(in thousands except for per share amounts and %) For the Periods Ended	Q2 2021	Q1 2021	Change (%)	Q2 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Income Statement Highlights								
Mortgage interest - corporate assets	$ 16,543	$ 15,796	5%	$ 15,409	7%	$ 32,315	$ 30,806	5%
Net investment income - corporate assets	$ 24,390	$ 20,205	21%	$ 12,649	93%	$ 44,595	$ 7,627	485%
Mortgage interest - securitization assets	$ 7,266	$ 6,632	10%	$ 4,786	52%	$ 13,898	$ 9,569	45%
Net investment income - securitization assets	$ 1,570	$ 1,545	2%	$ 389	304%	$ 3,115	$ 1,190	162%
Net income (loss)	$ 19,378	$ 15,924	22%	$ 7,796	149%	$ 35,302	$ (1,934)	1,925%
Basic and diluted earnings (loss) per share	$ 0.73	$ 0.64	14%	$ 0.32	128%	$ 1.38	$ (0.08)	1,825%
Dividends per share - cash	$ 0.34	$ 0.34	—%	$ 0.34	—%	$ 0.68	$ 0.68	—%
Dividends per share - stock	$ —	$ 0.85	(100%)	$ —	n/a	$ 0.85	$ —	n/a
Next quarter's dividend per share - cash	$ 0.34							
Return on average shareholders' equity [1]	21.28 %	18.15 %	3.13%	9.96 %	11.32%	19.75 %	(1.21)%	20.96%
Taxable income per share [1,2]	$ 0.89	$ 0.85	5%	$ 0.21	324%	$ 1.74	$ 0.92	89%
Yields								
Spread of corporate mortgages over term deposit interest [1]	2.89 %	2.76 %	0.13%	2.48 %	0.41%	2.83 %	2.52 %	0.31%
Spread of securitized mortgages over liabilities [1]	0.72 %	0.81 %	(0.09%)	0.44 %	0.28%	0.76 %	0.53 %	0.23%
Average term to maturity (in months)								
Mortgages - corporate	12.8	13.7	(7%)	12.3	4%			
Term deposits	19.6	17.7	11%	18.7	5%			

	Jun 30 2021	Mar 31 2021	Change (%)	Dec 31 2020	Change (%)
Balance Sheet Highlights					
Total assets	$3,305,044	$2,976,687	11%	$2,728,715	21%
Mortgages - corporate	1,401,290	1,286,890	9%	1,252,762	12%
Mortgages - securitized	1,434,547	1,326,519	8%	1,135,745	26%
Shareholders' equity	389,302	356,869	9%	346,512	12%
Capital Ratios [1]					
Income tax assets to capital ratio	5.05	5.05	—%	5.09	(1%)
CET 1 & Tier 1 capital ratio [4]	21.91 %	21.65 %	0.26%	21.67 %	0.24%
Total capital ratio [4]	22.24 %	22.02 %	0.22%	22.02 %	0.22%
Leverage ratio [3]	9.59 %	9.69 %	(0.10%)	10.17 %	(0.58%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	0.11 %	1.10 %	(0.99%)	0.30 %	(0.19%)
Impaired mortgage ratio (total) [1]	0.07 %	0.55 %	(0.48%)	0.18 %	(0.11%)
Mortgage Arrears [1]					
Corporate	$ 8,968	$ 26,514	(66%)	$ 24,288	(63%)
Securitized	7,359	4,710	56%	5,660	30%
Total	$ 16,327	$ 31,224	(48%)	$ 29,948	(45%)
Common Share Information (end of period)					
Number of common shares outstanding	27,560	26,135	5%	24,727	11%
Book value per common share [1]	$ 14.13	$ 13.65	4%	$ 14.01	1%
Common share price - close	$ 17.29	$ 16.46	5%	$ 15.77	10%
Market capitalization [1]	$ 476,512	$ 430,182	11%	$ 389,945	22%

[1] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.
[2] For further information refer to the "Taxable Income" section of this MD&A.[3] Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[3] Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

HIGHLIGHTS

Q2 2021

- Net income of $19.4 million in Q2 2021, an increase of $11.6 million (149%) from $7.8 million in Q2 2020.
- Earnings per share totalled $0.73 in Q2 2021, an increase of $0.41 (128%) from $0.32 per share in Q2 2020.
- Return on average shareholders' equity[1] was 21.28% for Q2 2021 compared to 9.96% in Q2 2020.
- Net corporate mortgage spread income[1] increased by $2.0 million from Q2 2020. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,319 million in Q2 2021 compared to $1,181 million in Q2 2020 and an increase in the spread of corporate mortgages over term deposit interest[1] to 2.89% in Q2 2021 from 2.48% in Q2 2020. The increase in the spread of corporate mortgages over term deposit interest[1] is due to a larger reduction in term deposit rates compared to mortgage rates in 2021. The initial impact of COVID-19 caused a temporary higher demand for liquidity by financial institutions in the term deposit market resulting in higher term deposit funding costs primarily in the second quarter of 2020. The decline in our mortgage rate is due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition which has compressed rates in our single family portfolio and a reduction in the prime rate since the onset of COVID-19 partially offset by higher residential construction rates.
- Net securitized mortgage spread income[1] increased by $1.6 million from Q2 2020. The net securitized mortgage spread income[1] increased due to a higher average securitized mortgage portfolio balance[1] from significantly higher originations of insured single family mortgages and an increase in the spread of securitized mortgages over liabilities[1]. In Q2 2020, the decrease in interest rates led to an increase in the number of early repaid mortgages causing higher indemnity expenses incurred compared to penalty income received which decreased the spread of securitized mortgages over liabilities[1].
- Recovery of credit losses on our corporate mortgage portfolio of $0.4 million in Q2 2021 due to improved economic forecasts stemming from the vaccine roll-out and reopenings, partially offset by growth in our portfolio. For Q2 2020, provision for credit losses of $0.2 million was due to continued uncertainty around the onset of COVID-19.
- Equity income from MCAP totalled $6.9 million in Q2 2021, an increase of $3.8 million (118%) from $3.1 million in Q2 2020, which was primarily due to increased volumes which contributed to higher mortgage related income on the sale and securitization of these mortgages and lower financial instrument losses partially offset by lower mortgage spreads compared to prior year. MCAP also had higher assets under management due to higher net growth in their portfolio and onboarding of an additional subservicing portfolio compared to prior year.
- In Q2 2021, we recorded a $6.5 million net gain on securities compared to a $1.4 million net gain on securities in Q2 2020. Activity in Q2 2021 and Q2 2020 related to unrealized fair value gains on our real estate investment trust ("REIT") portfolio. We continue to see some volatility in the market value of our REIT portfolio amid optimism in the economic forecasts, reopenings, and vaccination rates along with concerns regarding variants.

Year to Date 2021

- Net income of $35.3 million for 2021 year to date, an increase of $37.2 million (1,925%) from $1.9 million net loss in 2020.
- Earnings per share totalled $1.38 for 2021 year to date, an increase of $1.46 (1,825%) from $0.08 loss per share in 2020.
- Return on average shareholders' equity[1] was 19.75% for 2021 compared to (1.21)% in 2020.
- Net corporate mortgage spread income[1] increased by $2.8 million from 2020. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1,295 million in 2021 from $1,160 million in 2020 and an increase in the spread of corporate mortgages over term deposit interest[1] to 2.83% in 2021 from 2.52% in 2020. The increase in the spread of corporate mortgages over term deposit interest[1] is due to a larger reduction in term deposit rates compared to mortgage rates in 2021. The initial impact of COVID-19 caused a temporary higher demand for liquidity by financial institutions in the term deposit market resulting in higher term deposit funding costs primarily in the second quarter of 2020. The decline in our mortgage rate is due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition which has compressed rates in our single family portfolio and a reduction in the prime rate since the onset of COVID-19 partially offset by higher residential construction rates.

- Net securitized mortgage spread income[1] increased by $2.8 million from 2020. The net securitized mortgage spread income[1] increased due to a higher average securitized mortgage portfolio balance[1] from significantly higher originations of insured single family mortgages and an increase in the spread of securitized mortgages over liabilities[1]. In Q2 2020, the decrease in interest rates led to an increase in the number of early repaid mortgages causing higher indemnity expenses incurred compared to penalty income received which decreased the spread of securitized mortgages over liabilities[1].

- Recovery of credit losses on our corporate mortgage portfolio of $0.2 million year to date 2021 due to improved economic forecasts stemming from the vaccine roll-out and reopenings, partially offset by growth in our portfolio. For year to date 2020, provision for credit losses of $2.0 million was due to the onset of COVID-19.

- Equity income from MCAP totalled $13.6 million for 2021 year to date, an increase of $7.0 million (107%) from $6.6 million in 2020. For 2021 year to date, the increase is due to the same factors as for Q2 2021 mentioned above, except economic hedge gains recorded this year versus losses recorded in the prior year. On July 14, 2021, MCAP announced the purchase of Paradigm Quest Inc. which is expected to increase assets under management. The transaction is expected to be completed in Q3 2021. We expect that MCAP will have enhanced earnings post-closing given this acquisition.

- Year to date net gain on securities was $10.4 million for 2021 compared to a year to date net loss on securities of $14.3 million for 2020. Activity in both years relate to unrealized fair value changes on our REIT portfolio, with both years experiencing volatility due to COVID-19.

Business Activity and Balance Sheet

- Corporate assets totalled $1.82 billion at June 30, 2021, an increase of $207 million (13%) from March 31, 2021 and an increase of $260 million (17%) from December 31, 2020.

- Corporate mortgage portfolio totalled $1.4 billion at June 30, 2021, an increase of $114 million (9%) from March 31, 2021 and an increase of $149 million (12%) from December 31, 2020.

- Uninsured single family portfolio totalled $617 million at June 30, 2021, an increase of $84 million (16%) from March 31, 2021 and an increase of $133 million (28%) from December 31, 2020.

- Uninsured single family originations were $147 million in Q2 2021, an increase of $42 million (40%) from Q1 2021 and an increase of $96 million (188%) from Q2 2020.

- Insured single family originations were $157 million in Q2 2021, a decrease of $53 million (25%) from Q1 2021 and an increase of $54 million (53%) from Q2 2020.

- Securitization volumes were $175 million in Q2 2021, a decrease of $53 million (23%) from Q1 2021 and an increase of $1 million (1%) from Q2 2020. Securitization volumes in Q2 2021 consisted of $175 million insured single family mortgages (Q1 2021 - $228 million; Q2 2020 - $154 million) and $nil of insured multi family mortgages (Q1 2021 - $nil; Q2 2020 - $20 million).

- Construction and commercial portfolios totalled $612 million at June 30, 2021, an increase of $53 million (9%) from March 31, 2021 and an increase of $65 million (12%) from December 31, 2020.

Dividend

- The Board declared a third quarter cash dividend of $0.34 per share to be paid September 30, 2021 to shareholders of record as of September 15, 2021 and this conforms with OSFI's current restriction on increasing cash dividends.

Credit Quality

- The impaired corporate mortgage ratio[1] was 0.11% at June 30, 2021 compared to 1.10% at March 31, 2021 and 0.30% at December 31, 2020. The increase in the previous quarter was due to one construction loan where an asset recovery program was initiated and we recovered all past due interest and principal in Q2 2021. The impairment of this construction mortgage was not related to COVID-19.

- The impaired total mortgage ratio[1] was 0.07% at June 30, 2021 compared to 0.55% at March 31, 2021 and 0.18% at December 31, 2020. The increase in the previous quarter is discussed above.

- The arrears total mortgage ratio[1] was 0.58% at June 30, 2021 compared to 1.19% at March 31, 2021 and 1.25% at December 31, 2020. The increase in the previous two quarters relates to the one construction loan discussed above.

- Net write-offs were $nil (0.0 basis points of the average corporate portfolio) in Q2 2021 compared to $nil (0.0 basis points) in Q2 2020.

- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 58.0% at June 30, 2021 compared to 60.0% at March 31, 2021 and 60.6% at December 31, 2020.

Capital

- To support our continued growth and maintain our targeted capital requirements, we offered rights to eligible holders of the Company's common shares of record at the close of business on May 12, 2021 which expired on June 10, 2021. On June 10, 2021, we issued 1,306,467 new common shares at a price of $15.65 per common share and raised gross proceeds of $20 million from our rights offering which was 2.96 times oversubscribed.

- We issued 87,543 new common shares through the Dividend Reinvestment Plan ("DRIP") in Q2 2021 compared to 106,242 in Q2 2020. The DRIP participation rate was 17% for the 2021 second quarter dividend (2020 second quarter dividend - 16%).

- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the "Tax Act") and OSFI.

- The income tax assets to capital ratio[1] was 5.05 at June 30, 2021 compared to 5.05 at March 31, 2021 and 5.09 at December 31, 2020.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[1,2] were 21.91% at June 30, 2021 compared to 21.65% at March 31, 2021 and 21.67% at December 31, 2020. Total Capital to risk-weighted assets ratio[1,2] was 22.24% at June 30, 2021 compared to 22.02% at March 31, 2021 and 22.02% at December 31, 2020.

- The leverage ratio[1] was 9.59% at June 30, 2021 compared to 9.69% at March 31, 2021 and 10.17% at December 31, 2020.

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

[2] *Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.*

OUTLOOK

Market Outlook

The COVID-19 pandemic continued to weigh on the Canadian and global economy during Q2 2021, with further lockdowns and concerns of other COVID variants. Since then, non-essential businesses and services have been able to reopen, and Canadians are spending more on services as virus containment restrictions are eased. International borders continue to have restrictions, but have eased, making travel possible again. The success of vaccine rollouts here in Canada and virus containment measures have boosted confidence in mid-term forecasts; however, with vaccine supply issues and new virus strains, the pandemic continues to create some uncertainty around the near-term economic outlook. We expect that continued effective mass vaccinations and further easing of restrictions will allow for a stronger economic recovery in the latter half of 2021.

Canadian governments at all levels, as well as the Bank of Canada, continue to commit to keeping support measures in place until the economy has returned to pre-pandemic trends. Early key pandemic support programs are expected to be slowly phased out and replaced with new targeted programs that aim to accelerate Canada's economic recovery. The Bank of Canada has noted that the recent rise in inflation is transitory and is expected to fall back to 2% as the conditions leading to inflationary pressures ease. The Bank of Canada's overnight rate of 0.25% is expected to remain steady until the second half of 2022. Canada's GDP growth declined at the beginning of Q2 2021 through the third wave of the virus as the introduction of new lockdown measures in various parts of the country took place; however, it is expected to rebound from its third wave low in the second half of the year. It should also be noted that the Canadian household savings rate and net worth have increased significantly since COVID-19 began due to living and travel expenses falling as a result of lockdown measures, credit deferrals extended by lenders, government stimulus, asset price appreciation and many households not being affected by job losses. It is still unclear, however, what Canada's economic and employment future will be - particularly when key support measures end and the hoard of savings that have accumulated in many households begins to deplete.

Business Outlook

We conduct our business based on our expectations of the market, economic outlook, demand for housing, asset quality and financial health of the Canadian economy. We continue to be focused on managing all our business activities and risks in the context of the current economic, business and daily living environment in Canada.

The timing and speed of the recovery of the Canadian economy continues to be uncertain as previously mentioned. Housing has been and continues to be a hot spot for the Canadian economy. Home prices continue to increase significantly due to the high demand, with supply being extremely tight, particularly for single family homes. Low interest rates and remote working have been the catalysts. Remote working has led buyers to markets outside of city centres, driving up the prices of houses in these communities as well.

We believe that our strategy will continue to serve us well during the pandemic and beyond. We believe that we are a prudent and disciplined lender and investor and that we have strong relationships with our brokers, borrowers, servicers and strategic partners.

Single Family Business

Since the pandemic, our risk management, credit monitoring and assessment activities have increased. We worked with our borrowers on a case-by-case basis related to payment arrangements and deferrals. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term. Having said that, we are not seeing significant credit deterioration or prolonged financial distress among our borrowers. Also given the volatility of house prices, OSFI established a risk-based fixed floor on qualifying rates for all uninsured mortgages effective June 1, 2021. This may have had and may continue to have an impact on volumes in this portfolio in the short term, however, we expect volumes to continue to remain strong given the low interest rate environment in general. We are focused on keeping abreast of the many changes in the market and in our portfolios that could negatively impact our business or that could create opportunities in line with our risk appetite.

Construction and Commercial Business

While there continues to be some construction site delays due to COVID-19, our construction project finance loans are progressing forward to completion and without credit issues in the markets where we do business.

Supply chain challenges, social distancing protocols and workplace safety rules have been the cause of these delays. Furthermore, certain municipal staff inspections and approvals have been delayed. The cost of construction has also increased due to increases in the cost of raw materials such as lumber – again as a result of COVID-19. These factors have, and may continue to, impact the timing of repayments, however, they have not changed the overall expected outcome of project successes or loan performances.

As previously indicated, the Canadian housing market remains strong. We increased our residential construction originations by 145% compared to Q1 2021 and currently our pipeline remains active. We will of course continue to monitor the Canadian economic landscape as we move through and past the pandemic. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential product with experienced borrowers where we have existing relationships. We approach our underwriting with a conservative lens and will continue to do so.

There remains uncertainty as to how the COVID-19 pandemic may impact our business, results of operations and financial condition as we move forward depending on the scope and duration of this crisis, the length and breadth of economic recovery, the continued emergence of new variants , the continued uptake in vaccinations and the overall effectiveness of actions that have been taken by various governmental agencies. We support the actions taken by the government and regulators as we believe that to date, they have been positive for the economy, consumers and our business. We are encouraged by the strength of our single family and construction and commercial business and the recovery in our marketable securities in Q2 2021 and we continue to invest in other non-marketable securities, which also continue to solidly perform. MCAN's management and Board are committed to proactively and effectively managing and evolving the Company's strategy, business activities and team through the pandemic and into the future. Our targeted annual growth in corporate assets over the long term is 10%. With the growth that we see in all of our lines of business and with the successful completion of our recent rights offering and continued review of new funding sources, we will be well positioned to support our targeted growth within our risk appetite in 2021.

This Outlook contains forward-looking statements. For further information, please refer to the "A Caution About Forward-Looking Information and Statements" section of this MD&A.

RESULTS OF OPERATIONS

Table 2: Net Income (Loss)

(in thousands except for per share amounts and %) For the Periods Ended	Q2 2021	Q1 2021	Change (%)	Q2 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 16,543	$ 15,796	5%	$ 15,409	7%	$ 32,315	$ 30,806	5%
Equity income from MCAP Commercial LP	6,859	6,742	2%	3,143	118%	13,601	6,577	107%
Non-marketable securities	1,377	1,383	—%	1,610	(14%)	2,760	3,156	(13%)
Marketable securities	922	805	15%	563	64%	1,727	1,174	47%
Fees	407	417	(2%)	158	158%	848	521	63%
Interest on cash and other income	76	117	(35%)	97	(22%)	193	399	(52%)
Net gain (loss) on securities	6,453	3,920	65%	1,412	357%	10,373	(14,276)	173%
Gain on dilution of investment in MCAP Commercial LP	326	—	n/a	—	n/a	326	—	n/a
	32,963	**29,180**	**13%**	**22,392**	**47%**	**62,143**	**28,357**	**119%**
Term deposit interest and expenses	7,472	7,556	(1%)	8,306	(10%)	15,028	16,314	(8%)
Mortgage expenses	1,198	1,084	11%	1,124	7%	2,282	2,158	6%
Interest on loans payable	214	65	229%	74	189%	279	215	30%
Other financial expenses	125	—	n/a	—	n/a	125	—	n/a
Provision for (recovery of) credit losses	(436)	270	(261%)	239	(282%)	(166)	2,043	(108%)
	8,573	**8,975**	**(4%)**	**9,743**	**(12%)**	**17,548**	**20,730**	**(15%)**
	24,390	**20,205**	**21%**	**12,649**	**93%**	**44,595**	**7,627**	**485%**
Net Investment Income - Securitization Assets								
Mortgage interest	7,266	6,632	10%	4,786	52%	13,898	9,569	45%
Other securitization income	46	42	10%	179	(74%)	88	440	(80%)
	7,312	**6,674**	**10%**	**4,965**	**47%**	**13,986**	**10,009**	**40%**
Interest on financial liabilities from securitization	4,913	4,426	11%	4,078	20%	9,339	7,825	19%
Mortgage expenses	829	723	15%	487	70%	1,552	982	58%
Provision for (recovery of) credit losses	—	(20)	100%	11	(100%)	(20)	12	(267%)
	5,742	**5,129**	**12%**	**4,576**	**25%**	**10,871**	**8,819**	**23%**
	1,570	**1,545**	**2%**	**389**	**304%**	**3,115**	**1,190**	**162%**
Operating Expenses								
Salaries and benefits	4,924	4,271	15%	3,219	53%	9,195	7,021	31%
General and administrative	2,409	2,312	4%	1,750	38%	4,721	3,505	35%
	7,333	**6,583**	**11%**	**4,969**	**48%**	**13,916**	**10,526**	**32%**
Net income (loss) before income taxes	18,627	15,167	23%	8,069	131%	33,794	(1,709)	2,077%
Provision for (recovery of) income taxes	(751)	(757)	1%	273	(375%)	(1,508)	225	(770%)
Net Income (Loss)	**$ 19,378**	**$ 15,924**	**22%**	**$ 7,796**	**149%**	**$ 35,302**	**$ (1,934)**	**1,925%**
Basic and diluted earnings (loss) per share	$ 0.73	$ 0.64	14%	$ 0.32	128%	$ 1.38	$ (0.08)	1,825%
Dividends per share - cash	$ 0.34	$ 0.34	—%	$ 0.34	—%	$ 0.68	$ 0.68	—%
Dividends per share - stock	$ —	$ 0.85	(100%)	$ —	n/a	$ 0.85	$ —	n/a

Net Investment Income - Corporate Assets

Mortgage Interest Income

Table 3: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Quarterly

For the Quarters Ended	June 30, 2021			March 31, 2021			June 30, 2020		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages									
Insured	$ 143,402	$ 832	2.33 %	$ 180,143	$ 1,016	2.26 %	$ 187,633	$ 1,336	2.85 %
Uninsured	574,974	6,069	4.22 %	507,516	5,513	4.49 %	400,329	4,822	4.81 %
Uninsured - completed inventory	40,416	671	6.65 %	45,393	716	6.39 %	37,639	606	6.47 %
Construction loans									
Residential	475,700	7,848	6.61 %	468,406	7,626	6.60 %	511,961	7,997	6.28 %
Non residential	4,601	84	7.33 %	3,918	73	7.50 %	679	12	6.88 %
Commercial loans									
Multi family residential	49,675	623	5.03 %	34,474	438	5.14 %	10,441	140	5.38 %
Other	30,479	416	5.47 %	30,616	414	5.48 %	32,346	496	6.16 %
Mortgages - corporate portfolio	$1,319,247	$ 16,543	5.02 %	$1,270,466	$ 15,796	5.07 %	$1,181,028	$ 15,409	5.23 %
Term deposit interest and expenses	1,308,470	7,472	2.13 %	1,235,398	7,556	2.31 %	1,095,734	8,306	2.75 %
Net corporate mortgage spread income[2]		$ 9,071			$ 8,240			$ 7,103	
Spread of mortgages over term deposit interest [2]			2.89 %			2.76 %			2.48 %
Average term to maturity (months)									
Mortgages - corporate	12.8			13.7			12.3		
Term deposits	19.6			17.7			18.7		

Table 4: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Year to Date

For the Six Months Ended June 30	2021			2020		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages						
Insured	$ 161,671	$ 1,849	2.30 %	$ 162,705	$ 2,359	2.92 %
Uninsured	541,431	11,581	4.35 %	394,091	9,430	4.78 %
Uninsured - completed inventory	42,891	1,387	6.52 %	40,230	1,274	6.37 %
Construction loans						
Residential	472,074	15,450	6.61 %	518,098	16,445	6.38 %
Non residential	4,261	157	7.45 %	410	12	5.69 %
Commercial loans						
Multi family residential	42,116	1,061	5.08 %	11,630	404	6.19 %
Other commercial	30,547	830	5.48 %	32,351	882	5.48 %
Mortgages - corporate portfolio	$ 1,294,991	$ 32,315	5.05 %	$ 1,159,515	$ 30,806	5.30 %
Term deposit interest and expenses	1,272,136	15,028	2.22 %	1,066,946	16,314	2.78 %
Net corporate mortgage spread income[2]		$ 17,287			$ 14,492	
Spread of mortgages over term deposit interest [2]			2.83 %			2.52 %

[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 as applicable. Income/expense incorporates items such as penalty income, commitment fee income, origination expense and commission expense.
[2] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 5: Mortgage Originations

(in thousands except %) For the Periods Ended	Q2 2021	Q1 2021	Change (%)	Q2 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Originations								
Single family - insured	$ 156,553	$ 209,864	(25%)	$ 102,181	53%	$ 366,417	$ 201,723	82%
Single family - uninsured	147,267	104,817	40%	51,060	188%	252,084	103,206	144%
Single family - uninsured completed inventory [1]	20,377	604	3,274%	755	2,599%	20,981	19,221	9%
Residential construction [1]	245,128	99,972	145%	81,153	202%	345,100	170,972	102%
Non-residential construction [1]	222	1,119	(80%)	784	(72%)	1,341	1,053	27%
Commercial [1]	510	19,600	(97%)	75	580%	20,110	75	26,713%
	$ 570,057	**$ 435,976**	**31%**	**$ 236,008**	**142%**	**$1,006,033**	**$ 496,250**	**103%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 3,097	$ 4,182	(26%)	$ 34,895	(91%)	$ 7,279	$ 63,308	(89%)

[1] Construction, commercial and completed inventory originations represent all advances on loans.
[2] Represents mortgages previously derecognized or held in the securitized portfolio that have been renewed into the corporate mortgage portfolio.

Overview

Balancing of the risk profile of the mortgages on our balance sheet has been a focus of the Company. The lower interest rate environment due to COVID-19 impacted both mortgages and term deposits. For Q2 2021 and year to date 2021, the increase in the spread of mortgages over term deposit interest[1] from Q2 2020 and year to date 2020 was due to a larger decrease in term deposit rates and expenses compared to mortgages, partly offset by a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans and continued market competition which compressed rates.

Single Family

We continue to focus on growing our single family originations in our corporate and securitized mortgage portfolio and accordingly our total volumes in Q2 2021 and year to date 2021 increased significantly from the prior year. This increase was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships with the broker community and an increased underwriting capacity.

We continue to grow our insured single family originations to allow us to securitize opportunistically through the CMHC *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program. The continued increase in insured single family originations in Q2 2021 supported a 13% increase in single family securitization volumes to $175 million in Q2 2021 from $154 million in Q2 2020. Renewals of securitized mortgages were lower in the current and prior quarter due to fewer maturities in the securitization portfolio.

Single family mortgages provide comparatively lower yields given the lower risk profile. For the quarter, higher average balances in single family (both insured and uninsured) in Q2 2021 contributed to a higher corporate mortgage interest compared to Q1 2021 and Q2 2020. We will continue to focus on our target markets and risk profile while anticipating a challenging environment through 2021 given the continued uncertain economic conditions under COVID-19. We have always taken a prudent underwriting approach which has been even more heightened since COVID-19. We opportunistically invest in our single family uninsured completed inventory portfolio which often migrate from our own construction book.

We worked with our borrowers in 2020 on a case-by-case basis to provide effective alternatives that have helped them manage the challenges they are facing due to COVID-19. We implemented appropriate measures to support borrowers which included increased amortizations and other payment arrangements. We are not seeing significant credit deterioration or prolonged financial distress among these borrowers. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term.

Construction and Commercial

During Q2 2021, we continued to focus on originations in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile. We have seen an increase in originations compared to Q1 2021 and Q2 2020.

Construction delays for some projects have occurred due to the COVID-19 pandemic which has led to some loan extension requests and project cost overruns. To date, sites with the appropriate permits in place continue to progress toward completion. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worths and presale requirements as applicable to the respective markets that can help mitigate impacts from slower expected sales or project delays.

Mortgage Renewal Rights

Through our XMC Mortgage Corporation ("XMC") origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the interim consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income. At June 30, 2021, we had the renewal rights to $2.1 billion of single family mortgages (March 31, 2021 - $1.9 billion; December 31, 2020 - $1.7 billion).

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

Equity Income from MCAP

In Q2 2021, MCAP's origination volumes were $7.6 billion, an increase from $3.8 billion in Q2 2020. At May 31, 2021 (we account for MCAP on a one-month lag basis), MCAP had $113.5 billion of assets under management compared to $112.2 billion at February 28, 2021 and $105.6 billion at May 31, 2020. For Q2 2021, the $3.8 million increase in equity income from MCAP was due to increased volumes which contributed to higher mortgage related income on the sale and securitization of these mortgages and lower financial instrument losses partially offset by lower mortgage spreads compared to prior year. MCAP also had higher assets under management due to higher net growth in their portfolio and onboarding of an additional subservicing portfolio compared to prior year. For the year to date, the $7.0 million increase in equity income from MCAP was due to the same factors as for Q2 2021 mentioned above, except economic hedge gains recorded this year versus losses recorded in the prior year. With respect to MCAP's hedging activities, financial instrument gains and losses on funded mortgages are designed to be roughly offset by corresponding losses and gains related to the fair value of the mortgages; however, the timing of these offsets may lag.

On July 14, 2021, MCAP announced the purchase of Paradigm Quest Inc. which is expected to increase assets under management. The transaction is expected to be completed in Q3 2021. We expect that MCAP will have enhanced earnings post-closing given this acquisition.

For further information on our equity investment in MCAP, refer to the "Equity Investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

In Q2 2021, we received distribution income of $1.2 million (Q2 2020 - $1.3 million) from the KingSett High Yield Fund ("KSHYF"). In Q2 2021, we received principal and interest of $1.3 million (Q2 2020 - $1.7 million) from MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"). For further information, refer to the "Other Corporate Assets" section of this MD&A.

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 5.55% in Q2 2021 (Q2 2020 - 7.07%). The lower yield is due to the significant increases in market value since December 2020, after significant declines from the onset of COVID-19. The yield has been calculated based on the average portfolio carrying value.

Fees

Fee income can vary between quarters given the fact that certain fees such as loan amendment and extension fees do not occur on a routine basis.

Net Gain (Loss) on Securities

In Q2 2021, we recorded a $6.5 million net gain on securities compared to a $1.4 million net gain on securities in Q2 2020. Activity in Q2 2021 and Q1 2021 included fair value gains related to our REIT portfolio. Our year to date net gain on securities was $10.4 million for 2021 compared to a year to date net loss on securities of $14.3 million for 2020. We continue to see volatility in the market value of our REIT portfolio due to COVID-19 with 2021 posting a rebound amid optimism around the impending economic outlook given the COVID-19 vaccine roll-out and business reopenings, partially offset by the concern around new variants.

Gain on Dilution of Investment in MCAP

In Q2 2021, MCAP issued additional class B units to other partners of MCAP which decreased our equity interest from 14.03% to 13.94%. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $0.3 million in Q2 2021.

Term Deposit Interest and Expenses

The reduction in term deposit interest and expenses from Q2 2020 was partly due to a decrease in rates compared to March 2020 when rates remained high and even increased for several weeks immediately following the COVID-19 impact in Canada, notwithstanding the significant decrease in Bank of Canada overnight rates. We have since seen rates come down and stabilize. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and the Canada Housing Trust ("CHT") Canada Mortgage Bonds ("CMB") program. Our total new securitization volumes were $175 million in Q2 2021 (Q2 2020 - $174 million), of which $nil were insured multi family loans that were derecognized from the consolidated balance sheet at the time of securitization (Q2 2020 - $20 million). The low interest rate environment and higher insured single family originations have generated a higher volume of securitizations.

Table 6: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	June 30, 2021			March 31, 2021			June 30, 2020		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate[1, 2]	Average Balance[2]	Interest Income	Average Rate[1, 2]	Average Balance[2]	Interest Income	Average Rate[1, 2]
Mortgages - securitized portfolio	$1,365,786	$ 7,266	2.14 %	$1,208,935	$ 6,632	2.26 %	$ 739,590	$ 4,786	2.61 %
Financial liabilities from securitization	1,380,827	4,913	1.42 %	1,217,093	4,426	1.45 %	755,692	4,078	2.17 %
Net securitized mortgage spread income[2]		$ 2,353			$ 2,206			$ 708	
Spread of mortgages over liabilities[2]			0.72 %			0.81 %			0.44 %

Table 7: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Year to Date

For the Six Months Ended June 30	2021			2020		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate[1, 2]	Average Balance[2]	Interest Income	Average Rate[1, 2]
Mortgages - securitized portfolio	$ 1,287,794	$ 13,898	2.19 %	$ 745,686	$ 9,569	2.58 %
Financial liabilities from securitization	1,299,413	9,339	1.43 %	766,650	7,825	2.05 %
Net securitized mortgage spread income[2]		$ 4,559			$ 1,744	
Spread of mortgages over liabilities[2]			0.76 %			0.53 %

[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, as applicable. Income/expense incorporates items such as penalty income and indemnity expense.
[2] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

As a result of a decline in rates during 2020, there was an increase in the number of early repaid mortgages. This impacted the net securitized mortgage spread income[2] and spread of mortgages over liabilities[2] during late Q1 2020 and into Q2 2020 due to indemnity expenses on early repaid mortgages that were higher than penalty income. Since Q2 2020, the number of early repaid mortgages has declined and the spread of mortgages over liabilities[2] has widened accordingly. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly over the last six months.

Provision for (Recovery of) Credit Losses

Table 8: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) For the Periods Ended	Q2 2021	Q1 2021	Change (%)	Q2 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Provision for (recovery of) impaired corporate mortgages								
Single family mortgages uninsured	$ (34)	$ (61)	44%	$ 140	(124%)	$ (95)	$ 5	(2,000%)
	(34)	(61)	44%	140	(124%)	(95)	5	(2,000%)
Provision for (recovery of) performing corporate mortgages								
Single family mortgages insured	(1)	(2)	50%	2	(150%)	(3)	2	(250%)
Single family mortgages uninsured	(199)	303	(166%)	1,011	(120%)	104	1,278	(92%)
Single family mortgages uninsured - completed inventory	(44)	(201)	78%	(7)	(529%)	(245)	617	(140%)
Construction loans	(17)	70	(124%)	(1,023)	98%	53	121	(56%)
Commercial loans								
Multi family residential	(104)	228	(146%)	54	(293%)	124	19	553%
Other commercial	(37)	(67)	45%	70	(153%)	(104)	9	(1,256%)
	(402)	331	(221%)	107	(476%)	(71)	2,046	(103%)
Other provisions (recoveries)	—	—	n/a	(8)	100%	—	(8)	100%
Total corporate provision for (recovery of) credit losses	(436)	270	(261%)	239	(282%)	(166)	2,043	(108%)
Provision for (recovery of) performing securitized mortgages	—	(20)	100%	11	(100%)	(20)	12	(267%)
Total provision for (recovery of) credit losses	$ (436)	$ 250	(274%)	$ 250	(274%)	$ (186)	$ 2,055	(109%)
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ (436)	$ 270	(261%)	$ 247	(277%)	$ (166)	$ 2,051	(108%)
Net write offs	$ —	$ 1	(100%)	$ —	n/a	$ 1	$ 69	(99%)
Net write offs (basis points)	—	—	n/a	—	n/a	—	0.6	(100%)

Provisions are based on a statistical modelling methodology incorporating both internal portfolio characteristics and forward-looking macroeconomic information. Loans are segmented into homogenous risk bands based on internal risk characteristics including (but not limited to) credit scores, delinquency history, loan type and location. Historical regression methodology is used to relate expected credit loss ("ECL") to key macroeconomic indicators including house price indices, unemployment rates, interest rates and gross domestic product. Economic forecasts of these variables are then used to produce forward-looking estimates of ECL under multiple scenarios. Scenarios are probability weighted by management to obtain an aggregated forward looking view. Additionally, we may incorporate management judgment, where appropriate, in the calculation of provisions. Accordingly, provisions are expected to vary between periods.

We had a recovery of credit losses on our corporate mortgage portfolio of $0.4 million in Q2 2021 compared to provision for credit losses of $0.2 million in Q2 2020 and a recovery of credit losses on our corporate mortgage portfolio of $0.2 million year to date 2021 compared to a provision for credit losses of $2.0 million year to date 2020. The recovery is due to improved economic forecasts stemming from the vaccine roll-out and reopenings, partially offset by growth in our portfolio versus the onset of COVID-19 during the same prior periods. Despite more optimistic forecasts in the housing market, the introduction of new COVID-19 variants has kept the overall economic outlook highly uncertain. Key judgments and uncertainties include the speed and shape of economic recovery, the impact of government stimulus and the uncertainties around the impact of the third wave, vaccine rollout and further variants. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at June 30, 2021. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since June 30, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any new forward-looking information subsequent to June 30, 2021, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis to detect COVID-19-specific significant stress or deterioration and note that government support programs are still in effect. The increase in impaired mortgages in Q1 2021 was due to one construction mortgage where an asset recovery program was initiated and was not related to COVID-19. We recovered all past due interest and principal on this loan in Q2 2021.

All write-offs noted in the table above relate to the uninsured single family mortgage portfolio.

Operating Expenses

Table 9: Operating Expenses

(in thousands except %) For the Periods Ended	Q2 2021	Q1 2021	Change (%)	Q2 2020	Change (%)	YTD 2021	YTD 2020	Change (%)
Salaries and benefits	$ 4,924	$ 4,271	15%	$ 3,219	53%	$ 9,195	$ 7,021	31%
General and administrative	2,409	2,312	4%	1,750	38%	4,721	3,505	35%
	$ 7,333	**$ 6,583**	**11%**	**$ 4,969**	**48%**	**$ 13,916**	**$ 10,526**	**32%**

The increase in salaries and benefits is primarily due to additional resources to support our increased growth in single family originations, internal infrastructure and systems initiatives.

The increase in general and administrative expenses is primarily due to higher professional fees relating to a number of initiatives, many of which have occurred in the first half of 2021, including our recent $50 million senior secured mortgage warehouse facility.

Taxable Income

The table below provides a reconciliation between consolidated net income (loss) for accounting purposes and non-consolidated taxable income. In order to take advantage of the tax benefits of a Mortgage Investment Corporation ("MIC") status, we typically pay out substantially all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct dividends paid up to 90 days after year end from taxable income. Dividends that are deducted in the calculation of taxable income are not included in the table below.

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

Table 10: Taxable Income Reconciliation [1]

(in thousands) **For the Periods Ended**	**Q2 2021**	**Q2 2020**	**YTD 2021**	**YTD 2020**
Consolidated net income for accounting purposes	$ 19,378	$ 7,796	$ 35,302	$ (1,934)
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(6,859)	(3,143)	(13,601)	(6,577)
Add: MCAP taxable income	18,772	2,432	35,220	13,449
Reverse: Provision for (recovery of) credit losses [2]	(406)	127	(100)	2,056
Add: Amortization of upfront securitization program costs [3]	1,659	1,147	3,126	2,468
Deduct: Securitization program mortgage origination costs [3]	(1,609)	(4,251)	(5,322)	(5,555)
Add: Securitization program premium (discount)	(1,929)	1,313	(2,702)	1,650
Reverse: Net unrealized loss (gain) on securities [4]	(6,453)	(1,412)	(10,373)	14,276
Reverse: Loss (Income) earned in subsidiaries [5]	1,502	1,241	3,582	2,853
Deduct: Gain on dilution of MCAP[6]	(326)	—	(326)	—
Other items	(79)	8	(91)	(217)
Taxable Income	**$ 23,650**	**$ 5,258**	**$ 44,715**	**$ 22,469**

[1] *Taxable income is presented above on a non-consolidated basis for the MIC entity. The current year amounts presented above represent estimates as they are not finalized until the completion of our corporate tax filings.*
[2] *Provisions on performing mortgages are excluded from the calculation of taxable income; provisions on impaired mortgages are 90% deductible for tax purposes.*
[3] *Securitization program mortgage origination costs are deductible in full for tax purposes as mortgages are securitized but are capitalized and amortized for accounting purposes. Therefore, amortization is added back in the calculation of taxable income.*
[4] *Excluded from the calculation of taxable income; only includes net realized gains and losses recognized in the MIC entity.*
[5] *Represents the component of consolidated income that is earned outside of the MIC entity, therefore excluded in the calculation of taxable income.*
[6] *Not recognizable in the calculation of taxable income.*

The change in taxable income for Q2 2021 compared to Q2 2020 was primarily due to higher taxable income from MCAP and higher earnings from our core business, net of mark-to-market adjustments on marketable securities and net of MCAP.

FINANCIAL POSITION

Assets

Table 11: Assets

(in thousands except %)	June 30 2021	March 31 2021	Change (%)	December 31 2020	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 179,666	$ 103,838	73%	$ 88,929	102%
Marketable securities	69,922	59,933	17%	49,613	41%
Mortgages	1,401,290	1,286,890	9%	1,252,762	12%
Non-marketable securities	60,192	58,129	4%	56,117	7%
Equity investment in MCAP Commercial LP	93,314	90,190	3%	88,263	6%
Deferred tax asset	2,001	1,164	72%	407	392%
Other assets	10,421	9,469	10%	20,218	(48%)
	1,816,806	**1,609,613**	**13%**	**1,556,309**	**17%**
Securitization Assets					
Cash held in trust	45,399	32,558	39%	29,610	53%
Mortgages	1,434,547	1,326,519	8%	1,135,745	26%
Other assets	8,292	7,997	4%	7,051	18%
	1,488,238	**1,367,074**	**9%**	**1,172,406**	**27%**
	$ 3,305,044	**$ 2,976,687**	**11%**	**$ 2,728,715**	**21%**

Our corporate asset portfolio increased from March 31, 2021 and December 31, 2020 primarily due to strong origination volumes in the insured and uninsured single family portfolios. Our securitized mortgage portfolio has increased from March 31, 2021 and December 31, 2020 due to the impact of new securitization issuances as a result of higher insured single family originations.

Mortgages - Corporate & Securitized

Corporate Mortgages

Single Family Mortgages

Insured and uninsured

We invest in insured and uninsured residential single family mortgages across Canada primarily focused on first time and move up buyer markets in the greater urban regions in Ontario and to a lesser extent in Alberta and Vancouver. These mortgages are primarily originated by our XMC subsidiary through its strategic relationships with mortgage brokers for our own corporate portfolio and for securitization activities. We focus our uninsured mortgage lending to those customers with credit challenges and to those who are self-employed. 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, the value at the time of funding is the lower of the appraised value of the property as determined by a qualified appraiser or purchase price (if applicable). Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Uninsured - completed inventory loans

Uninsured - completed inventory loans are extended to developers to provide interim mortgage financing on residential units (condominium or freehold) that are completed or close to completion. Qualification criteria for the completed inventory classification include no substantial remaining construction risk, commencement of occupancy permits, potential sale and closing with a purchaser within 3-4 months or units near completion. We invest in this product type opportunistically and given the nature of unit closings, originations and repayments can be unpredictable.

Construction Loans

Residential construction loans are made to developers to finance residential construction projects. These loans generally have a floating interest rate, with a floor interest rate set at origination and loan terms typically ranging between 24 and 36 months, with extensions requiring additional underwriting and approval. Non-residential construction loans provide construction financing for retail shopping developments, office buildings and industrial developments. Some of our construction portfolio projects have experienced delays as a result of the impact of COVID-19 on the construction industry, which has lengthened the time these loans are outstanding. We continue to be prudent and selective in our credit adjudication and we have enhanced our portfolio management given the fluid situation of the pandemic.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move up buyers, characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration. This approach mitigates the impact of price volatility and tightened sales activity in the event of market corrections. We focus investments in markets where we have experience and local expertise, consisting primarily of major urban markets and their surrounding areas with a preference for proximity to transit. We target experienced developers with a successful track record of project completion and loan repayment and smaller multi-phased projects requiring evidence of strong pre-sales prior to loan funding. At June 30, 2021, the average outstanding construction loan balance was $7 million (March 31, 2021 - $7 million; December 31, 2020 - $7 million) with a maximum individual loan commitment of $40 million (March 31, 2021 - $40 million; December 31, 2020 - $30 million). We utilize our relationships with strategic partners for loan participation, servicing and workout expertise.

Commercial Loans

Commercial loans include multi family residential loans (e.g. loans secured by apartment buildings), and other commercial loans, which consist of term mortgages (e.g. loans secured by retail or industrial buildings) and higher yielding mortgage loans (e.g. loans that do not meet conventional residential construction loan parameters).

Securitized Mortgages

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. Securitization assets consist primarily of single family insured mortgages that have been securitized through our internal market MBS program and the CHT CMB program. For further information, refer to Note 9 to the interim consolidated financial statements.

Any mortgages securitized through the market MBS program or CMB program for which derecognition is not achieved remain on the interim consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of the leverage ratio. However, for income tax purposes, all mortgages securitized by MCAN are excluded from income tax assets. For further details on total exposures, regulatory capital and income tax assets and capital, refer to the "Capital Management" and "Non-IFRS Measures" sections of this MD&A.

We securitized $175 million in Q2 2021 (Q2 2020 - $154 million) and $403 million year to date (year to date 2020 - $235 million) of insured single family mortgages through the market MBS program and CMB program.

We securitized $nil in Q2 2021 (Q2 2020 - $20 million) and $nil year to date (year to date 2020 - $35 million) of insured multi family mortgages through the CMB program. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of $nil in Q2 2021 (Q2 2020 - $0.1 million) and $nil year to date (year to date 2020 - $0.2 million).

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At June 30, 2021, we held $35 million of retained MBS on our balance sheet (December 31, 2020 - $48 million), which is included in the insured single family portfolio in corporate mortgages.

Table 12: Mortgage Summary

(in thousands except %)	June 30 2021	March 31 2021	Change (%)	December 31 2020	Change (%)
Corporate portfolio					
Single family mortgages					
Insured	$ 138,026	$ 152,858	(10%)	$ 173,373	(20%)
Uninsured	616,838	533,148	16%	483,432	28%
Uninsured - completed inventory	34,532	41,629	(17%)	48,949	(29%)
Construction loans	532,476	479,545	11%	486,632	9%
Commercial loans					
Multi family residential	49,303	49,116	—%	29,839	65%
Other commercial	30,115	30,594	(2%)	30,537	(1%)
	1,401,290	**1,286,890**	**9%**	**1,252,762**	**12%**
Securitized portfolio	**1,434,547**	**1,326,519**	**8%**	**1,135,745**	**26%**
	$ 2,835,837	**$ 2,613,409**	**9%**	**$ 2,388,507**	**19%**

We continue to be selective and will reposition our loan portfolio in terms of product composition, geographic mix and exposure as required to meet changing market conditions and align to our risk appetite. We have strong strategic partnerships and relationships for origination and expect to continue to maintain the quality of underwriting related to our investments in these portfolios. The increase in single family mortgages was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships with the broker community and an increased underwriting capacity. Our securitized mortgage portfolio has increased due to the impact of new securitization issuances fuelled by higher insured single family originations.

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

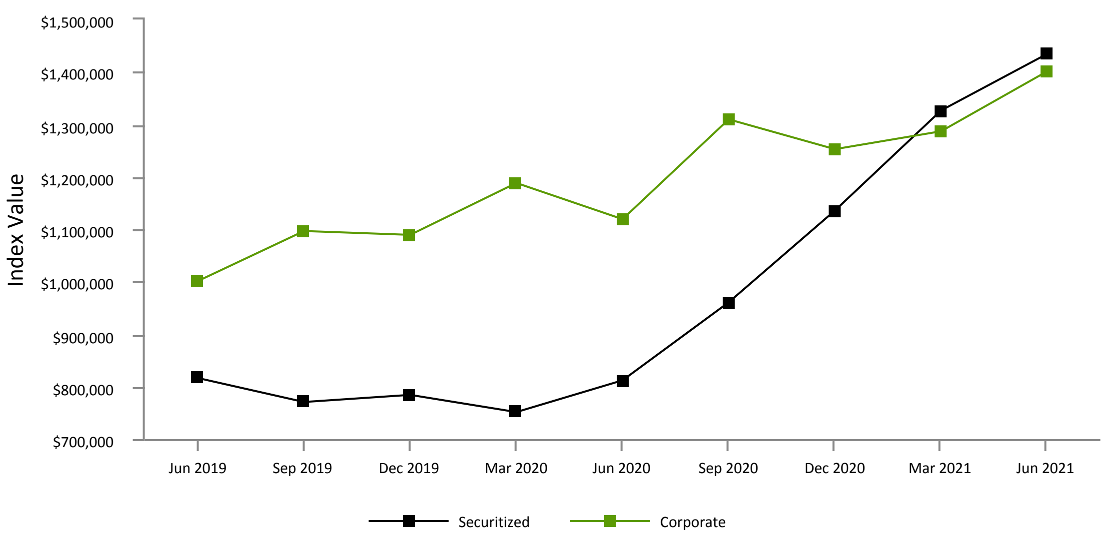
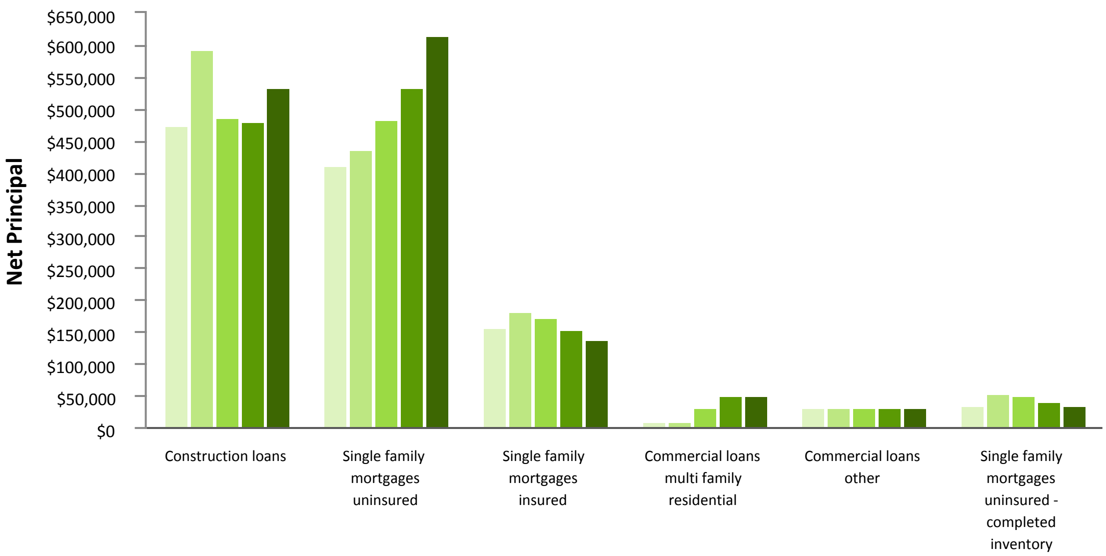


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
Jun 30, 2020	$475,274 (42%)	$410,014 (37%)	$157,333 (14%)	$10,350 (1%)	$32,380 (3%)	$33,962 (3%)
Sep 30, 2020	$592,778 (46%)	$436,417 (33%)	$183,556 (14%)	$10,031 (1%)	$32,216 (2%)	$54,607 (4%)
Dec 31, 2020	$486,632 (39%)	$483,432 (39%)	$173,373 (14%)	$29,839 (2%)	$30,537 (2%)	$48,949 (4%)
Mar 31, 2021	$479,545 (37%)	$533,148 (42%)	$152,858 (12%)	$49,116 (4%)	$30,594 (2%)	$41,629 (3%)
Jun 30, 2021	$532,476 (38%)	$616,838 (44%)	$138,026 (10%)	$49,303 (4%)	$30,115 (2%)	$34,532 (2%)

Note: Amounts in parentheses represent the percentage of the corporate portfolio represented by the individual product type.

Figure 3: Mortgage Portfolio Geographic Distribution

	June 30, 2021		March 31, 2021		December 31, 2020	
	Corporate	Securitized	Corporate	Securitized	Corporate	Securitized
Ontario	64.5 %	85.9 %	66.8 %	85.7 %	67.5 %	84.3 %
British Columbia	27.1 %	3.4 %	24.2 %	3.4 %	23.2 %	3.2 %
Alberta	6.9 %	7.5 %	7.3 %	7.5 %	7.5 %	8.4 %
Atlantic Provinces	0.6 %	1.7 %	0.6 %	1.9 %	0.7 %	2.2 %
Quebec	0.5 %	0.8 %	0.6 %	0.8 %	0.6 %	1.0 %
Other	0.4 %	0.7 %	0.5 %	0.7 %	0.5 %	0.9 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 13: Arrears and Impaired Mortgages

(in thousands except %)	June 30 2021	March 31 2021	Change (%)	December 31 2020	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 628	$ 734	(14%)	$ 1,266	(50%)
Single family mortgages - uninsured	853	1,617	(47%)	2,505	(66%)
Construction loans	—	11,800	(100%)	—	n/a
	1,481	14,151	(90%)	3,771	(61%)
Securitized	550	164	235%	472	17%
Total impaired mortgages	$ 2,031	$ 14,315	(86%)	$ 4,243	(52%)
Impaired mortgage ratio (corporate) [1]	0.11 %	1.10 %	(0.99%)	0.30 %	(0.19%)
Impaired mortgage ratio (total) [1]	0.07 %	0.55 %	(0.48%)	0.18 %	(0.11%)
Mortgage arrears [1]					
Corporate					
Single family mortgages - insured	$ 1,480	$ 1,051	41%	$ 1,948	(24%)
Single family mortgages - uninsured	7,488	13,663	(45%)	10,540	(29%)
Construction loans	—	11,800	(100%)	11,800	(100%)
Total corporate mortgage arrears [1]	8,968	26,514	(66%)	24,288	(63%)
Total securitized mortgage arrears [1]	7,359	4,710	56%	5,660	30%
Total mortgage arrears [1]	$ 16,327	$ 31,224	(48%)	$ 29,948	(45%)
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 5,616	$ 6,935	(19%)	$ 8,054	(30%)
Single family mortgages - uninsured	72,591	67,117	8%	68,517	6%
Single family mortgages - uninsured - completed inventory	5,267	10,321	(49%)	13,290	(60%)
Construction loans	7,316	4,262	72%	20,235	(64%)
Commercial loans - multi-family residential	27,249	27,131	—%	—	n/a
Commercial - other	16,803	17,283	(3%)	17,200	(2%)
	134,842	133,049	1%	127,296	6%
Stage 3					
Single family mortgages - insured	628	734	(14%)	1,266	(50%)
Single family mortgages - uninsured	853	1,617	(47%)	2,505	(66%)
Construction loans	—	11,800	(100%)	—	n/a
	1,481	14,151	(90%)	3,771	(61%)
Total stage 2 and 3 corporate mortgages	$ 136,323	$ 147,200	(7%)	$ 131,067	4%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 5,975	$ 6,377	(6%)	$ 6,047	(1%)
Allowance on impaired mortgages	62	96	(35%)	157	(61%)
	6,037	6,473	(7%)	6,204	(3%)
Securitized - allowance on performing mortgages	4	4	—%	25	(84%)
Total allowance for credit losses	$ 6,041	$ 6,477	(7%)	$ 6,229	(3%)

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

Arrears and Impaired Mortgage Summary

The majority of single family and securitized arrears activity occurs in the 1-30 day category, in which the bulk of arrears are resolved and do not migrate to arrears categories over 30 days. We closely monitor and actively manage these arrears.

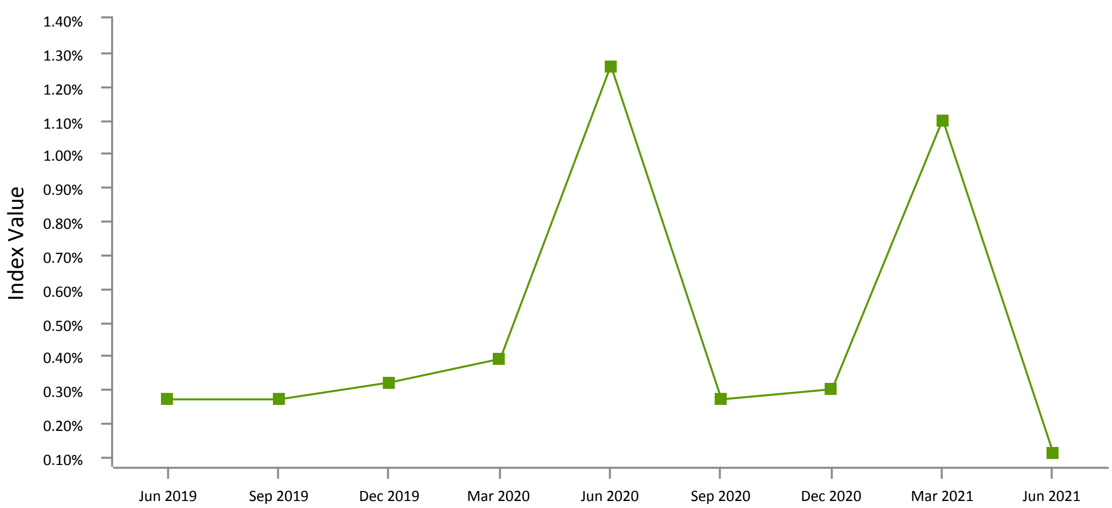
We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types. The increase in impaired mortgages in Q1 2021 was due to one construction mortgage where an asset recovery program was initiated and was not related to COVID-19. We recovered all past due interest and principal on this loan in Q2 2021.

The classification of mortgages into stage 2 and stage 3 involves consideration of additional criteria such as credit score and internal risk rating. Accordingly, stage 2 and stage 3 balances are expected to vary between periods.

Consistent with a government-sponsored initiative and with industry practice, the Company had offered up to a six-month payment deferral program for borrowers in 2020 as a result of COVID-19. Total mortgages previously in our payment deferral program that are now included in total mortgage arrears[1] represent less than 1% of our single family and securitized portfolio on a dollar basis. Of the total mortgage arrears[1], 40% represent mortgages previously in our payment deferral program on a dollar basis, up from 24% at March 31, 2021. We closely monitor and actively manage these arrears related to our payment deferral program.

We would expect to observe an increase in overall mortgage default and arrears rates in the event of a protracted economic downturn due to COVID-19 as realization periods on collateral become longer and borrowers adjust to the new economic conditions and potentially changing real estate values. This could also result in an increase in our allowance for credit losses. An economic downturn could include, for example, changes to unemployment rates, income levels and consumer confidence and spending not fully compensated for by government stimulus measures which we would expect would increase single family defaults and arrears. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages; however, given the systemic nature of the COVID-19 impacts, traditional actions may not be available or effective.

Figure 4: Impaired Corporate Mortgage Ratio[1]



The impaired corporate mortgage ratio[1], as presented above, reflects impaired (stage 3) mortgages under IFRS 9. At June 30, 2020, we had one impaired construction mortgage where an asset recovery program was initiated and we received full recovery of past due interest and principal in Q3 2020. At March 31, 2021, we also had one impaired construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal in Q2 2021. The impairment of both construction mortgages was not related to COVID-19.

For further information regarding corporate mortgages by risk rating, refer to Note 6 to the interim consolidated financial statements.

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

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

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

Insured mortgages include individual mortgages that are insured by CMHC or other approved mortgage insurers at origination and mortgages that are portfolio-insured after origination. Uninsured mortgages include both single family uninsured and single family uninsured - completed inventory loans.

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

Table 14: Single Family Mortgages by Province at June 30, 2021

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 104,704	75.9 %	$ 546,964	84.0 %	$ 62	72.9 %	$1,233,762	85.9 %	$ 1,885,492	84.8 %
Alberta	17,917	13.0 %	47,130	7.2 %	23	27.1 %	107,078	7.5 %	172,148	7.7 %
British Columbia	5,110	3.7 %	46,755	7.2 %	—	— %	48,419	3.4 %	100,284	4.5 %
Quebec	4,171	3.0 %	2,598	0.4 %	—	— %	11,467	0.8 %	18,236	0.8 %
Atlantic Provinces	4,848	3.5 %	3,527	0.5 %	—	— %	23,925	1.7 %	32,300	1.5 %
Other	1,191	0.9 %	4,396	0.7 %	—	— %	9,896	0.7 %	15,483	0.7 %
Total	**$ 137,941**	**100.0 %**	**$ 651,370**	**100.0 %**	**$ 85**	**100.0 %**	**$1,434,547**	**100.0 %**	**$ 2,223,943**	**100.0 %**

Table 15: Single Family Mortgages by Province at December 31, 2020

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 137,757	79.5 %	$ 414,231	77.8 %	$ 67	73.6 %	$ 956,980	84.3 %	$ 1,509,035	81.9 %
Alberta	18,930	10.9 %	54,628	10.3 %	24	26.4 %	95,958	8.4 %	169,540	9.2 %
British Columbia	5,156	3.0 %	51,955	9.8 %	—	— %	36,082	3.2 %	93,193	5.1 %
Quebec	5,069	2.9 %	2,914	0.5 %	—	— %	11,840	1.0 %	19,823	1.1 %
Atlantic Provinces	4,991	2.9 %	3,733	0.7 %	—	— %	25,124	2.2 %	33,848	1.8 %
Other	1,379	0.8 %	4,920	0.9 %	—	— %	9,761	0.9 %	16,060	0.9 %
Total	**$ 173,282**	**100.0 %**	**$ 532,381**	**100.0 %**	**$ 91**	**100.0 %**	**$1,135,745**	**100.0 %**	**$ 1,841,499**	**100.0 %**

Table 16: Single Family Mortgages by Amortization Period at June 30, 2021

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 114,728	$ 166,780	$ 373,395	$ 134,493	$ 789,396
	14.6 %	21.1 %	47.3 %	17.0 %	100.0 %
Securitized	$ 260,871	$ 1,149,438	$ 24,238	$ —	$ 1,434,547
	18.2 %	80.1 %	1.7 %	— %	100.0 %
Total	**$ 375,599**	**$ 1,316,218**	**$ 397,633**	**$ 134,493**	**$ 2,223,943**
	16.9 %	**59.2 %**	**17.9 %**	**6.0 %**	**100.0 %**

Table 17: Single Family Mortgages by Amortization Period at December 31, 2020

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 116,987	$ 209,702	$ 287,265	$ 91,800	$ 705,754
	16.6 %	29.7 %	40.7 %	13.0 %	100.0 %
Securitized	$ 224,111	$ 881,872	$ 29,762	$ 0	$ 1,135,745
	19.8 %	77.6 %	2.6 %	0.0 %	100.0 %
Total	**$ 341,098**	**$ 1,091,574**	**$ 317,027**	**$ 91,800**	**$ 1,841,499**
	18.5 %	**59.3 %**	**17.2 %**	**5.0 %**	**100.0 %**

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

(in thousands except %) **For the Periods Ended**	**Q2 2021**	**Average LTV**	**Q2 2020**	**Average LTV**	**YTD 2021**	**Average LTV**	**YTD 2020**	**Average LTV**
Ontario	$147,239	69.5%	$ 45,760	70.6%	$244,953	69.9%	$ 94,123	70.2%
Alberta	17,418	70.4%	755	72.1%	19,386	70.7%	19,660	60.7%
British Columbia	2,715	74.8%	5,300	72.8%	8,454	66.1%	8,534	73.5%
Other	272	80.0%	—	—%	272	80.0%	110	61.8%
	$167,644	**69.7%**	**$ 51,815**	**70.8%**	**$273,065**	**69.8%**	**$122,427**	**68.9%**

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

	June 30 2021	**December 31 2020**
Corporate portfolio		
Single family mortgages		
Insured	74.1 %	78.5 %
Uninsured[1]	68.0 %	68.6 %
Uninsured - completed inventory	63.9 %	62.3 %
Construction loans		
Residential	61.5 %	59.0 %
Non-residential	64.7 %	64.7 %
Commercial loans		
Multi family residential	75.9 %	74.0 %
Other commercial	53.5 %	53.7 %
	66.0 %	65.7 %
Securitized portfolio	82.5 %	82.1 %
	74.3 %	73.5 %

[1] *MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 67.8% at June 30, 2021 (December 31, 2020 - 68.0%). Based on an industry index that incorporates current real estate values, the ratios would be 58.0% at June 30, 2021 (December 31, 2020 - 60.6%).*

Other Corporate Assets

Cash and Cash Equivalents

At June 30, 2021, our cash balance was $180 million (March 31, 2021 - $104 million; December 31, 2020 - $89 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. In times of uncertainty, we ensure that we take a prudent approach to liquidity management which may result in holding additional liquidity. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposit and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices.

Marketable Securities

Marketable securities, consisting of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At June 30, 2021, the portfolio balance was $70 million (March 31, 2021 - $60 million; December 31, 2020 - $50 million). During 2021, we purchased $10 million of REITs and had $10 million of fair value gains.

Non-Marketable Securities

We invest in the KSHYF, in which we have a 6.8% equity interest at June 30, 2021 (March 31, 2021 - 6.8%; December 31, 2020 - 6.8%). At June 30, 2021, the carrying value of our investment was $44 million (March 31, 2021 - $44 million; December 31, 2020 - $44 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages.

During 2019, we invested $18 million in Securitization Notes. At June 30, 2021, the carrying value of the Securitization Notes was $11 million (March 31, 2021 - $12 million; December 31, 2020 - $13 million) which reflects scheduled principal repayments. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022.

During 2021, we invested $2 million in KingSett Senior Mortgage Fund LP ("KSSMF") representing a 0.3% partnership interest, with an additional $14 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

During 2021, we invested $3 million in TAS LP 3 ("TAS") representing a 9.7% partnership interest, with an additional $7 million remaining commitment. TAS invests in, and develops, residential and mixed use properties.

During 2021, we invested $1 million in TAS LP 3 Co-Invest LP ("TAS Co") representing a 34.8% partnership interest, with an additional $4 million remaining commitment. TAS Co has a 25% interest in urban residential and mixed use property investments that are being developed under a repositioning plan.

Equity Investment in MCAP

We hold a 13.94% equity interest in MCAP (March 31, 2021 - 14.03%; December 31, 2020 - 14.03%), which represents 4.0 million units held by MCAN at June 30, 2021 (March 31, 2021 - 4.0 million; December 31, 2020 - 4.0 million) of the 28.7 million total outstanding MCAP partnership units (March 31, 2021 - 28.5 million; December 31, 2020 - 28.5 million).

The investment had a net book value of $93 million at June 30, 2021 (March 31, 2021 - $90 million; December 31, 2020 - $88 million). The Limited Partner's At-Risk Amount ("LP ARA")[1], which represents the cost base of the equity investment in MCAP for income tax purposes, was $84 million at June 30, 2021 (March 31, 2021 - $71 million; December 31, 2020 - $60 million). The difference between the net book value and the LP ARA[1] reflects an unrealized gain that, if realized, would be recognized as a capital gain.

During Q2 2021, we received $4.1 million of unitholder distributions from MCAP (Q2 2020 - $1.7 million). For year to date 2021, we have received $8.9 million of unitholder distributions from MCAP (year to date 2020 - $3.7 million) which is reflective of MCAP's higher income. As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

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

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

Other Securitization Assets

Other securitization assets include cash held in trust, which represents securitized mortgage principal and interest collections from borrowers that are payable to MBS holders.

Liabilities and Shareholders' Equity

Table 20: Liabilities and Shareholders' Equity

(in thousands except %)	June 30 2021	March 31 2021	Change (%)	December 31 2020	Change (%)
Corporate Liabilities					
Term deposits	$ 1,413,678	$ 1,251,116	13%	$ 1,234,769	14%
Loans payable	44,491	27,009	65%	—	n/a
Other liabilities	10,098	8,904	13%	4,825	109%
	1,468,267	**1,287,029**	**14%**	**1,239,594**	**18%**
Securitization Liabilities					
Financial liabilities from securitization	1,447,475	1,332,789	9%	1,142,609	27%
	1,447,475	**1,332,789**	**9%**	**1,142,609**	**27%**
	2,915,742	**2,619,818**	**11%**	**2,382,203**	**22%**
Shareholders' Equity					
Share capital	280,999	258,605	9%	234,635	20%
Contributed surplus	510	510	—%	510	—%
Retained earnings	107,793	97,754	10%	111,367	(3%)
	389,302	**356,869**	**9%**	**346,512**	**12%**
	$ 3,305,044	**$ 2,976,687**	**11%**	**$ 2,728,715**	**21%**

Term Deposits

Our primary source of funding for our corporate operations is the issuance of term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance. We source term deposits through a broker distribution network across Canada consisting of third party deposit agents and financial advisors. Deposits cannot be cashed prior to maturity or paid on demand except in the event of the death of a depositor or financial hardship. We believe that our term deposits provide a reliable low-cost funding source that can be strategically matched against the corporate mortgage portfolio. The role of term deposits in managing liquidity and funding risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Management" section of this MD&A.

Financial Liabilities from Securitization

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

Share Capital

Share capital activity for Q2 2021 reflects new common shares issued through the DRIP, Executive Share Purchase Plan and our rights offering.

To support our continued growth and maintain our targeted capital requirements, we offered rights to eligible holders of the Company's common shares of record at the close of business on May 12, 2021 which expired on June 10, 2021. On June 10, 2021, we issued 1,306,467 new common shares at a price of $15.65 per common share and raised gross proceeds of $20 million from our rights offering which was 2.96 times oversubscribed.

We issued 87,543 new common shares through the Dividend Reinvestment Plan ("DRIP") in Q2 2021 compared to 106,242 in Q2 2020. The DRIP participation rate for the Q2 2021 second quarter dividend was 17% (2021 first quarter - 17%; 2020 second quarter - 16%).

During Q2 2021, we issued 30,880 new common shares through the Executive Share Purchase Plan (Q2 2020 - 94,378).

For further information, refer to Note 12 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q2 2021 consists of net income of $19.4 million less dividends of $9.3 million. Retained earnings activity for year to date 2021 consists of a net income of $35.3 million less dividends of $38.9 million.

SELECTED QUARTERLY FINANCIAL DATA

Table 21: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19
Income Statement Highlights								
Mortgage interest - corporate assets	$16,543	$15,796	$17,115	$16,149	$15,409	$15,397	$14,910	$14,609
Net investment income (loss) - corporate assets	$24,390	$20,205	$25,704	$26,963	$12,649	$(5,022)	$14,839	$18,207
Mortgage interest - securitization assets	$ 7,266	$ 6,632	$ 6,461	$ 5,504	$ 4,786	$ 4,783	$ 4,950	$ 4,800
Net investment income - securitization assets	$ 1,570	$ 1,545	$ 1,694	$ 1,149	$ 389	$ 801	$ 1,015	$ 962
Net income (loss)	$19,378	$15,924	$22,086	$22,741	$ 7,796	$(9,730)	$10,550	$14,551
Basic and diluted earnings (loss) per share	$ 0.73	$ 0.64	$ 0.89	$ 0.92	$ 0.32	$ (0.40)	$ 0.44	$ 0.60
Dividends per share - cash	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.32	$ 0.32
Dividends per share - stock	$ —	$ 0.85	$ —	$ —	$ —	$ —	$ —	$ —
Return on average shareholders' equity [1]	21.28 %	18.15 %	25.92 %	28.04 %	9.96 %	(11.84)%	12.84 %	18.05 %
Taxable income per share [1,2]	$ 0.89	$ 0.85	$ 1.05	$ 0.48	$ 0.21	$ 0.71	$ 0.46	$ 0.28
Spreads								
Spread of corporate mortgages over term deposit interest [1]	2.89 %	2.76 %	2.76 %	2.63 %	2.48 %	2.62 %	2.63 %	2.48 %
Spread of securitized mortgages over liabilities [1]	0.72 %	0.81 %	0.89 %	0.81 %	0.44 %	0.63 %	0.72 %	0.72 %
Average term to maturity (in months)								
Mortgages - corporate	12.8	13.7	14.2	13.5	12.3	12.2	10.7	11.3
Term deposits	19.6	17.7	18.3	19.2	18.7	17.0	18.4	19.1
Balance Sheet Highlights ($ million)								
Total assets	$ 3,305	$ 2,977	$ 2,729	$ 2,566	$ 2,248	$ 2,212	$ 2,179	$ 2,200
Mortgages - corporate	$ 1,401	$ 1,287	$ 1,253	$ 1,310	$ 1,119	$ 1,188	$ 1,089	$ 1,097
Mortgages - securitized	$ 1,435	$ 1,327	$ 1,136	$ 961	$ 812	$ 752	$ 784	$ 771
Total liabilities	$ 2,916	$ 2,620	$ 2,382	$ 2,233	$ 1,931	$ 1,897	$ 1,849	$ 1,872
Shareholders' equity	$ 389	$ 357	$ 347	$ 333	$ 317	$ 315	$ 330	$ 328
Capital Ratios								
Income tax assets to capital ratio [1]	5.05	5.05	5.09	5.44	4.95	5.03	4.93	5.13
CET 1 & Tier 1 Capital ratios [1,5]	21.91 %	21.65 %	21.67 %	20.45 %	23.01 %	21.80 %	22.52 %	21.77 %
Total Capital ratio [1,5]	22.24 %	22.02 %	22.02 %	20.80 %	23.40 %	22.17 %	22.52 %	21.77 %
Leverage ratio [3]	9.59 %	9.69 %	10.17 %	10.26 %	11.46 %	11.70 %	12.58 %	12.28 %
Credit Quality								
Impaired mortgage ratio (corporate) [1, 4]	0.11 %	1.10 %	0.30 %	0.27 %	1.26 %	0.39 %	0.32 %	0.27 %
Impaired mortgage ratio (total) [1, 4]	0.07 %	0.55 %	0.18 %	0.17 %	0.77 %	0.28 %	0.23 %	0.18 %
Mortgage Arrears								
Corporate [1]	$ 8,968	$26,514	$24,288	$10,229	$36,083	$31,289	$12,161	$13,014
Securitized [1]	7,359	4,710	5,660	3,522	4,005	5,016	3,750	3,367
Total [1]	$16,327	$31,224	$29,948	$13,751	$40,088	$36,305	$15,911	$16,381
Common Share Information (end of period)								
Number of common shares outstanding	27,560	26,135	24,727	24,727	24,621	24,420	24,215	24,215
Book value of common share [1]	$ 14.13	$ 13.65	$ 14.01	$ 13.46	$ 12.88	$ 12.90	$ 13.64	$ 13.53
Common share price - close	$ 17.29	$ 16.46	$ 15.77	$ 13.41	$ 12.65	$ 12.18	$ 17.10	$ 15.95
Market capitalization ($ million) [1]	$ 477	$ 430	$ 390	$ 332	$ 311	$ 297	$ 414	$ 386

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *For further information refer to the "Taxable Income" section of this MD&A.*
[3] *Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.*
[4] *Effective January 1, 2019, we revised the impaired mortgage ratios to include insured mortgages in the numerator such that the ratios are equal to impaired mortgages divided by portfolio balance. Prior period ratios have been restated.*
[5] *Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.*

Corporate net investment income (loss) has been driven by multiple factors. The main drivers relate to COVID-19 impacts including a lower interest rate environment, volatility in the fair value of our REIT portfolio and an overall increase in our provision for credit losses. Other factors include higher average corporate mortgage portfolio balances and higher equity income from MCAP since the second half of 2020.

Since 2019, the corporate portfolio mix has shifted towards single family mortgages mainly due to our objective of balancing the risk profile of our balance sheet and amidst COVID-19 and a competitive market. Term deposit funding and related costs also increased through this period to support corporate asset growth. In Q2 2020, the combination of these two factors as well as market disruption experienced in the term deposit market due to COVID-19 contributed to the decrease in the spread of corporate mortgages over term deposit interest[1]. In late 2020, term deposit funding and related costs began to decrease through this period and we saw a gradual increase in the spread of corporate mortgages over term deposit interest[1] as noted previously.

The size of the securitized mortgage portfolio has increased due to increased volume of insured single family mortgage originations. As a result of a decline in interest rates in 2020, there was an increase in the number of early repaid mortgages. This impacted the net securitized mortgage spread income[2] and spread of mortgages over liabilities[2] during late Q1 2020 and into Q2 2020 due to indemnity expenses incurred on early repaid mortgages that were higher than penalty income received. Since Q2 2020, the number of early repaid mortgages has declined and the spread of mortgages over liabilities[2] has widened accordingly. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly over the last six months. We participate in this market opportunistically.

Capital ratios have remained relatively steady across the last eight quarters as our tax-adjusted and risk-weighted assets have generally aligned with our capital base. The downward trend in our leverage ratio is driven by our growing assets, including securitization assets, and commitments compared to a slower moving capital base.

Total arrears and impaired ratios have varied on a quarterly basis given the nature of the 1-30 day arrears. Higher balances in Q2 2020 were due to an impaired construction mortgage where an asset recovery program was initiated and subsequently completed in Q3 2020, recovering fully all past due interest and principal. The increase in arrears in Q4 2020 and into Q1 2021 is mainly due to one construction mortgage where an asset recovery program was initiated. We recovered all past due interest and principal in Q2 2021. The circumstances of both construction mortgages were unrelated to COVID-19.

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

CAPITAL MANAGEMENT

Our primary capital management objectives are to maintain sufficient capital for regulatory purposes and to earn acceptable and sustainable risk-weighted returns for our shareholders. Through our risk management and corporate governance framework, we assess current and projected asset growth, economic conditions, housing market activity, the interest rate environment and changes to credit quality to determine appropriate levels of capital. We expect to pay out all of MCAN's non-consolidated taxable income over time through dividends subject to final review and declaration by the Board. Capital growth is achieved through retained earnings, the DRIP, Executive Share Purchase Plan, rights offerings, public share offerings and stock dividends. Our capital management is primarily driven by the guidelines set out by the Tax Act and OSFI.

Income Tax Capital

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

Table 22: Income Tax Capital [1]

(in thousands except ratios)

	June 30 2021	December 31 2020
Income tax assets [1]		
Consolidated assets	$ 3,305,044	$ 2,728,715
Adjustment for assets in subsidiaries	(26,521)	16,117
Non-consolidated assets in MIC entity	3,278,523	2,744,832
Add: corporate mortgage allowances	5,974	6,061
Less: securitization assets [2]	(1,469,548)	(1,160,073)
Adjustments to equity investments in MCAP and subsidiaries	(31,421)	(55,581)
Other adjustments	(9,334)	2,013
	$ 1,774,194	$ 1,537,252
Income tax liabilities [1]		
Consolidated liabilities	$ 2,915,742	$ 2,382,203
Adjustment for liabilities in subsidiaries	(47,267)	(6,183)
Non-consolidated liabilities in MIC entity	2,868,475	2,376,020
Less: securitization liabilities [2]	(1,445,736)	(1,140,991)
	$ 1,422,739	$ 1,235,029
Income tax capital [1]	$ 351,455	$ 302,223
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.05	5.09
Income tax liabilities to capital ratio	4.05	4.09

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *The majority of securitization assets and liabilities on the balance sheet are excluded from income tax assets, liabilities and capital as they are derecognized for income tax purposes.*

Regulatory Capital

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

Both OSFI and the Basel Committee on Banking Supervision promote a resilient banking sector and strong global capital standards. Key components of Basel III impact MCAN through the Capital Adequacy Requirements and Leverage Requirements Guidelines.

Our CET 1 capital consists of share capital, contributed surplus and retained earnings. We do not hold any additional Tier 1 capital instruments; therefore, our CET 1 capital is equal to our Tier 1 capital. Our Tier 2 capital consists of Stage 1 and Stage 2 mortgage allowances calculated under IFRS, a portion of which is allowed to be included in CET 1 under OSFI transitional arrangements issued March 27, 2020. Total Capital equals CET 1 or Tier 1 capital plus Tier 2 capital. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% CET 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital.

At June 30, 2021, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 23: Regulatory Capital

(in thousands except %)

	June 30 2021	December 31 2020
Regulatory Ratios (OSFI)		
Share capital	$ 280,999	$ 234,635
Contributed surplus	510	510
Retained earnings	107,793	111,367
Deduction from equity investment in MCAP [2]	(54,291)	(53,475)
Eligible Stage 1 and Stage 2 mortgage allowances [4]	928	1,364
Common Equity Tier 1 and Tier 1 Capital [4] (A)	335,939	294,401
Tier 2 Capital [4]	5,051	4,707
Total Capital [4] (D)	$ 340,990	$ 299,108
Total Exposure/Regulatory Assets [1]		
Consolidated assets	$ 3,305,044	$ 2,728,715
Less: deduction for equity investment in MCAP [2]	(54,291)	(53,475)
Other adjustments [3]	2,387	3,018
Total On-Balance Sheet Exposures	3,253,140	2,678,258
Mortgage and investment funding commitments (50%)	231,367	197,069
Letters of credit (50%)	17,948	19,552
Total Off-Balance Sheet Items	249,315	216,621
Total Exposure/Regulatory Assets (B)	$ 3,502,455	$ 2,894,879
Leverage ratio [1] **(A / B)**	9.59 %	10.17 %
Risk-weighted assets [1] **(C)**	$ 1,533,236	$ 1,358,261
Regulatory Capital Ratios [1]		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	21.91 %	21.67 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	21.91 %	21.67 %
Total capital to risk-weighted assets ratio **(D / C)**	22.24 %	22.02 %

[1] *Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.*
[2] *The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 mortgage allowances.*
[3] *Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.*
[4] *Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.*

Table 24: Regulatory Risk-Weighted Assets

(in thousands except %)	June 30, 2021			December 31, 2020		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 179,666	20 %	$ 36,411	$ 88,929	21 %	$ 18,389
Cash held in trust	45,399	20 %	9,080	29,610	20 %	5,922
Marketable securities	69,922	100 %	69,922	49,613	100 %	49,613
Mortgages - corporate	1,401,290	62 %	870,030	1,252,762	62 %	775,093
Mortgages - securitized	1,434,547	6 %	80,311	1,135,745	5 %	59,146
Non-marketable securities	60,192	181 %	108,873	56,117	173 %	97,020
Equity investment in MCAP Commercial LP	93,314	42 %	39,023	88,263	39 %	34,788
Deferred tax asset	2,001	100 %	2,001	407	100 %	407
Other assets	18,713	100 %	18,713	27,269	100 %	27,269
			1,234,364			1,067,647
Off-Balance Sheet Items						
Letters of credit	35,896	50 %	17,948	39,105	50 %	19,553
Commitments	462,734	34 %	156,236	394,139	38 %	151,598
			174,184			171,151
Charge for operational risk [1]			124,688			119,463
Risk-Weighted Assets			**$ 1,533,236**			**$ 1,358,261**

[1] *We use the basic indicator approach for operational risk, which is equal to 15% of the previous three-year average of net investment income from corporate and securitized assets excluding provisions for credit losses multiplied by a factor of 12.5.*

RISK MANAGEMENT

Effective risk management and an established risk management framework support a strong risk culture and help the Company provide sustainable growth and returns while maintaining an appropriate balance between risk and return. The Enterprise Risk Management Framework ("ERMF") outlines the Company's risk management structure, including the Three-Lines-of-Defence model, emphasizes accountabilities, and supports a common understanding among all key stakeholders of how the Company manages its risks.

Major Risk Types

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

The shaded areas of this MD&A represent a discussion of risk factors and risk management policies and procedures relating to liquidity, credit, 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 interim consolidated financial statements.

The Company's operations could also be adversely affected by the impact of global health pandemics such as the outbreak and continuing impact of COVID-19. As indicated previously, the COVID-19 pandemic has cast uncertainty on the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, level of housing activity and household debt service levels. Significant uncertainties exist with respect to the severity and duration of the pandemic, and regulations, restrictions and the effectiveness of stimulus and other policy measures implemented by the government in minimizing the impact of the pandemic.

As a response to COVID-19, the Company enhanced the oversight of its portfolio and operations with more frequent monitoring and management activities to proactively identify and address emerging risks. The Company continues to monitor the evolving pandemic and has oversight with respect to its effects on operations and the Company. Additionally, we increased the frequency of reporting to and interaction with the Board to facilitate their role in providing oversight as information and developments are fluid. The Company's management is prepared to continue to adapt to the situation and will take necessary actions to protect the Company's business while keeping the safety of the Company's employees and other stakeholders at the centre of all decision-making.

To date, we have prioritized protecting our capital and liquidity, as well as ensuring core business activities are uninterrupted.

For a complete discussion of risks to which the Company is exposed, refer to the "Risk Management" section of the 2020 Annual MD&A.

Liquidity and Funding Risk

Liquidity and funding risk is the risk that cash inflows including the ability to raise term deposits and access to other sources of funding, supplemented by assets readily convertible to cash, will be insufficient to honour all cash outflow commitments (both on- and off-balance sheet) as they come due.

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held (including insured single family mortgages, which are readily marketable within a time frame of one to three months), together with our ability to raise new deposits and other funding sources, is sufficient to meet our funding commitments, deposit maturity obligations, and other financial obligations.

The Board is accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF details the daily, monthly and quarterly analyses that are performed by management, and includes a framework for daily funding requirements, gap analysis between assets and liabilities, deposit concentration levels, liquidity risk limits, and stress testing requirements, in alignment with both the standards set under the Trust Act and regulations or guidelines issued by OSFI. Further to the LRMF, the Company maintains a Contingency Funding Plan that details the strategies and action plans to respond to stress events that could materially impair its access to funding and liquidity. As a result of COVID-19, the Company's Contingency Funding Plan was invoked.

Asset-Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). At June 30, 2021, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN's stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. At June 30, 2021, the Company held sufficient liquidity and maintained the ability to fund obligations over the forecast period under the stress test scenarios.

We have access to liquidity 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.

The Company maintains a demand loan revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is $120 million. On July 21, 2021, the facility limit was temporarily increased to $160 million until September 30, 2021.

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

In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a $50 million senior secured mortgage warehouse facility that bears interest at either prime plus 0.05% or BAs plus 1.05%. The facility is used to fund insured single family mortgages prior to securitization activities. This facility provides improved funding in response to our continued growth.

In May 2021, the Company entered into an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby the Company can sell to MCAP Securities Limited Partnership insured single family mortgage commitments. This agreement provides liquidity and the opportunity to fund other core business activities in line with our strategy.

As a response to COVID-19, the Company has enhanced monitoring and reporting of its liquidity risk profile, its respective funding markets such as the term deposit and securitization market and its liquidity risk position.

OSFI's Liquidity Adequacy Requirements ("LAR") guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics. At June 30, 2021, we were in compliance with the LCR and NCCF metrics.

Our sources and uses of liquidity are outlined in the table below. For information on our off-balance sheet commitments refer to the "Off-Balance Sheet Arrangements" section of this MD&A.

Table 25: Liquidity Analysis

(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	June 30 2021
Sources of liquidity						
Cash and cash equivalents	$ 179,666	$ —	$ —	$ —	$ —	$ 179,666
Marketable securities	69,922	—	—	—	—	69,922
Mortgages - corporate	219,441	666,446	424,724	61,382	29,297	1,401,290
Non-marketable securities	—	—	10,686	—	49,506	60,192
Other loans	4,005	—	—	—	—	4,005
	473,034	666,446	435,410	61,382	78,803	1,715,075
Uses of liquidity						
Term deposits	165,095	485,385	554,723	208,475	—	1,413,678
Loans payable	44,491	—	—	—	—	44,491
Other liabilities	4,535	563	1,605	1,859	1,536	10,098
	214,121	485,948	556,328	210,334	1,536	1,468,267
Net liquidity surplus (deficit)	**$ 258,913**	**$ 180,498**	**$ (120,918)**	**$ (148,952)**	**$ 77,267**	**$ 246,808**

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

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 investments 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 risk is managed through prudent risk management policies and procedures that emphasize the quality and diversification of our investments and lending activities. Credit policies include credit risk limits in alignment with the Risk Appetite Framework ("RAF"). These credit risk limits include, but are not limited to, concentration by asset class, geographic region, dollar amount and borrower. These policies are amended on an ongoing basis and approved by the Board to reflect changes in market conditions and risk appetite.

Capital Commitments Committee, which is comprised of management, is accountable for decision-making on credit risk issues and provides oversight of proposed investments for the construction, commercial and marketable and non-marketable securities portfolios.

Credit and commitment exposure are closely monitored by the First and Second Lines of Defence. The Risk and Compliance Committee, which is comprised of management, monitors and challenges credit risk exposures, monitors portfolio and underwriting quality and performance against credit risk limits on a monthly basis, and the ERM&CC reviews all material risks affecting the Company on a quarterly basis, which includes the identification, assessment, and monitoring of material credit risks.

We identify potential risks in our mortgage portfolio by way of regular review of market and portfolio metrics, which are a key component of quarterly market reports provided to the Board by management. Existing risks in our mortgage portfolio are identified by arrears reporting, portfolio diversification analysis, post funding monitoring and risk rating trends of the entire mortgage portfolio. The aforementioned reporting and analysis provide adequate monitoring of and control over our exposure to credit risk.

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at June 30, 2021, there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 5 to the interim consolidated financial statements.

The maximum credit exposure on our individual financial assets is equal to the carrying value of the respective assets, except for our corporate mortgage portfolio, where maximum credit exposure also includes outstanding commitments for future mortgage fundings and our investments in non-marketable securities, where maximum credit exposure includes our total remaining commitments.

As a response to COVID-19, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears reporting and pipeline monitoring. Employment levels have, and may continue to be, impacted due to the national response to the pandemic, which may adversely impact the ability of borrowers to make timely payments on mortgages. The Company participated in mortgage deferral programs in 2020 for borrowers and implemented appropriate measures to support these borrowers when their payment deferral periods ended, which included increased amortizations and other payment arrangements. The Company enhanced the oversight of this particular portfolio of borrowers with more frequent monitoring and management activities to proactively identify and address risks. We are not seeing significant credit deterioration or prolonged financial distress among these borrowers. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term.

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on- and off-balance sheet, have mismatched repricing and maturity dates. Changes in interest rates where we have mismatched repricing and maturity dates may have an adverse effect on our financial condition and results of operations. Risk factors that MCAN regularly considers are credit spread, gap, basis and yield curve risks.

The Interest Rate Risk Management Framework, which is reviewed and approved by the Board, details MCAN's interest rate risk measurement tools, including stress testing, roles and accountabilities, and monitoring and reporting requirements. Additionally, it establishes appropriate interest rate risk limits and articulates appetite for interest rate exposures.

We evaluate our exposure to a variety of changes in interest rates across the term spectrum of our assets and liabilities including, both parallel and non-parallel changes in interest rates. By managing and strategically matching the terms of corporate assets and term deposits, 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 an interest rate spread and gap analysis as well as an interest rate sensitivity analysis based on various scenarios. This information is also formally reviewed by the Board each quarter.

We are exposed to interest rate risk on insured single family mortgages between the time that a mortgage rate is committed to borrowers and the time that the mortgage is funded, and, in the case of mortgages securitized through the market MBS or CMB programs, the time that the mortgage is securitized. To manage this risk, we may employ various hedging strategies.

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at June 30, 2021 would have an estimated positive effect of $2.9 million (March 31, 2021 - positive effect of $1.4 million; December 31, 2020 - positive effect of $4.1 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at June 30, 2021 would have an estimated adverse effect of $0.6 million (March 31, 2021 - positive effect of $0.1 million; December 31, 2020 - positive affect of $0.1 million) to net income over the following twelve month period. The reason for the large differential between our downside risk and our upside risk is due to our construction portfolio, which mostly all have interest rate floors.

We have an integrated balance sheet approach to interest rate risk and our management of liquidity and funding risk. We expect that the impact of an immediate and sustained interest rate change would normally be partially mitigated by the effect of changes in interest rates on the value of other financial instruments, such as marketable securities, given our balance sheet composition. Under normal circumstances, an immediate and sustained parallel 1% increase to market interest rates would be expected to have a negative impact on our marketable securities (which consist of our REIT portfolio); however, given these unprecedented times as a result of COVID-19, an immediate and sustained parallel 1% increase to market interest rates could signal a stronger economy and lead to an increase in the value of our marketable securities.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at June 30, 2021 and December 31, 2020 and do not incorporate mortgage and loan prepayments. This 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 changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest sensitive includes marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 26: Interest Rate Sensitivity at June 30, 2021

At June 30, 2021 (in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$652,746	$161,568	$492,878	$197,849	$ 61,392	$ 78,719	$ 171,654	$ 1,816,806
Securitization	45,399	22,008	65,939	187,094	1,159,506	—	8,292	1,488,238
	698,145	183,576	558,817	384,943	1,220,898	78,719	179,946	3,305,044
Liabilities								
Corporate	44,491	165,095	485,385	554,723	208,475	—	10,098	1,468,267
Securitization	—	13,130	74,844	180,317	1,179,184	—	—	1,447,475
	44,491	178,225	560,229	735,040	1,387,659	—	10,098	2,915,742
Shareholders' Equity	—	—	—	—	—	—	389,302	389,302
GAP	**$653,654**	**$ 5,351**	**$ (1,412)**	**$(350,097)**	**$(166,761)**	**$ 78,719**	**$ (219,454)**	**$ —**
YIELD SPREAD	**1.32 %**	**2.79 %**	**1.94 %**	**1.67 %**	**0.93 %**	**7.42 %**		

Table 27: Interest Rate Sensitivity at December 31, 2020

At December 31, 2020 (in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$413,977	$199,490	$393,550	$242,439	$ 70,568	$ 80,196	$ 156,089	$ 1,556,309
Securitization	29,610	5,198	78,310	168,243	883,994	—	7,051	1,172,406
	443,587	204,688	471,860	410,682	954,562	80,196	163,140	2,728,715
Liabilities								
Corporate	—	123,727	426,047	519,630	165,365	—	4,825	1,239,594
Securitization	—	8,617	69,403	173,141	891,448	—	—	1,142,609
	—	132,344	495,450	692,771	1,056,813	—	4,825	2,382,203
Shareholders' Equity	—	—	—	—	—	—	346,512	346,512
GAP	**$443,587**	**$ 72,344**	**$(23,590)**	**$(282,089)**	**$(102,251)**	**$ 80,196**	**$ (188,197)**	**$ —**
YIELD SPREAD	**4.08 %**	**2.71 %**	**2.05 %**	**1.86 %**	**1.13 %**	**6.56 %**		

Future Regulatory Changes

In May 2019, OSFI issued revisions to Guideline B-12 - *Interest Rate Risk Management*, which provides guidance on the Basel Committee on Banking Supervision's interest rate risk in the banking book measures, standardized stress scenarios, and enhancements to governance processes, controls and modelling. The Company will adopt these revised requirements on January 1, 2022.

Market Risk

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

Our marketable and non-marketable securities portfolios are 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. Portfolio reporting is submitted to management on a regular basis and to the Board on a quarterly basis.

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices, including in the REIT sector. In 2021, there was a rebound in REIT prices amid optimism around the impending economic outlook; however, volatility may continue given the introduction of new variants and the ongoing vaccine rollout.

Operational Risk

Operational risk is the potential for loss resulting from people, inadequate or failed internal processes, systems, or from external events.

The Operational Risk Management Framework ("ORMF") covers all components of MCAN's operational risk management including processes and control activities to ensure adherence with business and regulatory requirements. The ORMF sets out an integrated approach to identify, measure, monitor, manage and report on known and emerging operational risks. Management and the Board review operational risk on a quarterly basis.

As a response to COVID-19, the Company has taken proactive actions to protect the health and well-being of our employees by implementing a company-wide remote working policy. To ensure operational resiliency, the Company has enhanced and implemented its Business Continuity Plan, bolstered its employee communications, provided effective tools to work from home, and has increased training on cybersecurity risks and other areas where appropriate.

Outsourcing Risk

Within operational risk, outsourcing risk is the risk of losses resulting from: a) inadequate levels of services provided by third parties; or b) suddenly unavailable services by third parties that are not readily replaceable. We outsource the majority of our construction and commercial mortgage origination, mortgage servicing and collections to MCAP and other third parties. There is a risk that the services provided by third parties will fail to adequately meet our standards. The outbreak of COVID-19 may also have an adverse impact on the operations of third parties and their abilities to meet their obligations with the Company.

The Company's Outsourcing Policy incorporates the relevant requirements of OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*. We regularly review our outsourced arrangements to determine if an arrangement is material and to assess the overall risk inherent in that arrangement. All outsourced arrangements are subject to a risk management program, which includes detailed monitoring activities. If an outsourced arrangement is material, it is subjected to an enhanced risk management program.

Information Technology and Cybersecurity Risk

Within operational risk, cybersecurity risk is the risk of information loss due to the compromise of client confidentiality, unauthorized access and use of MCAN's systems, and disruption to business as usual practices.

We collect and store confidential and personal information to the extent needed for operational purposes. Risk factors include unauthorized access to the Company's computer systems or data which could result in the theft or publication of confidential information, the deletion or modification of records or could otherwise cause interruptions in the Company's operations.

Despite the Company's implementation of security measures, its systems could be vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attacks 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 the Company's network security is penetrated or its sensitive data is misappropriated, 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.

In order to protect our employees' well-being during the COVID-19 pandemic, our business operations are being conducted remotely, which may impact the Company's perimeter security, physical security of Company devices, employee physical access to Company networks and systems and an increased risk of unauthorized access to, or disclosure of, personal information via COVID-19 themed attacks in the form of phishing emails.

The IT Management Committee, which is comprised of management, is accountable for overseeing technology and cybersecurity risk exposures and management activities. The IT Management Committee reports cybersecurity risks to the Audit Committee. We also use external third party advisors and service providers to provide technical expertise, to assist with periodic cybersecurity assessments and to continuously monitor our IT infrastructure for cybersecurity risks. We have periodically undertaken external vulnerability tests performed by an independent external party. We maintain a Cybersecurity Incident Response Plan and have designated officers responsible for the oversight of cybersecurity risks. We also maintain cybersecurity insurance coverage for both direct and third party coverage in the event of a cybersecurity incident that would result in a loss.

Model Risk

Model risk is the risk of potential adverse consequences from decisions based upon inaccurate or inappropriate model outputs, taking into account all errors at any point from design through implementation.

The Model Risk Management Policy describes the overarching principles that provide the framework for managing model risk in a sound and prudent manner. All models are subject to a periodic review based on model complexity and model materiality ratings. Periodic assessment of models is a key element of the ongoing validation phase of the model life-cycle.

Risk of Accuracy and Completeness of Borrower Information

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

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

The Canadian mortgage industry periodically experiences falsification of supporting documents provided to lenders in the mortgage underwriting process. The implementation of significant changes to regulatory requirements reduces the number of borrowers that qualify for new mortgages, which increases the risk of document falsification. Employment levels have, and may continue to be, adversely impacted due to the national response to the COVID-19 pandemic. This may adversely impact the ability of borrowers to qualify for new mortgages, which increases the risk of document falsification.

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

Regulatory Compliance Risk

Regulatory compliance risk arises from the Company's potential non-conformance with existing and new laws, rules, regulations, prescribed practices, or ethical standards in any jurisdiction in which it operates. Regulatory compliance risk also arises from the exercise of discretionary oversight by regulatory or other competent authorities that may adversely affect the Company, including by limiting the products or services that the Company provides, restricting the scope of its operations or business lines, limiting pricing and availability of products in the market, increasing the ability of competitors to compete with its products and services or requiring it to cease carrying on business. The Company's failure to comply with applicable laws and regulations may result in sanctions and financial penalties that could adversely impact its earnings and damage its reputation. Increasing regulations and expectations, both globally and domestically, have increased the cost and resources necessary to meet regulatory expectations for the Company.

The Company's Chief Compliance Officer, Chief Anti Money Laundering Officer & Privacy Officer independently oversees the adequacy of, adherence to, and effectiveness of day-to-day compliance procedures in alignment with the Company's Regulatory Compliance Management Framework. Additionally, the Risk and Compliance Committee and the Board review and effectively challenge regulatory compliance risk-related reports on a quarterly basis.

Strategic Risk

Strategic risk is the risk of loss due to fluctuations in the external business environment, and the failure of management to adjust its strategies, business model and business activities to adapt or respond appropriately.

Strategic risk factors generally arise from either choosing the wrong strategy, or poor execution of the right strategy. The inability to proactively develop business strategies, plans or clearly define objectives, or failure to develop internal capabilities can also result in strategic risk.

Strategic risk is managed by the CEO and management. The Board approves the Company's strategies at least annually and reviews results and needed changes as applicable against those strategies regularly. Strategies are aligned to be consistent with the RAF, regulatory and other internal requirements.

Reputational Risk

Reputational risk is a risk of loss or adverse impacts resulting from damages to MCAN's reputation, regardless of whether the facts that underlie the event are true or not.

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

The Company believes that the most effective way to safeguard its public reputation is through embedding successful processes and controls, along with the promotion of appropriate conduct, risk culture and risk management. Reputational risk is mitigated by management of the underlying risks in the business and is monitored and reported to the Board on a quarterly basis.

Other Risk Factors

Reliance on Key Personnel

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

Mortgage Renewal and Prepayment Risk

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

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment obligation. For further information on the Timely Payment obligation, refer to Note 9 to the interim consolidated financial statements. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

Economic and Geopolitical Conditions

Factors that could impact the overall market and economic stability of the Company's operations include changes in short-term and long-term interest rates, commodity prices, international trade, inflation, consumer confidence, business and government spending, real estate market activity, real estate prices and adverse economic events. Though the nature and extent of these risks may vary depending on circumstances, an increased level of uncertainty for economic growth and market volatility in interest rates may arise. Our inability to respond to changes effectively may have an adverse effect on our financial condition and results of operations.

Competition Risk

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

Qualification as a Mortgage Investment Corporation

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

Capital Adequacy Risk

Capital adequacy risk is the risk that the Company does not hold sufficient capital to manage Company-wide risks and unexpected financial losses. Refer to the "Capital Management" section of this MD&A for further information. The Company's capital adequacy risk is monitored and managed by the CFO and overseen by the Board.

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 an environmental policy and procedures to our commercial and development lending activities.

General Litigation

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

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

Changes in Accounting Standards and Accounting Policies

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At June 30, 2021, there were 27,559,606 common shares outstanding (March 31, 2021 - 26,134,716; December 31, 2020 - 24,727,145). At August 12, 2021, there were 27,559,606 common shares outstanding.

During Q2 2021, we issued 30,880 new common shares through the Executive Share Purchase Plan (Q2 2020 - 94,378).

We issued 87,543 new common shares in Q2 2021 (Q2 2020 - 106,242) under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN.

In order to support our continued growth and maintain our targeted capital requirements, we offered rights to eligible holders of our common shares of record at the close of business on May 12, 2021 which expired on June 10, 2021. On June 10, 2021, we issued 1,306,467 new common shares at a price of $15.65 per common share and raised gross proceeds of $20 million from our rights offering which was 2.96 times oversubscribed.

For additional information related to share capital, refer to Note 12 to the interim consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to outstanding commitments for future fundings of corporate mortgages and our investments in non-marketable securities. Only a portion of the mortgage commitments that we issue are expected to fund. Accordingly, these amounts do not necessarily represent the future cash requirements of the Company.

Table 28: Contractual Commitments

(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	June 30 2021
Mortgage funding commitments	$ 228,799	$ 110,077	$ 76,114	$ —	$ —	$ 414,990
Commitment - TAS	—	—	4,910	1,741	312	6,963
Commitment - TAS Co	—	2,000	1,875	—	—	3,875
Commitment - KSSMF	—	9,375	4,125	—	—	13,500
Commitment - KSHYF	184	1,028	—	—	22,194	23,406
	$ 228,983	**$ 122,480**	**$ 87,024**	**$ 1,741**	**$ 22,506**	**$ 462,734**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At June 30, 2021, these derecognized securitized insured multi family mortgages totalled $108 million. For further information on our securitization activities, refer to Note 9 to the interim consolidated financial statements.

We provide letters of credit, which are not reflected on the interim consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 17 to the interim consolidated financial statements.

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6 million. On December 11, 2020, a trial on this matter resulted in a court judgment to dismiss the claim with $0.3 million in costs to be paid by the plaintiff. On January 11, 2021, the plaintiff appealed. On March 24, 2021, the Court dismissed the appeal because of a delay. MCAP was awarded a judgment for approximately $0.5 million against the same plaintiff in related proceedings. We may be obligated to indemnify MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, we do not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly have not recorded a provision.

DIVIDENDS

On August 12, 2021, the Board declared a quarterly dividend of $0.34 per share to be paid on September 30, 2021 to shareholders of record as at September 15, 2021.

On March 13, 2020, OSFI instructed all federally regulated financial institutions that dividend increases should be halted for the time being. An increase in dividends is defined as an increase in the total dollar amount of dividends paid after March 13, 2020 and non-cash dividends such as stock dividends are not included in the limitation.

In order to take advantage of the tax benefits provided by its MIC status, we typically pay out substantially all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. The Company has historically paid out dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares, which would conform with OSFI's current restriction on increasing cash dividends. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended June 30, 2021 and June 30, 2020 and related party balances at June 30, 2021 and December 31, 2020 are discussed in Notes 8 and 16 to the interim consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

At June 30, 2021, we had 124 team members (March 31, 2021 - 118; December 31, 2020 - 112).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

For a detailed discussion of critical accounting estimates and judgments, refer to the "Critical Accounting Estimates and Judgments" section of the 2020 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At June 30, 2021, the President and CEO, and CFO of MCAN, with the assistance of the Company's Disclosure Committee comprised of members of management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

As a result of changes to our operations due to the impact of COVID-19, we have automated certain of our internal controls over financial reporting. There were no changes in our ICFR during the interim period ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our control framework.

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.

NON-IFRS MEASURES

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

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

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

Average Interest Rate
The average interest rate is a profitability measure that presents the average annualized interest rate of an asset or liability. Mortgage portfolio average interest rate (corporate and securitized), average term deposit interest rate, financial liabilities from securitization average interest rate, spread of corporate mortgages over term deposit interest and spread of securitized mortgages over liabilities are examples of average interest rates. The average asset or 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 or liability. Please refer to the applicable tables containing average balances for further details.

Net Corporate Mortgage Spread Income and Net Securitized Mortgage Spread Income
Net corporate mortgage spread income is calculated as the difference between corporate mortgage interest and term deposit interest and expenses. Net securitized mortgage spread income is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization.

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

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

Common Equity Tier 1, Tier 1, Tier 2 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios
These measures are calculated in accordance with guidelines issued by OSFI and are located on Table 23 of this MD&A and Note 18 to the interim consolidated financial statements.

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.

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 as of that date.

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, 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 on a tax basis, increased by the amount of capital contributions into the partnership and reduced by distributions received from the partnership.

CONSOLIDATED BALANCE SHEETS

(Unaudited) (in thousands of Canadian dollars)

	Note	June 30 2021	December 31 2020
Assets			
Corporate Assets			
Cash and cash equivalents		$ 179,666	$ 88,929
Marketable securities		69,922	49,613
Mortgages	6	1,401,290	1,252,762
Non-marketable securities	7	60,192	56,117
Equity investment in MCAP Commercial LP	8	93,314	88,263
Deferred tax assets		2,001	407
Other assets		10,421	20,218
		1,816,806	**1,556,309**
Securitization Assets			
Cash held in trust		45,399	29,610
Mortgages	10	1,434,547	1,135,745
Other assets	10	8,292	7,051
		1,488,238	**1,172,406**
		$ 3,305,044	**$ 2,728,715**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits		$ 1,413,678	$ 1,234,769
Demand loan payable	17	44,491	—
Other liabilities		10,098	4,825
		1,468,267	**1,239,594**
Securitization Liabilities			
Financial liabilities from securitization	11	1,447,475	1,142,609
		1,447,475	**1,142,609**
		2,915,742	**2,382,203**
Shareholders' Equity			
Share capital	12	280,999	234,635
Contributed surplus		510	510
Retained earnings		107,793	111,367
		389,302	**346,512**
		$ 3,305,044	**$ 2,728,715**

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

CONSOLIDATED STATEMENTS OF INCOME

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

For the Periods Ended June 30	Note	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Net Investment Income - Corporate Assets					
Mortgage interest		$ 16,543	$ 15,409	$ 32,315	$ 30,806
Equity income from MCAP Commercial LP	8	6,859	3,143	13,601	6,577
Non-marketable securities		1,377	1,610	2,760	3,156
Marketable securities		922	563	1,727	1,174
Fees		407	158	848	521
Interest on cash and other income		76	97	193	399
Net gain (loss) on securities		6,453	1,412	10,373	(14,276)
Gain on dilution of investment in MCAP Commercial LP	8	326	—	326	—
		32,963	**22,392**	**62,143**	**28,357**
Term deposit interest and expenses		7,472	8,306	15,028	16,314
Mortgage expenses	14	1,198	1,124	2,282	2,158
Interest on loans payable		214	74	279	215
Other financial expenses		125	—	125	—
Provision for (recovery of) credit losses	15	(436)	239	(166)	2,043
		8,573	**9,743**	**17,548**	**20,730**
		24,390	**12,649**	**44,595**	**7,627**
Net Investment Income - Securitization Assets					
Mortgage interest		7,266	4,786	13,898	9,569
Other securitization income		46	179	88	440
		7,312	**4,965**	**13,986**	**10,009**
Interest on financial liabilities from securitization		4,913	4,078	9,339	7,825
Mortgage expenses	14	829	487	1,552	982
Provision for (recovery of) credit losses	15	—	11	(20)	12
		5,742	**4,576**	**10,871**	**8,819**
		1,570	**389**	**3,115**	**1,190**
Operating Expenses					
Salaries and benefits		4,924	3,219	9,195	7,021
General and administrative		2,409	1,750	4,721	3,505
		7,333	**4,969**	**13,916**	**10,526**
Net Income (Loss) Before Income Taxes		**18,627**	**8,069**	**33,794**	**(1,709)**
Provision for (recovery of) income taxes					
Current		86	298	86	529
Deferred		(837)	(25)	(1,594)	(304)
		(751)	273	**(1,508)**	**225**
Net Income (Loss)		**$ 19,378**	**$ 7,796**	**$ 35,302**	**$ (1,934)**
Basic and diluted earnings (loss) per share		$ 0.73	$ 0.32	$ 1.38	$ (0.08)
Cash dividends per share		$ 0.34	$ 0.34	$ 0.68	$ 0.68
Stock dividends per share		$ —	$ —	$ 0.85	$ —
Weighted average number of basic and diluted shares (000's)		26,447	24,422	25,644	24,359

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited) (in thousands of Canadian dollars)

For the Periods Ended June 30	Note	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Share Capital					
Balance, beginning of period		$ 258,605	$ 230,724	$ 234,635	$ 228,008
Share capital issued	12	22,394	2,520	46,364	5,236
Balance, end of period		**280,999**	**233,244**	**280,999**	**233,244**
Contributed Surplus		**510**	**510**	**510**	**510**
Retained Earnings					
Balance, beginning of period		97,754	83,859	111,367	101,794
Net income (loss)		19,378	7,796	35,302	(1,934)
Dividends declared	12	(9,339)	(8,337)	(38,876)	(16,542)
Balance, end of period		**107,793**	**83,318**	**107,793**	**83,318**
Total Shareholders' Equity		**$ 389,302**	**$ 317,072**	**$ 389,302**	**$ 317,072**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (in thousands of Canadian dollars)

For the Periods Ended June 30	Note	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Cash flows from (for):					
Operating Activities					
Net income (loss)		$ 19,378	$ 7,796	$ 35,302	$ (1,934)
Adjustments to determine cash flows relating to operating activities:					
Deferred taxes		(837)	(25)	(1,594)	(304)
Equity income from MCAP Commercial LP	8	(6,859)	(3,143)	(13,601)	(6,577)
Gain on dilution of investment in MCAP Commercial LP	8	(326)	—	(326)	—
Provision for (recovery of) credit losses	15	(436)	250	(186)	2,055
Net (gain) loss on securities		(6,453)	(1,412)	(10,373)	14,276
Amortization of securitized mortgage and liability transaction costs		1,022	585	1,848	1,259
Amortization of other assets		171	180	360	394
Changes in operating assets and liabilities:					
Marketable securities		(3,536)	(2,881)	(9,936)	(2,881)
Corporate and securitized mortgages		(223,149)	7,685	(449,381)	(60,838)
Non-marketable securities		(2,063)	528	(4,075)	34,149
Other assets		(1,331)	(1,015)	8,316	(4,439)
Cash held in trust		(12,841)	6,270	(15,789)	5,109
Term deposits		162,562	(4,182)	178,909	66,558
Financial liabilities from securitization		114,823	56,471	305,258	28,628
Current taxes payable		—	298	—	529
Other liabilities		1,278	1,037	5,442	(626)
Cash flows from operating activities		**41,403**	**68,442**	**30,174**	**75,358**
Investing Activities					
Distributions from MCAP Commercial LP	8	4,061	1,731	8,876	3,711
Acquisition of capital and intangible assets		(85)	(102)	(119)	(169)
Cash flows from investing activities		**3,976**	**1,629**	**8,757**	**3,542**
Financing Activities					
Proceeds from issuance of common shares		20,275	—	20,275	—
Net change in demand loan		17,482	(19,107)	44,491	(5,053)
Repayment of premises lease liability		(87)	(83)	(171)	(165)
Dividends paid		(7,221)	(5,817)	(12,789)	(19,110)
Cash flows from (for) financing activities		**30,449**	**(25,007)**	**51,806**	**(24,328)**
Increase in cash and cash equivalents		75,828	45,064	90,737	54,572
Cash and cash equivalents, beginning of period		103,838	63,960	88,929	54,452
Cash and cash equivalents, end of period		**$ 179,666**	**$ 109,024**	**$ 179,666**	**$ 109,024**
Supplementary Information					
Interest received		$ 22,641	$ 19,494	$ 44,373	$ 39,845
Interest paid		7,453	6,452	19,853	20,198
Distributions received from securities		2,118	1,855	4,125	3,852

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note

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 is incorporated in Canada with its head office located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP.

MCAN's objective is to generate a reliable stream of income by investing in a diversified portfolio of Canadian mortgages, including single family residential, residential construction, non-residential construction and commercial loans, as well as other types of securities, loans and real estate investments, including our investment in MCAP Commercial LP ("MCAP"). MCAN employs leverage by issuing term deposits that are eligible for Canada Deposit Insurance Corporation deposit insurance and are sourced through a network of independent financial agents. The Company manages its capital and asset balances based on the regulations and limits of both the Tax Act and OSFI.

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

The interim consolidated financial statements were approved in accordance with a resolution of the Board of Directors (the "Board") on August 12, 2021.

2. Basis of Preparation

The interim consolidated financial statements of the Company have been prepared on a condensed basis in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These interim consolidated financial statements should be read in conjunction with the 2020 Annual Report.

The interim consolidated financial statements have been prepared on a historical cost basis, except for certain items carried at fair value as discussed in Note 4 to the Company's annual consolidated financial statements for the year ended December 31, 2020. The interim consolidated financial statements are presented in Canadian dollars.

The disclosures that accompany the interim consolidated financial statements include the significant accounting policies applied (Note 4) and the significant accounting judgments and estimates (Note 5) applicable to the preparation of the interim consolidated financial statements. Certain disclosures are included in the shaded sections of the "Risk Management" section of Management's Discussion and Analysis of Operations (the "MD&A"), as permitted by IFRS, and form an integral part of the interim consolidated financial statements.

The Company separates its assets into its corporate and securitization portfolios for reporting purposes. Corporate assets are funded by term deposits and share capital. Securitization assets consist primarily of mortgages that have been securitized through the *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program and subsequently sold to third parties in transactions that do not achieve derecognition of the mortgages. These assets are funded by the cash received from the sale of the associated securities, from which the Company records a financial liability from securitization.

3. Basis of Consolidation

The interim consolidated financial statements include the balances of MCAN and its wholly owned subsidiaries, after the elimination of intercompany transactions and balances. The Company consolidates those entities which it controls. The Company has control when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

4. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its interim consolidated financial statements are the same as those disclosed in Note 4 to the Company's annual consolidated financial statements for the year ended December 31, 2020 except as noted below:

Interest Rate Benchmark Reform – Phase 2 Amendments

As part of the IASB's standard setting activities related to the accounting issues arising from the interest rate benchmark reform to transition away from interbank offered rates ("IBORs") benchmarks to alternative reference rates ("ARRs"), referred to as the IBOR reform, the IASB published amendments to IFRS in two phases. On September 26, 2019, the IASB issued Interest Rate Benchmark Reform – Phase 1 which amended IFRS 9, *Financial Instruments* ("IFRS 9"), IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), and IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"). The Phase 1 amendments, which became effective on January 1, 2020 provided guidelines primarily for permitting continuation of hedge accounting for hedging relationships that reference IBORs which are expected to be replaced by ARRs. The Phase 1 amendments did not have a material impact on the Company's interim consolidated financial statements.

On August 27, 2020, the IASB published Interest Rate Benchmark Reform – Phase 2 which amended IFRS 9, IAS 39, IFRS 7, IFRS 4, *Insurance Contracts* and IFRS 16, *Leases*. The Phase 2 amendments, which became effective on January 1, 2021, provided guidelines for applying IFRS when changes are made to the contractual cash flows of financial instruments or hedging relationships as a result of IBOR reform. At June 30, 2021, the Company has determined that the IBOR reform Phase 2 amendments did not have a material impact on the Company's interim consolidated financial statements.

5. Summary of Significant Accounting Judgments and Estimates

The preparation of the Company's interim 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 affected assets or liabilities in future periods.

Significant influence

Significant influence represents the power to participate in the financial and operating policy decisions of an investee but does not represent control or joint control over the entity. In determining whether it has significant influence over an entity, the Company makes certain judgments to form the basis for the Company's policies in accounting for its equity investments. Although MCAN's voting interest in MCAP was less than 20% at June 30, 2021, 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.

Fair value of financial instruments

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

Impairment of financial assets

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

The Company groups its financial assets into stage 1, stage 2 and stage 3, depending on whether the assets are performing, in arrears or impaired. The Company's allowance for expected credit loss ("ECL") calculations are model outputs with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk which results in allowances being measured on a lifetime versus 12-month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;

(Dollar amounts in thousands except for per share amounts)

- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on Probability of Default, Loss Given Default, and Exposure at Default; and
- Forward-looking information used as economic inputs.

The Company may also make qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs, which represent accounting judgments and estimates which have been heightened due to the COVID-19 environment. Key judgments and estimates, including around probability weights to assign to each scenario and the impacts of government stimulus measures, will be heavily influenced by the extent and severity of the pandemic. These judgments and estimates have been made with reference to the facts, projections and other circumstances at the interim consolidated balance sheet dates. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Any new forward-looking information subsequent to the interim consolidated balance sheet dates are reflected in the measurement of provisions for credit losses in future periods, as appropriate.

Mortgage prepayment rates

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

6. Mortgages - Corporate

(a) Summary

	Gross	Allowance				Net
At June 30, 2021	**Principal**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Principal**
Corporate Portfolio:						
Single family mortgages						
Insured	$ 138,026	$ —	$ —	$ —	$ —	$ 138,026
Uninsured	619,179	1,943	336	62	2,341	616,838
Uninsured - completed inventory	34,992	402	58	—	460	34,532
Construction loans	535,329	2,780	73	—	2,853	532,476
Commercial loans						
Multi family residential	49,573	110	160	—	270	49,303
Other commercial	30,228	40	73	—	113	30,115
	$ 1,407,327	**$ 5,275**	**$ 700**	**$ 62**	**$ 6,037**	**$ 1,401,290**

	Gross	Allowance				Net
At December 31, 2020	**Principal**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Principal**
Corporate Portfolio:						
Single family mortgages						
Insured	$ 173,376	$ 3	$ —	$ —	$ 3	$ 173,373
Uninsured	485,765	1,513	663	157	2,333	483,432
Uninsured - completed inventory	49,654	500	205	—	705	48,949
Construction loans	489,432	2,609	191	—	2,800	486,632
Commercial loans						
Multi family residential	29,985	146	—	—	146	29,839
Other commercial	30,754	36	181	—	217	30,537
	$ 1,258,966	**$ 4,807**	**$ 1,240**	**$ 157**	**$ 6,204**	**$ 1,252,762**

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

(b) Mortgages by risk rating

The Company's internal risk rating system involves judgment and combines multiple factors to arrive at a borrower-specific score to assess the borrower's probability of default and ultimately classify the mortgage into one of the categories listed below. For single family mortgages, these factors include, but are not limited to, the loan to value ratio, the borrower's ability to service debt, property location and credit score. For construction, commercial and uninsured completed inventory loans, these factors include, but are not limited to, borrower net worth, project presales, experience with the borrower, project location, debt serviceability and loan to value ratio.

The internal risk ratings presented below are defined as follows:

- **Insured Performing:** Mortgages that are insured by a federally regulated mortgage insurer that are not in arrears or default.
- **Very Low/Low**: Mortgages that have below average probability of default with credit risk that is lower than the Company's risk appetite and risk tolerance levels.
- **Normal/Moderate:** Mortgages that have a standard probability of default with credit risk that is within the Company's risk appetite and risk tolerance levels.
- **High/Higher:** Mortgages that may have a higher probability of default but are within the Company's risk appetite or have subsequently experienced an increase in credit risk. The proportion of mortgages originated in this category is managed to the Company's overall risk appetite and tolerance levels.
- **Monitored/Arrears:** For single family mortgages, mortgages that are past due but less than 90 days in arrears or mortgages for which an escalated concern has arisen. For construction, commercial and uninsured completed inventory loans, mortgages where the performance trend is negative or where debt serviceability may be in jeopardy.
- **Impaired/Default**: Mortgages that are over 90 days past due or mortgages for which there is objective evidence of impairment.

(Dollar amounts in thousands except for per share amounts)

The table below shows the credit quality of the Company's corporate mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECL allowances are calculated on an impaired or performing basis is discussed in Note 4 to the Company's annual consolidated financial statements for the year ended December 31, 2020.

At	June 30, 2021				December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Single family mortgages								
Insured								
Insured performing	$ 131,712	$ 4,834	$ —	$ 136,546	$ 163,371	$ 8,054	$ —	$ 171,425
Monitored/Arrears	70	782	—	852	682	—	—	682
Impaired/Default	—	—	628	628	—	—	1,266	1,266
	131,782	5,616	628	138,026	164,053	8,054	1,266	173,373
Uninsured								
Very low/Low	238,418	33,217	—	271,635	176,324	28,924	—	205,248
Normal/Moderate	277,016	34,410	—	311,426	215,895	31,139	—	247,034
High/Higher	23,570	2,719	—	26,289	17,427	3,183	—	20,610
Monitored/Arrears	4,390	2,245	—	6,635	2,764	5,271	—	8,035
Impaired/Default	—	—	853	853	—	—	2,505	2,505
	543,394	72,591	853	616,838	412,410	68,517	2,505	483,432
Uninsured - completed inventory								
High/Higher	29,265	5,267	—	34,532	35,659	13,290	—	48,949
	29,265	5,267	—	34,532	35,659	13,290	—	48,949
Construction loans								
Normal/Moderate	—	—	—	—	12,842	—	—	12,842
High/Higher	525,160	3,517	—	528,677	453,555	4,676	—	458,231
Monitored/Arrears	—	3,799	—	3,799	—	15,559	—	15,559
	525,160	7,316	—	532,476	466,397	20,235	—	486,632
Commercial loans								
Multi family residential								
Very low/Low	10,020	—	—	10,020	—	—	—	—
Normal/Moderate	12,043	—	—	12,043	29,839	—	—	29,839
High/Higher	(9)	27,249	—	27,240	—	—	—	—
	22,054	27,249	—	49,303	29,839	—	—	29,839
Other								
Normal/Moderate	13,312	—	—	13,312	13,337	—	—	13,337
Monitored/Arrears	—	16,803	—	16,803	—	17,200	—	17,200
	13,312	16,803	—	30,115	13,337	17,200	—	30,537
	$1,264,967	**$ 134,842**	**$ 1,481**	**$1,401,290**	**$1,121,695**	**$ 127,296**	**$ 3,771**	**$1,252,762**

(Dollar amounts in thousands except for per share amounts)

(c) Mortgage allowances

Quarters Ended June 30	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Single family mortgages								
Insured								
Allowance, beginning of quarter	$ 1	$ —	$ —	$ 1	$ 1	$ —	$ —	$ 1
Net remeasurement of allowance [1]	(1)	—	—	(1)	1	—	—	1
Originations [4]	—	—	—	—	3	—	—	3
Mortgages derecognized or repaid [2]	—	—	—	—	(2)	—	—	(2)
Total provision (recovery)	(1)	—	—	(1)	2	—	—	2
Allowance, end of quarter	—	—	—	—	3	—	—	3
Uninsured								
Allowance, beginning of quarter	$ 2,097	$ 381	$ 96	$ 2,574	$ 580	$ 242	$ 59	$ 881
Transfer to stage 1 [3]	94	(94)	—	—	166	(166)	—	—
Transfer to stage 2 [3]	(183)	189	(6)	—	(193)	193	—	—
Transfer to stage 3 [3]	—	—	—	—	(29)	—	29	—
Net remeasurement of allowance [1]	(516)	(87)	11	(592)	504	431	117	1,052
Originations [4]	653	—	—	653	164	(23)	—	141
Mortgages derecognized or repaid [2]	(202)	(53)	(39)	(294)	(21)	(15)	(6)	(42)
Total provision (recovery)	(154)	(45)	(34)	(233)	591	420	140	1,151
Allowance, end of quarter	1,943	336	62	2,341	1,171	662	199	2,032
Uninsured - completed inventory								
Allowance, beginning of quarter	$ 388	$ 116	$ —	$ 504	$ 834	$ 43	$ —	$ 877
Net remeasurement of allowance [1]	(36)	(58)	—	(94)	(8)	(5)	—	(13)
Originations [4]	50	—	—	50	20	—	—	20
Mortgages derecognized or repaid [2]	—	—	—	—	(14)	—	—	(14)
Total provision (recovery)	14	(58)	—	(44)	(2)	(5)	—	(7)
Allowance, end of quarter	402	58	—	460	832	38	—	870
Construction loans								
Allowance, beginning of quarter	$ 2,834	$ 36	$ —	$ 2,870	$ 3,467	$ 800	$ —	$ 4,267
Transfer to stage 1 [3]	141	(141)	—	—	64	(64)	—	—
Transfer to stage 2 [3]	(200)	200	—	—	(138)	138	—	—
Transfer to stage 3 [3]	—	—	—	—	(45)	—	45	—
Net remeasurement of allowance [1]	(134)	(16)	—	(150)	(428)	(487)	(45)	(960)
Originations [4]	425	—	—	425	422	—	—	422
Mortgages derecognized or repaid [2]	(286)	(6)	—	(292)	(405)	(80)	—	(485)
Total provision (recovery)	(54)	37	—	(17)	(530)	(493)	—	(1,023)
Allowance, end of quarter	2,780	73	—	2,853	2,937	307	—	3,244

(Dollar amounts in thousands except for per share amounts)

Quarters Ended June 30	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commercial loans								
Multi family residential								
Allowance, beginning of quarter	$ 128	$ 246	$ —	$ 374	$ 3	$ 5	$ —	$ 8
Net remeasurement of allowance [1]	(26)	(86)	—	(112)	53	1	—	54
Originations [4]	8	—	—	8	—	—	—	—
Total provision (recovery)	(18)	(86)	—	(104)	53	1	—	54
Allowance, end of quarter	110	160	—	270	56	6	—	62
Other								
Allowance, beginning of quarter	$ 52	$ 98	$ —	$ 150	$ 15	$ —	$ —	$ 15
Transfer to stage 2 [3]	—	—	—	—	(66)	66	—	—
Net remeasurement of allowance [1]	(12)	(25)	—	(37)	70	—	—	70
Total provision (recovery)	(12)	(25)	—	(37)	4	66	—	70
Allowance, end of quarter	40	73	—	113	19	66	—	85
Total								
Allowance, beginning of quarter	$ 5,500	$ 877	$ 96	$ 6,473	$ 4,900	$ 1,090	$ 59	$ 6,049
Transfer to stage 1 [3]	235	(235)	—	—	230	(230)	—	—
Transfer to stage 2 [3]	(383)	389	(6)	—	(397)	397	—	—
Transfer to stage 3 [3]	—	—	—	—	(74)	—	74	—
Net remeasurement of allowance [1]	(725)	(272)	11	(986)	192	(60)	72	204
Originations [4]	1,136	—	—	1,136	609	(23)	—	586
Mortgages derecognized or repaid [2]	(488)	(59)	(39)	(586)	(442)	(95)	(6)	(543)
Total provision (recovery)	(225)	(177)	(34)	(436)	118	(11)	140	247
Allowance, end of quarter	**$ 5,275**	**$ 700**	**$ 62**	**$ 6,037**	**$ 5,018**	**$ 1,079**	**$ 199**	**$ 6,296**

[1] Represents the change in the allowance related to changes in model parameters, inputs, and assumptions. This includes remeasurement between 12 month and lifetime ECLs following stage transfers, changes to forward-looking macroeconomic conditions, changes in the level of risk, and changes to other parameters used in the ECL model.
[2] Reflects the decrease in the allowance related to mortgages that were repaid or derecognized during the period.
[3] Represents movements between ECL stages and excludes the impact to the allowance of remeasurement between 12 month and lifetime ECLs and changes in risk.
[4] Reflects the increase in allowance related to mortgages newly recognized during the period. This includes mortgages that were newly originated, purchased, or re-recognized following a modification of terms.

ECLs are calculated through three probability-weighted forward-looking scenarios (base, favourable, and unfavourable). ECLs are sensitive to the macroeconomic variables used in the three forward-looking scenarios and the probability weights assigned to those forecasts. The macroeconomic variables used in these scenarios are projected over the specified forecast period and could have a material impact in determining ECLs.

(Dollar amounts in thousands except for per share amounts)

The following table represents the average values of the macroeconomic variables used in these forecasts:

At June 30, 2021	**Base**		**Favourable**		**Unfavourable**	
Macroeconomic variables	**Next 12 months [1]**	**2 to 5 years [1]**	**Next 12 months [1]**	**2 to 5 years [1]**	**Next 12 months [1]**	**2 to 5 years [1]**
Housing Price Index (annual change)						
Canada	9.73%	2.18%	17.43%	2.69%	(2.58)%	1.67%
Greater Toronto Area	12.81%	2.80%	22.69%	3.45%	(3.30)%	2.78%
Greater Vancouver Area	11.10%	2.85%	22.88%	3.48%	(3.32)%	2.81%
Gross domestic product (annual change)	5.31%	2.30%	6.31%	2.43%	2.56 %	2.05 %
Unemployment rate	6.50%	5.75%	6.00%	5.68%	7.75%	5.84%
Interest rates						
Prime rate	2.45%	2.74%	2.95%	3.24%	2.20%	2.49%

At December 31, 2020	**Base**		**Favourable**		**Unfavourable**	
Macroeconomic variables	**Next 12 months [1]**	**2 to 5 years [1]**	**Next 12 months [1]**	**2 to 5 years [1]**	**Next 12 months [1]**	**2 to 5 years [1]**
Housing Price Index (annual change)						
Canada	5.46%	1.82%	12.93%	2.33%	(6.49)%	1.32%
Greater Toronto Area	7.79%	2.38%	16.77%	2.99%	(8.24)%	2.46%
Greater Vancouver Area	2.74%	2.39%	16.91%	3.01%	(8.31)%	2.48%
Gross domestic product (annual change)	5.24%	3.42%	6.24%	3.55%	2.35 %	3.42%
Unemployment rate	7.68%	6.37%	6.68%	6.25%	9.50%	6.50%
Interest rates						
Prime rate	2.45%	2.45%	2.95%	2.95%	2.20%	2.20%

At June 30, 2020	**Base**		**Favourable**		**Unfavourable**	
Macroeconomic variables	**Next 12 months [1]**	**2 to 5 years [1]**	**Next 12 months [1]**	**2 to 5 years [1]**	**Next 12 months [1]**	**2 to 5 years [1]**
Housing Price Index (annual change)						
Canada	(3.36%)	2.22%	4.67%	3.24%	(10.01)%	1.71%
Greater Toronto Area	(3.64%)	2.80%	6.01%	4.16%	(12.67)%	2.77%
Greater Vancouver Area	(3.45%)	2.68%	6.06%	4.19%	(12.76)%	2.79%
Gross domestic product (annual change)	13.81%	3.61%	15.93%	3.61%	11.66 %	3.61%
Unemployment rate	9.07%	7.37%	8.07%	6.37%	10.18%	7.39%
Interest rates						
Prime rate	2.45%	2.45%	2.95%	2.95%	2.20%	2.20%

[1] *The numbers represent the average values over the quoted period.*

Historical regression methodology is used to relate ECL to key macroeconomic indicators including housing price indices, gross domestic product, unemployment rate and interest rates. Economic forecasts are determined based on a combination of external information and internal management judgments and estimates at the reporting date. COVID-19 has increased the level of uncertainty with respect to management's judgements and estimates including around probability weights to assign to each scenario and the impacts of various government support programs and their impact on the speed and shape of economic recovery. Since June 30, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any new forward-looking information subsequent to June 30, 2021, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

The base scenario represents management's best estimate using all available economic forecasts in light of COVID-19. It assumes a gradual decrease in unemployment as COVID-19 lockdown measures are removed. Gross domestic product is expected to increase in 2021 and gradually increase going forward. Housing prices have increased under COVID-19 and are expected to continue to grow in 2021 with gradual increases going forward. The favourable scenario represents a speedier recovery with a faster decrease in unemployment and faster increases in gross domestic product and the housing price index. The unfavourable scenario represents the possibility of further waves and new variants of COVID-19 continuing to emerge, resulting in increases in the unemployment rate in the short-term.

Assuming a 100% base case economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the ECL for corporate mortgages at June 30, 2021 would be approximately $5,256 (December 31, 2020 - $4,128) compared to the reported ECL for corporate mortgages of $6,037 (December 31, 2020 - $6,204).

(Dollar amounts in thousands except for per share amounts)

Assuming a 100% unfavourable economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the ECL for corporate mortgages at June 30, 2021 would be approximately $7,815 (December 31, 2020 - $7,659) compared to the reported ECL for corporate mortgages of $6,037 (December 31, 2020 - $6,204).

(d) Arrears and impaired mortgages

Mortgages past due but not impaired are as follows:

At June 30, 2021	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family mortgages				
Insured	$ 768	$ 84	$ —	$ 852
Uninsured	5,368	935	332	6,635
	$ 6,136	**$ 1,019**	**$ 332**	**$ 7,487**

At December 31, 2020	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family mortgages				
Insured	$ 682	$ —	$ —	$ 682
Uninsured	4,370	2,511	1,154	8,035
Construction	11,800	—	—	11,800
	$ 16,852	**$ 2,511**	**$ 1,154**	**$ 20,517**

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

At	June 30, 2021			December 31, 2020		
	Single Family Mortgages			Single Family Mortgages		
	Insured	Uninsured	Total	Insured	Uninsured	Total
Ontario	$ —	$ —	$ —	$ —	$ 919	$ 919
Alberta	342	736	1,078	1,111	237	1,348
British Columbia	—	—	—	—	941	941
Quebec	176	—	176	45	—	45
Atlantic Provinces	110	117	227	110	258	368
Other	—	—	—	—	150	150
	$ 628	**$ 853**	**$ 1,481**	**$ 1,266**	**$ 2,505**	**$ 3,771**

(Dollar amounts in thousands except for per share amounts)

(e) Geographic analysis

At June 30, 2021	Single Family Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 651,729	$ 173,834	$ 79,418	$ 904,981	64.5 %
Alberta	65,069	31,066	—	96,135	6.9 %
British Columbia	51,866	327,576	—	379,442	27.1 %
Quebec	6,769	—	—	6,769	0.5 %
Atlantic Provinces	8,375	—	—	8,375	0.6 %
Other	5,588	—	—	5,588	0.4 %
	$ 789,396	**$ 532,476**	**$ 79,418**	**$ 1,401,290**	**100.0 %**

At December 31, 2020	Single Family Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 552,055	$ 232,563	$ 60,376	$ 844,994	67.5 %
Alberta	73,582	20,142	—	93,724	7.5 %
British Columbia	57,111	233,927	—	291,038	23.2 %
Quebec	7,983	—	—	7,983	0.6 %
Atlantic Provinces	8,724	—	—	8,724	0.7 %
Other	6,299	—	—	6,299	0.5 %
	$ 705,754	**$ 486,632**	**$ 60,376**	**$ 1,252,762**	**100.0 %**

(f) Other information

Outstanding commitments for future fundings of mortgages are as follows:

At	June 30, 2021	December 31, 2020
Single family mortgages		
Insured	$ 121,287	$ 79,048
Uninsured	53,528	24,728
Uninsured - completed inventory	1,540	2,794
Construction loans	238,635	264,163
	$ 414,990	**$ 370,733**

Of the total outstanding commitments for future fundings, only a portion issued are expected to fund. Accordingly, these amounts do not necessarily represent future cash requirements of the Company.

The fair value of the corporate mortgage portfolio at June 30, 2021 was $1,409,592 (December 31, 2020 - $1,266,785). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages.

At June 30, 2021, single family insured mortgages included $34,945 (December 31, 2020 - $48,304) 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.

7. Non-Marketable Securities

At	June 30, 2021	December 31, 2020
KingSett High Yield Fund	$ 43,844	$ 43,583
KingSett Senior Mortgage Fund LP	1,500	—
TAS LP 3	3,037	—
TAS LP 3 Co-Invest LP	1,125	—
Securitization Notes	10,686	12,534
	$ 60,192	**$ 56,117**

(Dollar amounts in thousands except for per share amounts)

The Company holds an investment in the KingSett High Yield Fund ("KSHYF"), in which it has a 6.8% equity interest at June 30, 2021 (December 31, 2020 - 6.8%). At June 30, 2021, the Company's total remaining commitment to the KSHYF was $23,406 (December 31, 2020 - $23,406), consisting of $1,212 of capital advances for the KSHYF (December 31, 2020 - $1,212) and $22,194 to support credit facilities throughout the life of the KSHYF (December 31, 2020 - $22,194).

During 2021, the Company invested $1,500 in KingSett Senior Mortgage Fund LP ("KSSMF") representing a 0.3% partnership interest, with an additional $13,500 remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

During 2021, the Company invested $3,037 in TAS LP 3 ("TAS") representing a 9.7% partnership interest, with an additional $6,963 remaining commitment. TAS invests in, and develops, residential and mixed use properties.

During 2021, the Company invested $1,125 in TAS LP 3 Co-Invest LP ("TAS Co") representing a 34.8% partnership interest, with an additional $3,875 remaining commitment. TAS Co has a 25% interest in urban residential and mixed use property investments that are being developed under a repositioning plan.

During 2019, the Company invested $18,000 in Class A securitization notes (the "Securitization Notes"). The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022. During Q2 2021, the Company received $1,052 (Q2 2020 - $1,331) in principal repayment and recorded $225 (Q2 2020 - $322) of interest income at the contractual rate of the Securitization Notes in non-marketable securities on the interim consolidated statements of income.

8. Equity Investment in MCAP Commercial LP

At June 30, 2021, the Company held a 13.94% equity interest in MCAP (December 31, 2020 - 14.03%), representing 4.0 million units held by MCAN (December 31, 2020 - 4.0 million) of the 28.7 million total outstanding MCAP partnership units (December 31, 2020 - 28.5 million).

The Company recognizes equity income from MCAP on a one-month lag such that equity income from MCAP is based on MCAP's net income for the period ended May 31, 2021 (Q2 2020 - May 31, 2020).

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

For the Periods Ended June 30	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Balance, beginning of period	$ 90,190	$ 71,298	$ 88,263	$ 69,844
Equity income	6,859	3,143	13,601	6,577
Dilution gain	326	—	326	—
Distributions received	(4,061)	(1,731)	(8,876)	(3,711)
Balance, end of period	**$ 93,314**	**$ 72,710**	**$ 93,314**	**$ 72,710**

Selected MCAP financial information is as follows:

At	May 31 2021	November 30 2020
MCAP's balance sheet:		
Assets	$ 44,071,597	$ 41,506,506
Liabilities	43,391,360	40,866,696
Equity	680,237	639,810

For the Periods Ended May 31	Q2 2021	Q2 2020	YTD 2021	YTD 2020
MCAP's revenue and net income:				
Revenue	$ 207,435	$ 128,397	$ 393,920	$ 254,346
Net income	$ 49,212	$ 22,370	$ 97,259	$ 46,840

(Dollar amounts in thousands except for per share amounts)

9. Securitization Activities

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

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

Pursuant to the NHA MBS program, MBS investors 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 guarantee to investors. All MBS issuers (including the Company) are required to remit scheduled mortgage principal and interest payments to Computershare, the designated Central Payor and Transfer Agent ("CPTA") for the program, even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by the Company, any outstanding principal must be paid to the CPTA. If the Company fails to make a scheduled principal and interest payment to CPTA, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued. In the case of mortgage defaults, MCAN is required to make scheduled principal and interest payments to the CPTA until legal enforcement proceedings are terminated at which time MCAN is required to transfer the full amount of any outstanding principal to the CPTA as part of the Timely Payment obligation 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.

During Q2 2021, MCAN securitized $174,733 insured single family mortgages through the market MBS and CMB programs (Q2 2020 - $154,496).

During Q2 2021, MCAN securitized no insured multi family mortgages (Q2 2020 - $20,401). With respect to the insured multi family securitization, at the time of securitization the Company derecognized the mortgages from its consolidated balance sheet and recorded an upfront gain of $nil (Q2 2020 - $102).

Transferred financial assets that are not derecognized in their entirety

Since MCAN neither transfers nor retains substantially all of the risks and rewards of ownership on sale and retains significant continuing involvement through the provision of the Timely Payment obligation with respect to the majority of the market MBS program and single family CMB program sale transactions, MCAN continues to recognize the securitized mortgages (Note 10) and financial liabilities from securitization (Note 11) on its interim consolidated balance sheet.

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

MCAN securitizes insured multi family mortgages through the market MBS program and CMB program, and in some cases, sells MBS and the associated interest-only strips to third parties. In these instances, where MCAN transfers control of the asset or substantially all risks and rewards on sale, MCAN derecognizes the mortgages from its interim consolidated balance sheets. MCAN's continuing involvement is the ongoing obligation in its role as MBS issuer to service the mortgages and MBS until maturity.

In these circumstances, the derecognized MBS balance related to the market MBS program and CMB program are not reflected as an asset or liability on MCAN's interim consolidated balance sheets. The derecognized MBS mature as follows:

	2021	2025	2026	2029	2030	Total
At June 30, 2021	$ 34,653	$ 16,454	$ 8,820	$ 13,698	$ 34,145	**$ 107,770**

(Dollar amounts in thousands except for per share amounts)

10. Mortgages - Securitized

(a) Summary

	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Total	Net Principal
At June 30, 2021	**$ 1,434,551**	$ 4	$ —	**$ 4**	**$ 1,434,547**
At December 31, 2020	**1,135,770**	23	2	**25**	**1,135,745**

(b) Mortgages by Risk Rating

The Company's internal risk rating system involves judgment and combines multiple factors to arrive at a borrower-specific score to assess the borrower's probability of default and ultimately classify the mortgage into one of the categories listed in the table below. For single family mortgages, these factors include, but are not limited to, the loan to value ratio, the borrower's ability to service debt, property location and credit score. For a definition of internal risk ratings, refer to Note 6.

The table below shows the credit quality of the Company's securitized mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECLs are calculated on an impaired or performing basis is discussed in Note 4 to the Company's annual consolidated financial statements for the year ended December 31, 2020.

At	**June 30, 2021**				**December 31, 2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Insured Performing	$1,361,450	$ 65,738	$ —	$1,427,188	$1,063,294	$ 66,791	$ —	$1,130,085
Monitored/Arrears	5,735	1,074	—	6,809	2,650	2,538	—	5,188
Impaired/Default	—	—	550	550	—	—	472	472
	$1,367,185	**$ 66,812**	**$ 550**	**$1,434,547**	**$1,065,944**	**$ 69,329**	**$ 472**	**$1,135,745**

(c) Mortgage allowances

The allowance for credit losses on the securitized portfolio at June 30, 2021 was $4 (December 31, 2020 - $25). The provision for credit losses recorded during Q2 2021 was $nil (Q2 2020 - provision for credit losses of $11).

(d) Arrears and impaired mortgages

Securitized mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Total
At June 30, 2021	$ 6,289	$ 259	$ 261	**$ 6,809**
At December 31, 2020	3,403	336	1,449	**5,188**

Impaired securitized mortgages are as follows:

At	**June 30, 2021**	**December 31, 2020**
Alberta	$ 490	$ 175
Atlantic Provinces	60	60
Quebec	—	237
	$ 550	**$ 472**

(Dollar amounts in thousands except for per share amounts)

(e) Geographic analysis

At	June 30, 2021		December 31, 2020	
Ontario	$ 1,233,762	85.9 %	$ 956,980	84.3 %
Alberta	107,078	7.5 %	95,958	8.4 %
British Columbia	48,419	3.4 %	36,082	3.2 %
Quebec	11,467	0.8 %	11,840	1.0 %
Atlantic Provinces	23,925	1.7 %	25,124	2.2 %
Other	9,896	0.7 %	9,761	0.9 %
	$ 1,434,547	**100.0 %**	**$ 1,135,745**	**100.0 %**

(f) Other information

Capitalized transaction costs are included in mortgages and are amortized using the EIM. At June 30, 2021, the unamortized capitalized transaction cost balance was $11,616 (December 31, 2020 - $9,016).

The fair value of the securitized mortgage portfolio at June 30, 2021 was $1,468,531 (December 31, 2020 - $1,194,167).

Other assets of $8,292 at June 30, 2021 (December 31, 2020 - $7,051), consist of interest-only strips from the Company's CMB insured multi family securitizations and prepaid expenses.

11. Financial Liabilities from Securitization

Total financial liabilities from securitization mature as follows:

At	June 30, 2021	December 31, 2020
2021	$ 49,815	$ 72,233
2022	75,462	87,352
2023	78,291	85,789
2024	229,248	248,159
2025	626,164	649,076
2026	388,495	—
	$ 1,447,475	**$ 1,142,609**

12. Share Capital

For the Periods Ended June 30	2021		2020	
	Number of Shares	Share Capital	Number of Shares	Share Capital
Balance, January 1	24,727,145	$ 234,635	24,215,383	$ 228,008
Issued				
Dividend reinvestment plan	184,072	2,874	204,894	2,716
Stock dividend	1,223,499	21,096	—	—
Balance, March 31	26,134,716	258,605	24,420,277	230,724
Issued				
Dividend reinvestment plan	87,543	1,571	106,242	1,335
Rights offering	1,306,467	20,275	—	—
Executive share purchase plan	30,880	548	94,378	1,185
Balance, June 30	**27,559,606**	**280,999**	**24,620,897**	**$ 233,244**

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

The Company issues shares under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the Q2 2021 second quarter dividend was 17% (Q2 2020 second quarter dividend - 16%).

(Dollar amounts in thousands except for per share amounts)

On February 23, 2021, the Board declared a special stock dividend of $0.85 per share paid on March 31, 2021 to shareholders of record as of March 15, 2021. The Company issued 1,223,499 common shares out of treasury to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $17.3178.

On May 5, 2021, the Company announced a rights offering that closed on June 10, 2021. The Company issued 1,306,467 common shares out of treasury to shareholders at a price of $15.65 per common share. Total proceeds net of share issuance costs was $20,275.

The Company had no potentially dilutive instruments at June 30, 2021 or December 31, 2020.

13. Dividends

On August 12, 2021, the Board declared a quarterly cash dividend of $0.34 per share to be paid on September 30, 2021 to shareholders of record as of September 15, 2021.

14. Mortgage Expenses

Corporate assets

For the Periods Ended June 30	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Mortgage servicing expense	$ 815	$ 797	$ 1,569	$ 1,612
Letter of credit expense	179	145	342	293
Other mortgage expenses	204	182	371	253
	$ 1,198	**$ 1,124**	**$ 2,282**	**$ 2,158**

Letter of credit expense relates to outstanding letters of credit under the Company's credit facility, discussed in Note 17.

Securitization assets

Mortgage expenses associated with securitization assets for Q2 2021 of $829 (Q2 2020 - $487) and year to date 2021 of $1,552 (2020 - $982) consist primarily of mortgage servicing expenses.

15. Provision for (Recovery of) Credit Losses

For the Periods Ended June 30	Note	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Corporate portfolio:					
Stage 1 - provisions for (recoveries of) performing mortgages	6	$ (225)	$ 118	$ 469	$ 1,613
Stage 2 - provisions for (recoveries of) performing mortgages	6	(177)	(11)	(540)	433
Stage 3 - provisions for (recoveries of) impaired mortgages	6	(34)	140	(95)	5
		(436)	247	(166)	2,051
Other provisions (recoveries), net		—	(8)	—	(8)
Provision for (recovery of) credit losses		**(436)**	**239**	**(166)**	**2,043**
Securitized portfolio:					
Stage 1 - provisions for (recoveries of) performing mortgages	10	—	9	(18)	10
Stage 2 - provisions for (recoveries of) performing mortgages	10	—	2	(2)	2
Provision for (recovery of) credit losses		**$ —**	**$ 11**	**$ (20)**	**$ 12**

16. Related Party Disclosures

Transactions with MCAP

In Q2 2021, the Company entered into related party transactions with MCAP as follows:

- Purchase of mortgage origination and administration services of $1,113 (Q2 2020 - $928)
- Purchase of uninsured single family mortgages of $6,339 (Q2 2020 - $1,856)
- Purchase of insured multi family mortgages of $nil (Q2 2020 - $20,401)

(Dollar amounts in thousands except for per share amounts)

- In Q2 2021, the Company entered into an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby the Company can sell to MCAP Securities Limited Partnership insured single family mortgage commitments. The Company sold $9,465 in commitments in Q2 2021 under this agreement and received revenue of $117 (Q2 2020 - $nil)

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

Share Unit Plans

The tables below outline activity relating to the Restricted Share Units Plan ("RSU") and the Performance Share Units Plan ("PSU").

For the Periods Ended June 30	Q2 2021		Q2 2020		YTD 2021		YTD 2020	
	RSU	PSU	RSU	PSU	RSU	PSU	RSU	PSU
Units outstanding, beginning of period	106,192	90,662	73,590	78,779	78,314	70,290	50,456	78,853
New units granted	2,357	937	16,342	4,644	29,813	29,863	43,604	28,999
Units issued as dividends	2,139	1,798	2,064	1,768	8,851	7,142	5,162	5,149
Units vested	—	—	—	—	(2,135)	(9,743)	(3,434)	(26,447)
Units forfeited	(1,993)	(2,012)	(13,680)	(14,617)	(6,148)	(6,167)	(17,472)	(15,980)
Units outstanding, end of period	**108,695**	**91,385**	**78,316**	**70,574**	**108,695**	**91,385**	**78,316**	**70,574**
Compensation expense for the period	$ 178	$ 557	$ 12	$ (39)	$ 278	$ 413	$ (9)	$ 90
Outstanding liability, end of period					$ 727	$ 947	$ 228	$ 220

Of the total outstanding PSU units at Q2 2021, the Company has recorded a liability on all of these units. At Q2 2020, the Company did not record a liability on 9,442 units as it did not expect any payout on these units.

Executive Share Purchase Plan

At June 30, 2021, $2,189 of loans were outstanding under the Executive Share Purchase Plan (the "Share Purchase Plan") (December 31, 2020 - $1,742). The shares are pledged as security for the loans and had a fair value of $3,197 at June 30, 2021 (December 31, 2020 - $2,589). In Q2 2021, MCAN recognized $16 of interest income (Q2 2020 - $15) on the Share Purchase Plan loans.

Employee Share Ownership Plan

The Company has an Employee Share Ownership Plan whereby employees can elect to purchase common shares of the Company up to 6% of their annual earnings. The Company matches 50% of each employee's contribution amount. During each pay period, all contributions are used by the plan's trustee to purchase the common shares in the open market.

17. Credit Facilities

The Company has a demand loan revolver facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.75% (3.20%) (December 31, 2020 - prime plus 0.75% (3.20%)). The facility limit is $120,000. The facility is due and payable upon demand. At June 30, 2021, the outstanding loan payable was $nil (December 31, 2020 - $nil). On July 21, 2021, the facility limit was temporarily increased to $160,000 until September 30, 2021.

Under the facility, there is a sublimit for issued letters of credit. 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. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case the Company is obligated to fund the letters of credit. At June 30, 2021, there were letters of credit in the amount of $35,896 issued (December 31, 2020 - $39,105) and additional letters of credit in the amount of $16,252 committed but not issued (December 31, 2020 - $15,774).

The Company has an agreement with a Canadian Schedule I Chartered bank that enables the Company to execute repurchase agreements for liquidity purposes. This facility allows the Company to encumber certain eligible securities for financing purposes. As part of the agreement, the Company may sell assets to the counterparty at a specified price with an agreement to repurchase at a specified future date. The interest rate on the borrowings is driven by market spot rates at the time of borrowing. At June 30, 2021, the outstanding facility balance was $nil (December 31, 2020 - $nil).

(Dollar amounts in thousands except for per share amounts)

In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a $50,000 senior secured mortgage warehouse facility that bears interest at either prime plus 0.05% or BAs plus 1.05%. The facility is used to fund insured single family mortgages prior to securitization activities. At June 30, 2021, the outstanding loan payable was $44,491.

18. 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 further information, refer to the "Capital Management" section of the MD&A.

Regulatory capital

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

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

At	June 30, 2021	December 31, 2020
Regulatory ratios (OSFI)		
Share capital	$ 280,999	$ 234,635
Contributed surplus	510	510
Retained earnings	107,793	111,367
Deduction for equity investment in MCAP [1]	(54,291)	(53,475)
Eligible stage 1 and stage 2 allowances [3]	928	1,364
Common Equity Tier 1 and Tier 1 Capital [3] (A)	**335,939**	**294,401**
Tier 2 Capital [3]	5,051	4,707
Total Capital [3]	**$ 340,990**	**$ 299,108**
Total exposures/Regulatory assets		
Consolidated assets	$ 3,305,044	$ 2,728,715
Less: deduction for equity investment in MCAP [1]	(54,291)	(53,475)
Other adjustments [2]	2,387	3,018
Total on-balance sheet exposures	**3,253,140**	**2,678,258**
Mortgage and investment funding commitments	462,734	394,139
Less: conversion to credit equivalent amount (50%)	(231,367)	(197,070)
Letters of credit	35,896	39,105
Less: conversion to credit equivalent amount (50%)	(17,948)	(19,553)
Off-balance sheet items	**249,315**	**216,621**
Total exposures/Regulatory assets (B)	**$ 3,502,455**	**$ 2,894,879**
Leverage ratio (A / B)	**9.59%**	**10.17%**

[1] The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 allowances.
[2] Certain items, such as negative cash balances, are excluded from total exposures but included in consolidated assets.
[3] Effective March 31, 2020, the total capital ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and is set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022.

(Dollar amounts in thousands except for per share amounts)

Income tax capital

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

19. Financial Instruments

The majority of the Company's consolidated balance sheet consists of financial instruments, and the majority of net income is derived from the related income, expenses, gains and losses. Financial instruments include cash and cash equivalents, cash held in trust, marketable securities, mortgages, non-marketable securities, other loans, financial liabilities from securitization, term deposits and demand loan payable.

To measure financial instruments that are carried at fair value on the consolidated balance sheets, or for which fair value is disclosed, the following fair value hierarchy is used based on the inputs to the valuation:

Level 1: Quoted market prices observed in active markets for identical assets and liabilities.
Level 2: Directly or indirectly observable inputs for the assets or liabilities not included in level 1.
Level 3: Unobservable market inputs.

Financial instruments are classified at the lowest level of the hierarchy for which a significant input has been used. The fair value hierarchy requires the use of observable market inputs whenever obtainable.

The following tables summarize the fair values of financial assets measured at fair value through profit or loss ("FVPL") and financial assets and liabilities measured at amortized cost for which fair values are disclosed.

At June 30, 2021	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 69,922	$ —	$ —	$ 69,922	$ 69,922
Non-marketable securities - TAS [1]	—	—	3,037	3,037	3,037
Non-marketable securities - TAS Co [1]	—	—	1,125	1,125	1,125
Non-marketable securities - KSSMF [1]	—	—	1,500	1,500	1,500
Non-marketable securities - KSHYF [1]	—	—	43,844	43,844	43,844
Non-marketable securities - Securitization Notes [2]	—	—	10,686	10,686	10,686
	$ 69,922	**$ —**	**$ 60,192**	**$ 130,114**	**$ 130,114**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 179,666	$ —	$ —	$ 179,666	$ 179,666
Mortgages - corporate [3]	—	—	1,409,592	1,409,592	1,401,290
Other assets - other loans [4]	—	—	4,005	4,005	4,005
Securitization program cash held in trust	45,399	—	—	45,399	45,399
Mortgages - securitized [3]	—	—	1,468,531	1,468,531	1,434,547
	$ 225,065	**$ —**	**$ 2,882,128**	**$ 3,107,193**	**$ 3,064,907**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 1,427,806	$ 1,427,806	$ 1,413,678
Demand loan payable [5]	—	—	44,491	$ 44,491	44,491
Other liabilities - corporate [5]	—	—	10,098	$ 10,098	10,098
Financial liabilities from securitization [7]	—	—	1,451,587	1,451,587	1,447,475
	$ —	**$ —**	**$ 2,933,982**	**$ 2,933,982**	**$ 2,915,742**

(Dollar amounts in thousands except for per share amounts)

At December 31, 2020	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 49,583	$ 30	$ —	$ 49,613	$ 49,613
Non-marketable securities - KSHYF [1]	—	—	43,583	43,583	43,583
Non-marketable securities - Securitization Notes [2]	—	—	12,534	12,534	12,534
	$ 49,583	**$ 30**	**$ 56,117**	**$ 105,730**	**$ 105,730**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 88,929	$ —	$ —	$ 88,929	$ 88,929
Mortgages - corporate [3]	—	—	1,266,785	1,266,785	1,252,762
Other assets - other loans [4]	—	—	2,382	2,382	2,382
Securitization program cash held in trust	29,610	—	—	29,610	29,610
Mortgages - securitized [3]	—	—	1,194,167	1,194,167	1,135,745
	$ 118,539	**$ —**	**$ 2,463,334**	**$ 2,581,873**	**$ 2,509,428**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 1,259,433	$ 1,259,433	$ 1,234,769
Other liabilities - corporate [5]	—	—	4,825	4,825	4,825
Financial liabilities from securitization [7]	—	—	1,164,472	1,164,472	1,142,609
	$ —	**$ —**	**$ 2,428,730**	**$ 2,428,730**	**$ 2,382,203**

[1] *Fair value is based on the redemption value.*
[2] *Fair value of investment in securitized notes is determined by discounting the expected future cash flows of the future fee income from the renewals of a securitized insured mortgage portfolio. The significant unobservable input is the discount rate.*
[3] *Fair value of 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, non-observable inputs include the discount rate and the assumed level of prepayments.*
[4] *Fair value is assumed to be the carrying value as underlying loans are variable rate.*
[5] *The carrying value of the asset/liability approximates fair value.*
[6] *As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the term deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.*
[7] *Fair value of financial liabilities from securitization is determined using current market rates for CMB and MBS.*

The following table shows the continuity of Level 3 financial assets measured at FVPL:

For the Periods Ended June 30	Q2 2021	Q2 2020	YTD 2021	YTD 2020
Balance, beginning of period	$ 58,129	$ 60,068	$ 56,117	$ 93,689
Advances / Purchases	3,115	802	5,923	1,032
Repayments / Disposition	(1,052)	(1,330)	(1,848)	(35,181)
Balance, end of period	**$ 60,192**	**$ 59,540**	**$ 60,192**	**$ 59,540**

Risk management

The types of risks to which the Company is exposed include but are not limited to liquidity and funding risk, credit risk, interest rate risk and market risk. The Company's enterprise risk management framework includes policies, guidelines and procedures, with oversight by senior management and the Board. These policies are developed and implemented by management and reviewed and approved periodically by the Board. The nature of these risks and how they are managed is provided in the "Risk Management" section of the MD&A. The shaded sections of the MD&A relating to liquidity and funding, credit, interest rate and market risks inherent in financial instruments form an integral part of these interim consolidated financial statements.

20. Commitments and Contingencies

MCAP is actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff has claimed improvident sale and has claimed damages of approximately $6,000. On December 11, 2020, a trial on this matter resulted in a court judgment to dismiss the claim with $300 in costs to be paid by the plaintiff. On January 11, 2021, the plaintiff appealed. On March 24, 2021, the Court dismissed the appeal because of a delay. MCAP was awarded a judgment for approximately $500 against the same plaintiff in related proceedings. The Company may be obligated to indemnify MCAP for certain liabilities that may be incurred as part of the proceedings under a mortgage servicing agreement between the two parties. Based on, among other things, the current status of the proceedings, the Company does not expect to incur any material liability arising out of this indemnification obligation to MCAP and accordingly have not recorded a provision.

The shaded section of the MD&A relating to commitment liquidity risk forms an integral part of these interim consolidated financial statements.

21. Comparative Amounts

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

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

Brian Chu
Founding Partner, Bogart Robertson & Chu LLP
Member of Conduct Review, Corporate Governance and Human Resources Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2021

John Coke
Corporate Director, MCAN Mortgage Corporation
Member of Audit Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2021

Glenn Doré
President, Teff Administration Inc.
Member of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2020

Philip Gillin
Corporate Director, MCAN Mortgage Corporation
Member of Audit Committee
Chair of Enterprise Risk Management and Compliance Committee
Director since May 2020

Gordon Herridge
Corporate Director, MCAN Mortgage Corporation
Chair of Audit Committee
Member of Conduct Review, Corporate Governance and Human Resources Committee
Director since May 2018

Gaelen Morphet
Chief Investment Officer, Cinnamon Investments ULC
Chair of Conduct Review, Corporate Governance and Human Resources Committee
Member of Enterprise Risk Management and Compliance Committee
Director since January 2018

Derek Sutherland
Chair of the Board, MCAN Mortgage Corporation
President, Canadazil Capital Inc.
Director since May 2017

Karen Weaver
President and Chief Executive Officer, MCAN Mortgage Corporation
Director since November 2011

EXECUTIVE OFFICERS

Karen Weaver
President and Chief Executive Officer

Floriana Cipollone
Vice President and Chief Financial Officer

Avish Buck
Vice President, Residential Lending

Carl Brown
Vice President, Investments

Emily Randle
Vice President and Chief Risk Officer

Mike Jensen
Vice President and Chief Compliance Officer
(Chief Anti Money Laundering & Privacy Officer)

Brenna McGibney
Vice President, Human Resources and Communications

Sylvia Pinto
Vice President, Corporate Secretary & Governance Officer

Milica Pejic
Vice President, Finance

Paul Gill
Vice President, Information Technology

Nazeera Khan
Chief Audit Officer

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

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

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

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

Report Copies
This MCAN Mortgage Corporation 2021 Second Quarter Report is available for viewing/printing on our website at www.mcanmortgage.com, and also on SEDAR at www.sedar.com.

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

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