MCAN Financial

MCAN FINANCIAL GROUP

QUARTERLY REPORT Q3 2023

INVESTING IN COMMUNITIES AND HOMES FOR CANADIANS

With people-first financing and investing solutions that help Canadians achieve homeownership and build wealth through real estate, we are reframing our investment in community and home.

Our foundational experience and knowledge of Canadian real estate means we build mortgage solutions that reflect the needs of real Canadians, solutions inspired by real life, and we deliver access to unique financing and investment opportunities through exclusive partnerships and initiatives built for impact. Our offerings include:

- homeownership through mortgages.
- residential construction and commercial lending.
- a portfolio of REIT investments expertly managed for long-term investment income and capital appreciation.
- private investment funds that are focused on lending and developing in our communities.
- our ownership interest in MCAP, privately owned and Canada's largest mortgage financing company.

The MCAN Drive

To be the preferred mortgage lender and investor within our chosen real estate markets in Canada.

To deliver sustainable growth and value for our stakeholders through:

- relationship-driven mortgage lending and investing.
- quality work from an expert engaged, and committed team.
- dedication to excellence in service of our clients, our colleagues, and our community.

Diversity and inclusion powering our ONE team mindset.

Risk managers are in all of us.

Innovate, lean in to optimize and grow our business together.

Valuing a respectful, collaborative and relationship-focused team.

Empowered to act like an owner, think like a customer.

OUR EMBEDDED CULTURE

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MESSAGE TO SHAREHOLDERS

Our strategy continues to be to provide attractive returns for our shareholders generated through long-term sustainable growth. Our business has always been conducted based on our prudent lending and investing principles with low-cost funding. While the economy and financial services market will continue to change and provide uncertainty, our entire MCAN team continues to contribute successfully to our bottom line, growing our business and improving all aspects of our operations.

We have delivered strong results this year with our diversified portfolio, all while navigating a challenging economic environment. We provide our shareholders with a unique opportunity to invest in various channels of the Canadian real estate landscape. We finance residential construction projects in urban markets, originate residential mortgages, hold and actively manage a REIT portfolio, invest in higher yielding mortgage funds, participate in real estate equity funds focused on asset value creation and the development of commercial and residential assets in our key urban markets, and hold an approximately 14% interest in MCAP Commercial LP, a strategic partner to us. Collectively, this diversified pool of quality investments is not available to typical investors and provides a curated portfolio for participation in the residential real estate market in Canada. We believe in the resiliency of these portfolios through various economic cycles and, therefore, our financial performance and shareholder returns over the long term.

We are seeing a pause again in interest rate hikes by the Bank of Canada after another increase in July amid uncertainty in the economy, the housing market, and inflation. In the current market, we will continue with some amount of caution and adjust our business each time changes unfold - like we have done in the past. In this higher interest rate environment, our business has various levers and qualities that are positive for managing net mortgage interest, including the primarily one year term of our uninsured residential mortgages, the floating rates on our construction portfolio, the duration of our term deposit funding and our term deposit and securitization hedging strategy.

Q3 2023 Review

Driven by our core lending business, our year to date net income is up 84% so far this year compared to this time last year. We have built a strong portfolio despite challenging market conditions and other economic factors that could impact credit quality within our business.

We recorded a 14.20% return on average shareholders' equity[1] for the quarter and a 15.06% return on average shareholders' equity[1] for our year to date. We have also delivered $38.3 million in dividends to our shareholders so far this year, including an increase to our regular dividend that we announced last quarter. Our dividend reinvestment program, at-the-market program share offerings and our core business income have helped us to grow our capital by almost 8% to fuel further asset growth. We renewed our at-the-market program in the quarter and it has been a successful tool over the last two years in raising incremental capital to grow our business. As well, our high dividend reinvestment program participation rate of 30% for the third quarter of 2023 also shows the continued strong support our shareholders have for our business and strategy.

Our corporate and securitized mortgage portfolios have grown 13% since the beginning of the year to over $4 billion. We have achieved growth in both our residential mortgage portfolio and our construction and commercial lending portfolio, without sacrificing our bottom line. We have seen 55% growth in our net corporate mortgage spread income[1] in the current quarter and 64% year to date compared to the same periods in the prior year.

We are focused on growing our residential construction lending portfolio in selected markets, with our preferred borrowers and risk profile, as they tend to provide comparatively higher yields. Our construction and commercial portfolio grew 3% over the quarter to over $1 billion, the highest level we have ever achieved. This portfolio has benefitted from the rising interest rate environment as it is almost entirely at floating rates. We proactively manage investments in our construction and commercial portfolio in terms of product composition, geographic mix, and exposure. Our lending and underwriting criteria for investing capital continues to generate a strong loan book. We also have strong strategic partnerships with originators. We continue to increase our lending in and around the urban markets of the Greater Vancouver area, the Greater Toronto area and, to a lesser degree, Calgary and Edmonton. There continues to be strong demand for builders to build more affordable housing and entry level homes in these markets due to household formation driven by population dynamics and immigration and a lack of affordable housing.

Our residential mortgage portfolio grew by 23% since the beginning of the year mainly as a result of strong mortgage renewals given the current interest rate environment and minimum qualifying rates in place for new loans. We also continued our strategy of focusing on net interest margins over origination growth. Our solid results highlight our abilities and team strength, supported by outstanding service to our brokers, originators and customers.

We hold our marketable securities, comprised of publicly traded REITs, for the long term and for both current return and capital appreciation. We had unrealized fair value losses for the quarter and year to date from stock volatility due to the uncertain interest rate and macroeconomic environment. However, we continue to realize the benefits of solid cash flows and distributions from these investments with a quarter to date distribution yield[1] of 5.68% and year to date distribution yield[1] of 6.22% on this portfolio. In the long term, we expect relief from interest rates to help with valuations.

With respect to our private real estate-based development funds, many of the fund sponsors have been sitting on the sidelines, not committing amounts to new projects given current market conditions. We believe this to be a prudent approach. In the quarter, we recognized a $2.1 million unrealized fair value gain on this portfolio due to value-add leasing activity on one underlying property investment. We have invested in these funds for long-term gains, not short-term returns. For projects currently being undertaken, we actively monitor their progress.

Despite MCAP reporting lower income than the prior year, driven by lower origination volumes and higher costs, our equity investment in MCAP increased as a result of its earnings less our distributions received in 2023. MCAP is privately owned and Canada's largest independent mortgage finance company. With the growth in its assets under management and its market leadership position, we expect that MCAP will continue to provide solid returns for MCAN.

We continue to make investments in our infrastructure with a multi-year strategic focus on our internal operations to deliver enhanced customer service and update our internal systems to drive sustainable and profitable growth in an efficient working environment for our team.

As always, we invest in our most important asset – our team! We believe that our strong team culture enhances our ability to effectively tackle change and opportunity in our business. For the third year in a row, we are certified as a Great Place to Work™ based on feedback from our team members. At MCAN, we are committed to our culture that we believe generates strong engagement, quality execution and service to our customers, in addition to a high quality work life for our team.

Looking ahead, we will continue to be vigilant and adjust our business activities in the context of the market and focus on growth and profitability of our business to drive value for all our stakeholders. I am very pleased with our 2023 results so far and our team member performance. As Interim CEO, I have been able to more directly witness the high level of commitment that our team members and the executive team have for their company. With their support, I am confident in a smooth transition to Don Coulter as our new President and CEO effective December 1, 2023. We look to continue to improve our market position and invest in communities and homes for Canadians.

Derek Sutherland
Interim CEO

[1] *Considered to be a non-GAAP and other financial measure and incorporated by reference and defined in the "Non-GAAP and Other Financial Measures" section of our 2023 Third Quarter MD&A available below or on SEDAR+ at www.sedarplus.ca. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*

OUR BUSINESS AND STRATEGY

MCAN (TSX: MKP) provides sustainable growth and returns for our shareholders by leveraging our real estate expertise and providing our shareholders with unique access to investments in the Canadian real estate market and the returns that they generate. Our business includes real estate lending and investing, including residential mortgage lending, residential construction lending, non-residential construction and commercial lending, investing in a portfolio of REITs, and investing in and being invested in strategic private investments like (i) MCAP Commercial LP ("MCAP") (privately-owned and Canada's largest independent mortgage financing company) in which we own an almost 14% interest and (ii) non-marketable equity-based real estate development funds and mortgage funds. We provide a breadth of expertise in all facets of the real estate cycle that our shareholders benefit from. Our unique tax structure as a flow-through Mortgage Investment Corporation ("MIC") allows us to not be taxed at the corporate level by distributing all of our taxable earnings annually to shareholders. It also means that 67% of our non-consolidated tax assets are to be held in residential mortgages and cash.

MCAN's lines of business include three divisions - MCAN Home, MCAN Capital and MCAN Wealth.

MCAN Home

MCAN Home is our residential mortgage lender that partners exclusively with accredited mortgage professionals to offer both insured and uninsured mortgage solutions across Canada. MCAN Home operates through MCAN's wholly owned subsidiary, MCAN Home Mortgage Corporation.

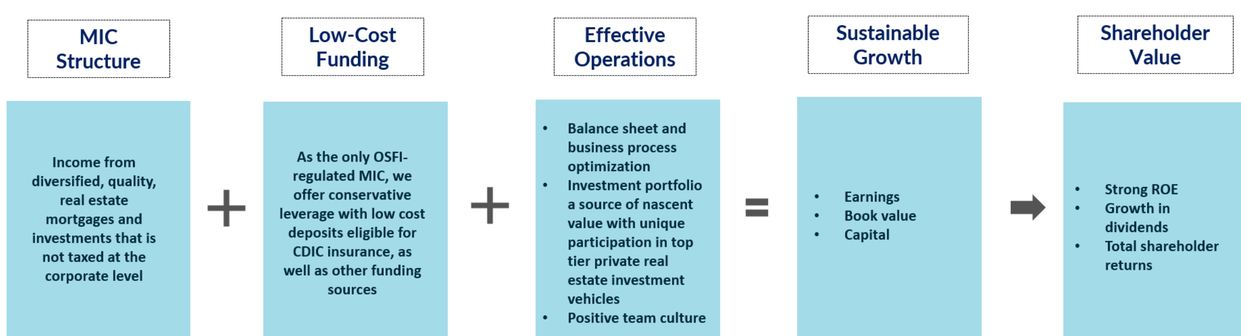
MCAN Capital

MCAN Capital focuses on unique financing and investment opportunities in the construction and commercial loan markets, REITs, and private investment funds focused on lending to and developing Canadian communities. We also have an almost 14% equity interest in MCAP, Canada's largest privately-owned mortgage financing company.

MCAN Wealth

MCAN Wealth offers investors CDIC insured investment solutions at competitive rates, differing term options, and with no fees.

Business Model



MCAN's business model provides focused investing in products and markets where we have extensive expertise and that are not generally accessible to our shareholders, to generate attractive financial returns. We employ leverage by issuing term deposits that are sourced through a network of independent financial agents.

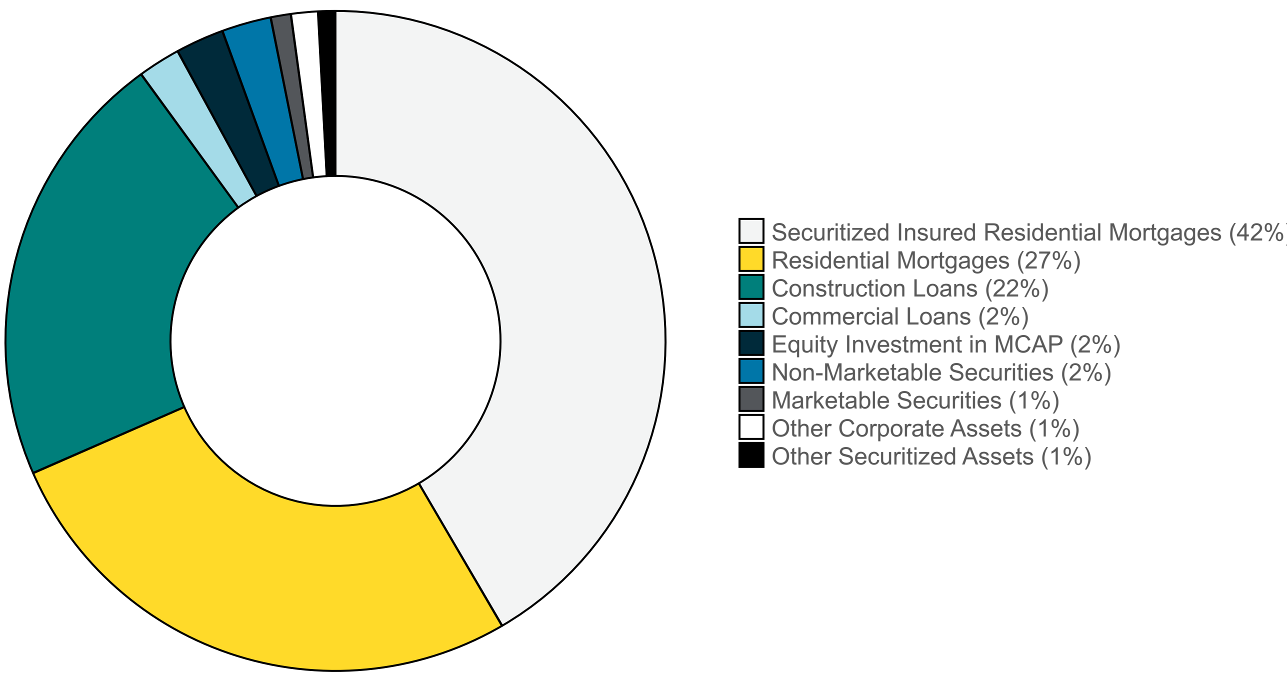
Our business model helps us to achieve our long-term objectives:

- Sustained 13% to 15% average return on average shareholders' equity ("ROE");
- Sustained 10% average annual growth of assets; and
- Sustained and prudent dividend growth.

Our Investment Portfolio

With extensive in-house expertise, MCAN is a strategic investor in the Canadian real estate market. Our portfolio is focused on residential mortgages and residential construction loans. We are also a strategic investor in REITs, MCAP and other non-marketable real estate based funds that are generally not accessible to shareholders.

Total Assets at September 30, 2023 of $4.5 billion



Residential Mortgage Lending (September 30, 2023 - $3.1 billion; December 31, 2022 - $2.8 billion)

We originate insured and uninsured residential mortgages across Canada primarily focused on first time and move up homebuyers. Although we lend across Canada, our geographical focus is in the major urban regions in Ontario and to a lesser extent in Alberta and Vancouver. We have in-house origination, underwriting and boots on the ground in our core markets. These residential mortgages are originated through our strategic relationships with mortgage brokers. We focus our uninsured residential mortgage lending to those customers with credit challenges and to those who are self-employed. Our products include purchases, refinances and renewals. We have strategies to either originate and securitize our on-balance sheet insured residential mortgages, which are included in securitized insured residential mortgages above, or sell our insured residential mortgage commitments, depending on market conditions.

Construction Lending (September 30, 2023 - $997 million; December 31, 2022 - $825 million)

Residential construction loans are made to developers to finance residential construction projects. We focus our lending on the construction of more affordable housing in urban/suburban growth markets with a preference for proximity to transit. This approach aims to mitigate the impact of price volatility and tightened sales activity in the event of market corrections. As well, these markets are where we, or our originating partners, have experience and local expertise. We have long established strategic relationships with originators, partners and borrowers. In house, we apply our own seasoned experience, underwriting and monitoring. The borrowers that we like to target are experienced developers with a successful track record of project completion and loan repayment, and often repeat customers to us. These loans generally have a floating interest rate, with a floor rate set at origination and loan terms typically ranging between 24 and 36 months. We also strategically lend at the land development stage to enhance longer term relationships with borrowers. Non-residential construction loans provide similar construction financing, but for retail shopping developments, office buildings and industrial developments.

Commercial Lending (September 30, 2023 - $97 million; December 31, 2022 - $105 million)

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).

Investment in MCAP (September 30, 2023 - $110 million; December 31, 2022 - $106 million)

We have an almost 14% equity interest in MCAP. MCAP is Canada's largest independent mortgage finance company with assets under management of $154 billion, serving many institutional investors and over 400,000 homeowners. This investment allows us to participate in the growth of MCAP that typically provides quarterly distributions on our investment.

Non-Marketable Securities (September 30, 2023 - $112 million; December 31, 2022 - $97 million)

We have equity investments in various strategic private real estate development and mortgage funds or instruments. Our strategy of laddering these investments in these funds should provide above average returns as the funds mature and their strategies are executed. All of the funds we invest in are backed by real estate in Canada and provide debt and equity capital to experienced and successful originators and developers. Certain of these funds focus on affordable housing, connected neighbourhoods and reducing the impact of climate change. These investments are mostly held for capital appreciation as well as distribution income and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio; however, they tend to have less predictable cash flows that are predicated on the completion of the development projects within the funds.

Marketable Securities (September 30, 2023 - $46 million; December 31, 2022 - $54 million)

We have a diversified and managed REIT portfolio held for investment income and capital appreciation. We leverage our real estate investment expertise to actively manage this portfolio, with periodic recycling of capital. Our REIT investment objectives are to earn long term total returns in the range of 9 to 11%. This portfolio provides additional liquidity and diversification to our overall investment portfolio.

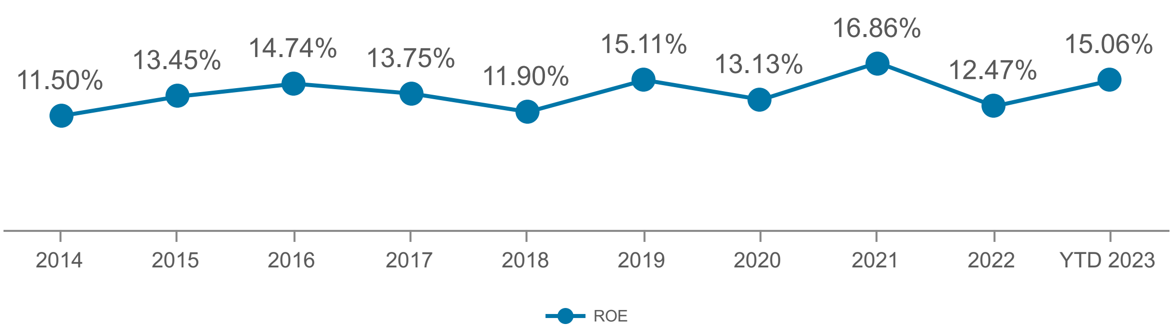
Our Loan Portfolio Quality

We believe we have a quality loan portfolio, with minimal mortgages in arrears. The majority of residential mortgage 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 related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our account management processes in these product types. We have a strong track record with our asset recovery programs should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

Our Shareholder Returns

ROE is a key performance metric for MCAN. With our diversified investment base, we believe that we are able to generate strong returns for shareholders through various cycles of the real estate market.

Historical ROE[1]



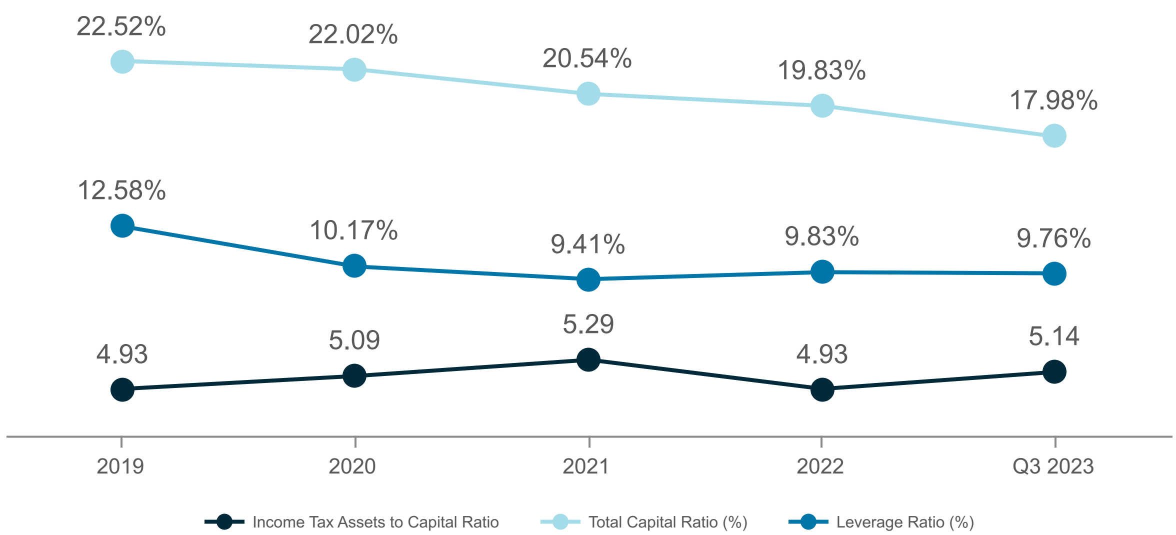
Our long-term objective is sustained 13% to 15% average ROE. The nature of our investing activities may result in fluctuations in our ROE year to year. ROE for year to date 2023 was positively impacted by growth in our core mortgage and lending business in a higher interest rate environment. In the last 10 years, we have delivered an average ROE[1] of almost 14%.

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" of our 2023 MD&A available below or on SEDAR+ at www.sedarplus.ca. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Our Capital Strength

We manage our capital and asset balances based on the regulations and limits of the *Trust and Loan Companies Act* (the "Trust Act"), *Income Tax Act* (Canada) (the "Tax Act") and the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Our strong capital base over the years has allowed us to pursue our growth strategy while achieving our long-term objectives. We have made a conscious effort over the last few years to try to optimize our balance sheet in order to position ourselves well for future growth and returns.

Historical Capital Ratios

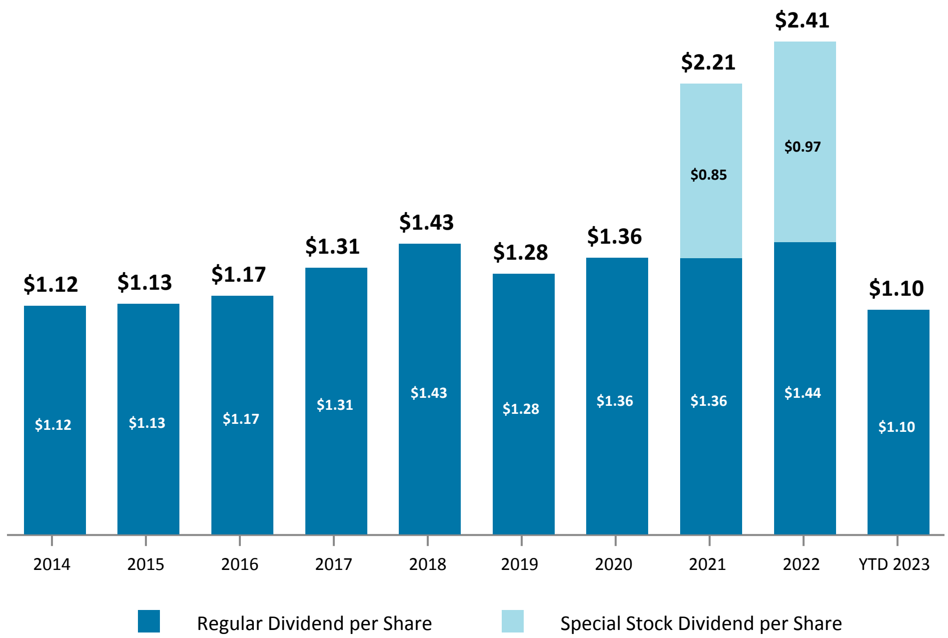


Our capital ratios have adjusted over the years as we have optimized our balance sheet, growing our assets utilizing excess capital room. Capital maintenance this year has come from our dividend reinvestment program and we had some growth due to our at-the-market equity raising program. Further growth in our capital will be dependent on better equity market conditions or shareholder appetite. In 2023, our total capital and leverage ratios decreased due to OSFI's revised rules that incorporate Basel III reforms that came into effect. All of our capital and leverage ratios are within our regulatory and internal risk appetite guidelines.

Our Dividends

Uniquely structured as a MIC, our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. Should taxable income per share exceed our regular cash dividends per share, we would distribute special cash or stock dividends per our dividend policy. We have been paying regular dividends since 1992.

Dividend History



The Board of Directors ("Board") declared a fourth quarter regular cash dividend of $0.38 per share to be paid January 2, 2024 to shareholders of record on December 15, 2023. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

Our Environment, Social and Governance ("ESG") Program

People First. Purpose Driven. Performance Focused.

MCAN's values and culture are rooted in our stakeholders, including our shareholders, customers, business partners and team members, and their communities:

E	• Supporting sustainable residential communities by providing residential mortgages using r**esponsible underwriting and risk management** practices that **deal with climate risk** on our portfolio • Providing capital and loans to real estate developers and investment funds who are committed to **community and climate-based responsible development**, primarily for **residential density development in urban communities close to mass transit** • Operational efficiency to **reduce our carbon footprint**
S	• **Lending to, and investing in**, the development of more **affordable housing** • **Investing in the communities** where our shareholders, customers, business partners and team members call home • Creating a **positive experience by tailoring products and offerings** for our stakeholders and customers to achieve their objectives
G	• Ensuring **strong governance and risk management practices** aligned with our role as a publicly traded regulated financial institution focused on all our stakeholders and their communities

At the core of our ESG program is our management team and the Board, who navigate the risks and opportunities in our business within our established sustainability framework. Our management team, along with our Board, have built a strong risk and governance framework by which we do business. We believe these practices are essential for the Company's success. Information about our risk governance structure is included in the "Risk Management" section of our MD&A for the year ended December 31, 2022, available on SEDAR+ at www.sedarplus.ca. We have started a review of the various requirements on climate risk, environmental risk and related disclosures with a view to beginning the process of quantifying our business' environmental impact.

We remain committed to supporting sustainable residential development projects, investing in our team culture and professional growth, and supporting local charities. The capital we provide for construction lending opportunities primarily focuses on affordable residential development projects in urban markets that are committed to net zero emissions frameworks by 2050, including Toronto, Vancouver and Calgary. We also work with partners who are committed to responsible corporate citizenship. Many of these partners consider ESG at every phase of the real estate lifecycle and recognize that this creates the greatest value for stakeholders. We continue to invest in learning and development opportunities for our team members and support various local charitable organizations. We also support our team members by providing a work environment that allows for a flexible working structure, and enhancing our wellness, benefit and compensation plans.

Our MCAN DRIVE values support *lending* a hand…

- To Canadians dreaming of home ownership and wealth creation through investment in Canadian real estate;
- To communities through support and investment in projects that connect, empower and revitalize;
- To developers committed to social responsibility and building a low carbon world by reducing waste, emissions, and energy consumption;
- To shareholders by providing transparency on ESG risks and opportunities, and actively managing and improving on reporting on ESG performance to ensure alignment with their vision; and
- To team members through the cultivation of a diverse, inclusive, and collaborative culture.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

MCAN Mortgage Corporation is doing business as ("d/b/a") MCAN Financial Group ("MCAN", the "Company" or "we"). 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 nine months ended September 30, 2023 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2022. These items and additional information regarding MCAN, including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR+") at www.sedarplus.ca and our website at www.mcanfinancial.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2022 remain substantially unchanged. Information has been presented as of November 6, 2023.

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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, economic environment and outlook;
- the impact of global health pandemics on the Canadian economy and globally;
- 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;
- the performance of our investments;
- factors affecting our competitive position within the housing lending market;
- international trade, international economic uncertainties, failures of international financial institutions and geopolitical uncertainties and their impact on the Canadian economy;
- sufficiency of our access to liquidity and capital resources;
- the timing and 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;
- factors and assumptions regarding interest rates, including the effect of Bank of Canada actions already taken;
- the effect of supply chain issues;
- the effect of inflation;
- housing sales and residential mortgage borrowing activities;
- the effect of household debt service levels;
- the effect of competition;
- systems failure or cyber and security breaches;
- the availability of funding and capital to meet our requirements;
- investor appetite for securitization products;
- 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, and market conditions relating to, our equity and other investments.

External geopolitical conflicts, failures of international financial institutions, and post-pandemic government and Bank of Canada actions taken, have resulted in uncertainty relating to the Company’s internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, supply chain issues, inflation, levels of housing activity and household debt service levels. There can be no assurance that such expectations, estimates, projections, assumptions and beliefs will continue to be valid. The impact any further pandemics, variants or outbreaks, including measures to prevent their spread and related government actions adopted in response thereto, will have on our business is uncertain and difficult to predict.

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 risk that any of the above opinions, estimates or assumptions are inaccurate and the other risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2022, 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 - Q3 2023

(in thousands except for per share amounts and %) For the Periods Ended	Q3 2023	Q2 2023	Change (%)	Q3 2022	Change (%)	YTD 2023	YTD 2022	Change (%)
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$ 44,144	$ 38,691	14%	$ 27,216	62%	$118,591	$ 70,539	68%
Term deposit interest and expenses [B]	$ 21,083	$ 18,034	17%	$ 12,330	71%	$ 53,858	$ 31,033	74%
Net corporate mortgage spread income[1] [A-B]	$ 23,061	$ 20,657	12%	$ 14,886	55%	$ 64,733	$ 39,506	64%
Equity income from MCAP Commercial LP	$ 4,310	$ 5,268	(18%)	$ 8,236	(48%)	$ 17,581	$ 19,743	(11%)
Net gain (loss) on securities	$ (1,581)	$ (5,017)	68%	$ (5,092)	69%	$ (5,599)	$ (13,809)	59%
Net investment income - corporate assets	$ 25,656	$ 23,139	11%	$ 18,845	36%	$ 79,417	$ 49,071	62%
Net investment income - securitization assets	$ 770	$ 1,159	(34%)	$ 877	(12%)	$ 2,801	$ 3,060	(8%)
Net income	$ 18,479	$ 15,887	16%	$ 11,650	59%	$ 57,643	$ 31,266	84%
Basic and diluted earnings per share	$ 0.53	$ 0.46	15%	$ 0.37	43%	$ 1.66	$ 1.01	64%
Dividends per share - cash	$ 0.38	$ 0.36	6%	$ 0.36	6%	$ 1.10	$ 1.08	2%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ —	$ 0.97	(100%)
Next quarter's dividend per share - cash	$ 0.38							
Return on average shareholders' equity [1]	14.20 %	12.47 %	1.73%	10.52 %	3.68%	15.06 %	9.47 %	5.59%
Taxable income per share [2]	$ 0.45	$ 0.66	(32%)	$ (0.47)	(196%)	$ 1.44	$ 0.16	800%
Yields								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.49 %	3.63 %	(0.14%)	2.83 %	0.66%	3.64 %	2.63 %	1.01%
Spread of securitized mortgages over liabilities [1]	0.42 %	0.39 %	0.03%	0.44 %	(0.02%)	0.39 %	0.50 %	(0.11%)
Average term to maturity (in months)								
Mortgages - corporate	13.1	12.7	3%	12.9	2%			
Term deposits	19.2	16.1	19%	17.1	12%			

	Sept 30 2023	Jun 30 2023	Change (%)	Dec 31 2022	Change (%)
Balance Sheet Highlights					
Total assets	$ 4,540,482	$ 4,427,122	3%	$ 4,078,676	11%
Mortgages - corporate	$ 2,337,717	$ 2,224,427	5%	$ 1,939,494	21%
Mortgages - securitized	$ 1,835,318	$ 1,754,886	5%	$ 1,751,303	5%
Total liabilities	$ 4,012,794	$ 3,910,474	3%	$ 3,589,366	12%
Shareholders' equity	$ 527,688	$ 516,648	2%	$ 489,310	8%
Capital Ratios					
Income tax assets to capital ratio [2]	5.14	5.22	(2%)	4.93	4%
CET 1 & Tier 1 capital ratio [4]	17.72 %	17.90 %	(0.18%)	19.60 %	(1.88%)
Total capital ratio [4]	17.98 %	18.14 %	(0.16%)	19.83 %	(1.85%)
Leverage ratio [3]	9.76 %	9.71 %	0.05%	9.83 %	(0.07%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	1.76 %	1.70 %	0.06%	1.66 %	0.10%
Impaired mortgage ratio (total) [1]	0.99 %	0.96 %	0.03%	0.89 %	0.10%
Mortgage Arrears					
Corporate	$ 85,513	$ 63,651	34%	$ 54,430	57%
Securitized	4,438	5,130	(13%)	3,439	29%
Total	$ 89,951	$ 68,781	31%	$ 57,869	55%
Common Share Information (end of period)					
Number of common shares outstanding	35,432	35,068	1%	34,306	3%
Book value per common share [1]	$ 14.89	$ 14.73	1%	$ 14.26	4%
Common share price - close	$ 15.13	$ 15.36	(1%)	$ 15.00	1%
Market capitalization	$ 536,086	$ 538,644	—%	$ 514,590	4%

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] For further information refer to the "Taxable Income" and "Income Tax Capital" sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.
[3] This measure has been calculated in accordance with OSFI's Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.
[4] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2021 and 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022. Prior period ratios have not been restated.

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$44,144	$38,691	$35,756	$30,747	$27,216	$22,815	$20,508	$20,436
Term deposit interest and expenses [B]	$21,083	$18,034	$14,741	$13,189	$12,330	$10,185	$ 8,518	$ 8,389
Net corporate mortgage spread income[1] [A-B]	$23,061	$20,657	$21,015	$17,558	$14,886	$12,630	$11,990	$12,047
Equity income from MCAP Commercial LP	$ 4,310	$ 5,268	$ 8,003	$ 6,860	$ 8,236	$ 6,288	$ 5,219	$ 6,246
Net gain (loss) on securities	$(1,581)	$(5,017)	$ 999	$ 1,735	$(5,092)	$(9,906)	$ 1,189	$ 3,374
Net investment income - corporate assets	$25,656	$23,139	$30,622	$30,734	$18,845	$ 9,468	$20,758	$21,875
Net investment income - securitization assets	$ 770	$ 1,159	$ 872	$ 838	$ 877	$ 1,068	$ 1,115	$ 1,408
Net income	$18,479	$15,887	$23,277	$24,088	$11,650	$ 4,137	$15,479	$16,070
Basic and diluted earnings per share	$ 0.53	$ 0.46	$ 0.67	$ 0.75	$ 0.37	$ 0.13	$ 0.52	$ 0.57
Dividends per share - cash	$ 0.38	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.34
Dividends per share - stock	$ —	$ —	$ —	$ —	$ —	$ —	$ 0.97	$ —
Return on average shareholders’ equity [1]	14.20 %	12.47 %	18.60 %	21.17 %	10.52 %	3.75 %	14.19 %	15.39 %
Taxable income (loss) per share [2]	$ 0.45	$ 0.66	$ 0.33	$ 1.11	$ (0.47)	$ 0.30	$ 0.35	$ 0.32
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.49 %	3.63 %	3.78 %	3.32 %	2.83 %	2.50 %	2.59 %	2.70 %
Spread of securitized mortgages over liabilities [1]	0.42 %	0.39 %	0.39 %	0.39 %	0.44 %	0.51 %	0.54 %	0.62 %
Average term to maturity (in months)								
Mortgages - corporate	13.1	12.7	11.5	11.4	12.9	13.9	13.8	13.0
Term deposits	19.2	16.1	14.9	16.0	17.1	17.7	17.7	18.5
Balance Sheet Highlights ($ million)								
Total assets	$ 4,540	$ 4,427	$ 4,152	$ 4,079	$ 4,004	$ 4,066	$ 4,000	$ 3,808
Mortgages - corporate	$ 2,338	$ 2,224	$ 2,037	$ 1,939	$ 1,975	$ 1,977	$ 1,902	$ 1,806
Mortgages - securitized	$ 1,835	$ 1,755	$ 1,724	$ 1,751	$ 1,691	$ 1,700	$ 1,659	$ 1,584
Total liabilities	$ 4,013	$ 3,910	$ 3,645	$ 3,589	$ 3,562	$ 3,626	$ 3,558	$ 3,375
Shareholders’ equity	$ 528	$ 517	$ 507	$ 489	$ 443	$ 441	$ 442	$ 433
Capital Ratios								
Income tax assets to capital ratio [2]	5.14	5.22	5.02	4.93	5.76	5.53	5.53	5.29
CET 1 & Tier 1 capital ratios [4]	17.72 %	17.90 %	19.59 %	19.60 %	18.35 %	18.82 %	19.32 %	20.26 %
Total capital ratio [4]	17.98 %	18.14 %	19.81 %	19.83 %	18.64 %	19.09 %	19.57 %	20.54 %
Leverage ratio [3]	9.76 %	9.71 %	9.94 %	9.83 %	8.88 %	8.82 %	8.96 %	9.41 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	1.76 %	1.70 %	1.92 %	1.66 %	0.00 %	0.01 %	0.03 %	0.05 %
Impaired mortgage ratio (total) [1]	0.99 %	0.96 %	1.05 %	0.89 %	0.01 %	0.02 %	0.02 %	0.03 %
Mortgage Arrears								
Corporate	$85,513	$63,651	$54,873	$54,430	$37,792	$ 9,908	$ 9,981	$10,826
Securitized	4,438	5,130	4,096	3,439	2,842	3,397	4,124	4,865
Total	$89,951	$68,781	$58,969	$57,869	$40,634	$13,305	$14,105	$15,691
Common Share Information (end of period)								
Number of common shares outstanding	35,432	35,068	34,788	34,306	31,855	31,715	31,373	29,621
Book value of common share [1]	$ 14.89	$ 14.73	$ 14.58	$ 14.26	$ 13.90	$ 13.89	$ 14.08	$ 14.63
Common share price - close	$ 15.13	$ 15.36	$ 15.00	$ 15.00	$ 14.57	$ 16.75	$ 17.85	$ 17.23
Market capitalization ($ million)	$ 536	$ 539	$ 522	$ 515	$ 464	$ 531	$ 560	$ 510

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] For further information refer to the “Taxable Income” and “Income Tax Capital” sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.
[3] This measure has been calculated in accordance with OSFI’s Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the “Capital Management” section of this MD&A.
[4] These measures have been calculated in accordance with OSFI’s Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2021 and 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 50% in fiscal 2021 and 25% in fiscal 2022.

Quarterly Trends

- In 2021, the main drivers to net income were related to the ongoing pandemic impacts including a lower interest rate environment and a recovery in the fair value of our REIT portfolio following the initial onset of the pandemic. In 2022, we saw a rising interest rate environment and generally unrealized losses in our REIT portfolio. In 2023, we initially saw some stabilization in interest rates compared to 2022 but recent increases in interest rates and continued uncertainty on future increases by the Bank of Canada and on the Canadian economy's risk of recession, has led to volatility in REIT stock prices and unrealized losses. Other factors in 2023 include (i) higher average corporate mortgage portfolio balances from net originations and renewals; and (ii) lower spreads of corporate mortgages over term deposit interest and expenses mainly from higher interest rates on our recent term deposit originations. However, spreads of corporate mortgages over term deposit interest and expenses in 2023 are higher than prior periods presented above.

- At the end of 2021 to mid-2022, taxable income had generally been reducing or negative and was mainly impacted by lower taxable income from MCAP due to timing differences only, arising as a result of the tax treatment on sales of their loans into certain securitization programs. This had been partially offset by higher income from our core business. In Q4 2022, we executed an internal reorganization through a transfer of our equity investment in MCAP to a wholly-owned limited partnership which increased our taxable income.

- The spread of corporate mortgages over term deposit interest and expenses had been declining until Q3 2022. Through the latter quarter of 2021 and first half of 2022, continued market competition had kept mortgage rates low in our residential mortgage portfolio, while increased demand by financial institutions for term deposit funding in the wake of the Russia/Ukraine conflict and demand by deposit customers for higher rates due to anticipated and actual Bank of Canada rate increases had kept term deposit rates elevated, causing a decline in the spread. Beginning in Q3 2022, the rising interest rate environment had increased rates in our floating rate residential construction portfolio above their floor rates and our greater focus on changing the laddering of the duration of our term deposits had kept average term deposit rates from rising faster than our mortgage rates, which has increased our spread of corporate mortgages over term deposit interest and expenses. In Q2 and Q3 2023, term deposit rates have increased faster than our mortgage rates given the current higher interest rate environment and uncertainty around future Bank of Canada rate decisions as well as continued market competition for residential mortgages.

- 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 since 2021. As a result, we had reduced our securitization volumes in 2022 and 2023. 2023 volumes have also been impacted by lower insured residential mortgage originations due to the higher interest rate environment. We participate in this market opportunistically.

- Common Equity Tier 1 ("CET 1"), Tier 1 Capital and Total Capital to risk-weighted assets ratio reductions are due to our growing risk-weighted assets compared to our capital base. The Company successfully initiated two capital raises by way of rights offerings in December 2021 and December 2022. These offerings raised $33 million of capital in 2021 and $34 million in 2022. In 2022 and so far in 2023, we also raised $4 million and $2 million, respectively, of capital through our at-the-market equity program ("ATM Program"). Our Dividend Reinvestment Program ("DRIP") has provided us with a reliable source of capital maintenance each quarter and we have seen an increase in participation beginning in Q4 2022. In Q2 2023, our total capital and leverage ratios decreased due to Office of the Superintendent of Financial Institutions Canada's ("OSFI") revised rules that incorporate Basel III reforms that came into effect. All of our capital and leverage ratios are within our regulatory and internal risk appetite guidelines.

- Mortgage arrears have varied on a quarterly basis given the nature of the 1-30 day arrears. The majority of residential mortgage 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. While greater than 30 days arrears have increased in our residential mortgages, it is still low compared to the size of our portfolio and low relative to historical norms. We believe that we have a quality residential mortgage loan portfolio. The increase in construction and commercial mortgage arrears is mainly due to mortgages that we did bring or we expect will be brought current, or where we have initiated asset recovery programs. We have recovered or expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

BUSINESS OVERVIEW AND OUTLOOK

We focus over the long term on growing our business and shareholder returns. We believe that our long-term strategy will continue to serve us well, though we also consider the current volatile market conditions in the execution of that strategy. Over the short to mid term, our focus is on maintaining solid net interest margin, managing maturities in our portfolio and investing in our core business within our capital requirements and risk appetite, as well as continuing to invest in our infrastructure and process improvements. We believe that we are a prudent and disciplined lender to, and investor in, real estate markets and that we have strong relationships with our brokers and strategic partners that are foundational to our strategy. This strategy and long-term outlook are based on assumptions from our experience, our market knowledge, and sources we consider reliable.

Economic Outlook

The Canadian economy is showing signs of weakening under the weight of higher interest rates. While inflation is trending downwards, higher mortgage costs, which are directly related to higher interest rates, and a resilient labour market with higher wage growth are keeping inflation above the 2% Bank of Canada target. Many economists expect rates to remain elevated into mid to late 2024 but citing that further rate hikes seem less likely given the expected effects of the 475 basis points increase that have taken place since 2022 and a slowing global market. Higher leveraged households and the prospects of a weakening job market have shifted consumer spending toward debt servicing. Strong immigration is also proving to be another unique factor for Canada's economy. Most economists believe that at least a mild recession is probable but forecasted for 2024, along with modest GDP growth and our unemployment rate to increase but still remain low. Although much of the Canadian consumer market continues to demonstrate credit strength, there is the beginning of increasing delinquency rates on non-housing-related consumer debt and some pullback on consumer spending that may indicate that the tighter monetary policy and high interest rates are working their way through the economy. We also expect continued uncertainty around current geopolitical conflicts that have impacts on the cost of commodities, consumer goods and food, and investor sentiment. We expect inflation and interest rates to continue to be the dominant concern for the rest of the year and into 2024.

Housing Market Outlook

The continuation of interest rate hikes and resilient house prices are headwinds that could cool housing demand, which we are now starting to see. Housing affordability continues to worsen in all provincial markets. In the long term, we believe that eventual cuts to interest rates, strong population growth and the continued supply-demand imbalance will provide upward pressure on home prices, particularly in and around our core markets of (i) the Greater Toronto area; (ii) the Capital region; and (iii) the Greater Vancouver area. Further, robust immigration rates will keep lifting housing demand with the majority choosing to live within our core markets. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business. Even with current government actions, including the recent removal of GST on rental construction projects, the lack of supply of affordable housing is not easily resolved in the short term, as there are multiple factors to building new supply (i.e. local/municipal government processes, skilled labour shortages, increased construction costs, lack of new construction technologies, etc.) that limit how many homes can be built in the short term.

Business Outlook

We believe that our business is well structured with its focus on multiple facets of the Canadian residential real estate market, giving us some flexibility in terms of income generation and allowing us to balance out volatility that we may experience at certain points and in certain areas of our business. We expect that continued high interest rates as well as the risk of recession will create some headwinds for the remainder of the year for our MCAN Home division in its origination of residential mortgages, our MCAN Capital division in its REIT portfolio, and our MCAN Wealth division in its origination and management of term deposits. That said, we have positive momentum in other parts of our business, such as MCAN Capital's construction lending business which benefits from floating interest rates, and renewal volumes from our maturing residential mortgages in our MCAN Home division. We believe that the housing market will ultimately remain strong over the long term given the lack of current supply and the pace of immigration. Notwithstanding the short-term headwinds, we believe that there is opportunity to grow our core business in this environment, without taking on significantly more risk. We continue to manage our spreads in our residential lending business and look to open up new products in that area, and there continues to be ample opportunity to lend to experienced and well capitalized residential construction developers, particularly in our core area of lending on more affordable housing projects near transit corridors around key urban markets. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in the short term. We will also continue to place an emphasis on investing in our business infrastructure and process improvements in order to help drive efficiencies and future growth.

MCAN Capital Division

Our MCAN Capital division manages our construction and commercial lending business, as well as our investments in REITs and private real estate-based development and loan funds. Notwithstanding current headwinds in the housing market from the higher interest rate environment, we expect continued high demand for more affordable housing, which is our focus generally with our investments and construction and commercial loans. We have seen tremendous growth in our residential construction and commercial portfolio, which is over $1 billion, and we expect a continued solid pipeline for the remainder of the year. With respect to our construction lending portfolio, although there continues to be construction zoning site delays as well as the aforementioned housing market headwinds, the vast majority of our loans are progressing towards completion and the few that have stalled are being actively managed to either be brought current or we expect to recover all past due interest and principal. We continue to monitor that entire portfolio and the market very closely in general, and we will continue to exercise our strong credit management practices in the context of the market. As well, the cost of construction has increased due to inflationary pressures in the cost of building materials and labour and there continues to be a shortage of skilled labour within the construction industry. All these factors have, and may continue to have, an impact on the timing of repayments as loans remain outstanding longer; however, they have not changed the overall expected success of these construction projects or the performance of the loans within this portfolio. Our philosophy within our MCAN Capital division is to apply a prudent approach to our underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential products, near transit corridors, with experienced borrowers and developers where we have existing relationships. We will continue to remain vigilant in our underwriting and loan management practices. With respect to our private real estate-based development funds, many of the fund sponsors have been sitting on the sidelines, not committing amounts to new projects given current market conditions. We believe this to be a prudent approach. MCAN has invested in these funds for long-term gains, not short-term returns. For projects currently being undertaken, we actively monitor their progress. With respect to our REIT portfolio, the expected relief to interest rates in 2024 and 2025 should help valuations there.

MCAN Home Division

Our MCAN Home division manages our residential lending business. Given the higher interest rate environment, our risk management, credit monitoring and assessment activities will continue to have a heightened focus in operating our business. We currently have a portfolio with a strong credit profile and a minimal level of arrears. Residential mortgages tend to provide comparatively lower yields given their risk profile. That said, we continue to focus on proactively protecting our net interest margins, where we are experiencing tightening versus the first half of the year, as new business is slow given higher interest rates and a decline in home purchase activity. The mortgage market has become more competitive in order to attract what smaller demand is coming in. We expect this trend to continue. We have been experiencing, and expect to continue to experience, strong renewals of our uninsured residential mortgages as OSFI's minimum qualifying rate for borrowers applying for new mortgages remains in place. Based on the current economic and housing market outlook, we will continue to focus on protecting our net interest margins within our capital requirements during this time of uncertainty. We are also looking to add new products to further broaden our offering to our customers. We remain dedicated to continuously improving our service for our borrowers and the broker community, and as such, we will continue to invest in our current and new systems and business infrastructure to further enhance our service experience. We are also increasing our mortgage lending in the Alberta and British Columbia urban markets and may look to expand in other markets within Canada. We will continue to keep abreast of the many changes in the market, the regulatory environment and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

MCAN Wealth Division

Our MCAN Wealth division manages our term deposit business. We employ leverage and fund our business by issuing term deposits that are eligible for CDIC deposit insurance that are sourced through a network of independent brokers and financial agents. We have raised record amounts of term deposits so far in 2023 given the level of growth and high mortgage renewals that we have experienced. This will likely continue for the balance of the year. We have also seen higher term deposit rates amid a higher interest rate environment. We typically see the term deposit market impacted first and immediately by higher interest rates, compared to residential mortgages that these term deposits fund given commitments for residential mortgages are done in advance. In the short term, there will continue to be volatility in the Government of Canada yield curve and, therefore, volatility in pricing in the term deposit market. In the mid term, we expect to see term deposit rates stabilize and even decrease as the likelihood for interest rate cuts becomes clearer. Given current and expected interest rates, we continue to look for opportunities to realign the laddering of the duration of our term deposits relative to our corporate mortgage portfolio and we have actively utilized our hedging strategies to minimize interest rate risk. We will continue to expand our broker network and look for other channels to source term deposits, including a direct-to-consumer channel, which we hope to launch soon. We have invested in, and expect to continue to invest in, our current and new systems and business infrastructure and processes to drive efficiencies. We are focused on a digital strategy, process improvements and eventually over the long term, new product offerings within our term deposit operations.

We are expanding and maturing our capital markets, investor relations and funding strategies over the long term to continue our growth. That growth will be dependent on capital availability and, therefore, the strength of capital markets or existing shareholder demand for our shares. We have leveraged our ATM program already this year, renewing it in August, and we will continue to use our ATM program and other share offerings when it makes sense. MCAN's management and Board are committed to proactively and effectively managing and evolving all our strategies, business activities and team into the future. Our targeted average annual growth in corporate assets over the long term is 10%; however, we expect to remain focused on protecting our bottom line and preserving capital over corporate asset growth in the mid term, given the uncertain economic environment.

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

HIGHLIGHTS

Q3 2023

- Net income totalled $18.5 million in Q3 2023, an increase of $6.8 million (59%) from $11.7 million in Q3 2022. Results for the third quarter of 2023 were positively impacted by higher net corporate mortgage spread income.

- Earnings per share totalled $0.53 in Q3 2023, an increase of $0.16 (43%) from earnings per share of $0.37 in Q3 2022.

- Return on average shareholders' equity[1] was 14.20% for Q3 2023 compared to 10.52% in Q3 2022.

- Net corporate mortgage spread income[1] increased by $8.2 million from Q3 2022. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued net mortgage originations and renewals, and an increase in the spread of corporate mortgages over term deposit interest and expenses. The increase in the spread of corporate mortgages over term deposit interest and expenses is due to a larger increase in our average mortgage rates compared to our average term deposit rates. The increase in our average mortgage rates is primarily due to the impact of the higher interest rate environment on our mostly floating rate residential construction loans.

- Net securitized mortgage spread income[1] decreased by $0.3 million from Q3 2022. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance. Since 2022, we have seen the spread of securitized mortgages over liabilities decline on securitizations mainly as a result of higher securitization liability interest expense from higher Government of Canada bond yields in a rising interest rate environment.

- Provision for credit losses on our corporate mortgage portfolio of $0.4 million in Q3 2023 was mainly due to growth in our portfolio and less favourable underlying economic forecasts. In Q3 2022, we had a provision for credit losses of $0.9 million mainly due to changes in economic forecasts from uncertainty around inflation and the rising interest rate environment, as well as growth in our portfolio.

- Equity income from MCAP totalled $4.3 million in Q3 2023, a decrease of $3.9 million (48%) from $8.2 million in Q3 2022, which was primarily due to (i) lower mortgage origination fees from lower mortgage originations and sales; (ii) a decrease in fair value adjustments on mortgages due to the higher interest rate environment; and (iii) higher interest expense on credit facilities. These were partially offset by (i) higher securitized mortgage interest income from a higher average securitized portfolio; (ii) higher hedge gains; (iii) higher investment revenue from higher average mortgage rates; and (iv) lower mortgage origination expenses from lower origination volumes.

- In Q3 2023, we recorded a $1.6 million net unrealized fair value loss on our marketable and non-marketable securities compared to a $5.1 million net unrealized fair value loss in Q3 2022. In Q3 2023, we saw REIT prices decrease due to Bank of Canada interest rate increases resuming and uncertainty around future rate increases and recessionary pressures. In Q3 2022, we saw more significant declines in REIT prices mainly from the steeply rising interest rate environment. We are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments. In Q3 2023, we received distributions of $0.7 million (distribution yield[1] of 5.68%) from our REITs compared to $0.9 million (distribution yield[1] of 6.07%) in Q3 2022. In Q3 2023, we also had a $2.1 million unrealized gain on our non-marketable securities investments due to value-add leasing activity on one underlying property investment.

Year to Date 2023

- Net income totalled $57.6 million for 2023 year to date, an increase of $26.4 million (84%) from $31.3 million net income in 2022. Similar to Q3 2023, our year to date results were positively impacted by higher net corporate mortgage spread income.

- Earnings per share totalled $1.66 for 2023 year to date, an increase of $0.65 (64%) from earnings per share of $1.01 in 2022.

- Return on average shareholders' equity[1] was 15.06% for 2023 compared to 9.47% in 2022.

- Net corporate mortgage spread income[1] increased by $25.2 million from 2022. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued originations and renewals, and an increase in the spread of corporate mortgages over term deposit interest and expenses. For 2023 year to date, the increase in the spread of corporate mortgages over term deposit interest and expenses is due to the same factors as for Q3 2023 mentioned above.

- Net securitized mortgage spread income[1] decreased by $0.9 million from 2022. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. The decline in the spread of securitized mortgages over liabilities is due to the same factors as described above for Q3 2023.

- Provision for credit losses on our corporate mortgage portfolio of $2.4 million for 2023 was mainly due to the same factors as described above for Q3 2023. For 2022, there was a provision for credit losses of $27 thousand due to growth in the portfolio partially offset by improved economic forecasts following the pandemic.

- Equity income from MCAP totalled $17.6 million for 2023 year to date, a decrease of $2.1 million (11%) from $19.7 million in 2022. For 2023 year to date, the decrease is due mainly to lower mortgage origination fees from lower mortgage originations and sales.

- Year to date net unrealized loss on our marketable and non-marketable securities was $5.6 million for 2023 compared to a year to date net realized and unrealized loss of $13.8 million for 2022. Year to date 2023 net unrealized losses are due to the same factors as described above for Q3 2023. In year to date 2022, we also had a $1.8 million realized loss on one REIT in our portfolio that had a mandatory corporate action resulting in its privatization. Year to date, we received distributions of $2.8 million (distribution yield[1] of 6.22%) from our REITs compared to $2.7 million (distribution yield[1] of 5.86%) in 2022.

Business Activity and Balance Sheet

- Our balance sheet management reflects our focus in the short to mid term on maintaining solid net interest margin within our capital requirements and risk appetite.

- Corporate assets totalled $2.67 billion at September 30, 2023, a net increase of $48 million (2%) from June 30, 2023 and a net increase of $384 million (17%) from December 31, 2022.

- Corporate mortgage portfolio totalled $2.3 billion at September 30, 2023, a net increase of $113 million (5%) from June 30, 2023 and a net increase of $398 million (21%) from December 31, 2022.

- Construction and commercial portfolios totalled $1.09 billion at September 30, 2023, a net increase of $30 million (3%) from June 30, 2023 and a net increase of $164 million (18%) from December 31, 2022. The movement in the portfolio is attributed to originations of $480 million year to date 2023 in new construction and commercial mortgages, partly offset by maturities and repayments. Originations have been strong this year and some extensions of projects due to normal construction delays or normal delays relating to the permitting and zoning process has meant that we have not experienced as much run-off in the portfolio as expected. To date, projects continue to progress toward completion. We will look to rebalance, where possible, to a higher proportion of construction and commercial loans that fit within our risk appetite and capital requirements.

- Uninsured residential mortgage portfolio totalled $956 million at September 30, 2023, a net increase of $50 million (6%) from June 30, 2023 and a net increase of $128 million (15%) from December 31, 2022. Uninsured residential mortgage originations were $107 million in Q3 2023, a decrease of $7 million (6%) from Q2 2023 and an increase of $35 million (48%) from Q3 2022 and $284 million year to date 2023 compared to $320 million year to date 2022. Overall, total origination volumes in 2023 were lower partly as a result of our focus on our net corporate mortgage spread income over portfolio growth in this heightened interest rate environment, as well as a broader market slowdown in new originations due to the high interest rate environment. That said, we have seen an increase in our uninsured residential mortgage renewals with $122 million in Q3 2023 compared to $108 million in Q3 2022 and $380 million year to date 2023 compared to $308 million year to date 2022 as borrowers find it more convenient to stay with their current lender in the current market environment. We actively manage origination and renewal volumes in order to protect our net interest margins and our bottom line.

- Insured residential mortgage originations were $163 million in Q3 2023, an increase of $20 million (14%) from Q2 2023 and an increase of $37 million (29%) from Q3 2022, and $375 million year to date 2023 compared to $499 million year to date 2022. This includes $3 million of insured residential mortgage commitments originated and sold in Q3 2023 under an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, compared to $9 million in Q2 2023 and $87 million in Q3 2022, and $25 million year to date 2023 compared to $184 million year to date 2022. We launched our insured adjustable rate residential mortgage product last year. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise. Insured residential mortgage securitization volumes were $144 million in Q3 2023, an increase of $68 million (89%) from Q2 2023 and an increase of $88 million (157%) from Q3 2022, and $232 million year to date 2023 compared to $314 million year to date 2022. Overall, for the year to date, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages. We use various channels in funding the insured residential mortgage portfolio, in the context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

Dividend

- The Board declared a fourth quarter regular cash dividend of $0.38 per share to be paid January 2, 2024 to shareholders of record as of December 15, 2023. As a Mortgage Investment Corporation ("MIC"), we are entitled to deduct the dividends that we pay to shareholders from our taxable income. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

Credit Quality

- Impaired corporate mortgage ratio[1] was 1.76% at September 30, 2023 compared to 1.70% at June 30, 2023 and 1.66% at December 31, 2022. At September 30, 2023, we have two impaired construction mortgages and one commercial loan where asset recovery programs have been initiated and we expect to recover all past due interest and principal.

- Impaired total mortgage ratio[1] was 0.99% at September 30, 2023 compared to 0.96% at June 30, 2023 and 0.89% at December 31, 2022.

- Arrears total mortgage ratio[1] was 2.16% at September 30, 2023 compared to 1.73% at June 30, 2023 and 1.57% at December 31, 2022. The majority of our residential mortgage 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. While greater than 30 days arrears have increased in our residential mortgages, it is still low compared to the size of our portfolio and low relative to historical norms. We believe that we have a quality residential mortgage loan portfolio. We have also had historically low arrears 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. We have a strong track record with our asset recovery programs should the need arise.

- Net write-offs were $nil (0.0 basis points of the average corporate portfolio) in Q3 2023 compared to $11 thousand (0.2 basis points) in Q3 2022.

- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 67.0% at September 30, 2023 compared to 67.4% at June 30, 2023 and 62.1% at December 31, 2022.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the Tax Act and OSFI.

- During the current quarter, we renewed our (i) Base Shelf Prospectus; and (ii) ATM Program established pursuant to a Prospectus Supplement to our Base Shelf Prospectus allowing us to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at our sole discretion. During Q3 2023, we sold 100,000 common shares at a weighted average price of $16.28 for gross proceeds of $1.6 million and net proceeds of $1.4 million including $33 thousand of agent commission paid and $0.2 million of other share issuance costs under the ATM Program. Year to date 2023, we sold 153,400 common shares at a weighted average price of $16.12 for gross proceeds of $2.5 million and net proceeds of $2.1 million including $50 thousand of agent commission paid and $0.3 million of other share issuance costs under the ATM Program.

- We issued $4.0 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in Q3 2023 compared to $3.6 million in Q2 2023 and $2.0 million in Q3 2022. The DRIP participation rate was 30% for the Q3 2023 dividend (Q2 2023 dividend - 29%; Q3 2022 dividend - 17%).

- Income tax assets to capital ratio[3] was 5.14 at September 30, 2023 compared to 5.22 at June 30, 2023 and 4.93 at December 31, 2022.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[2] were 17.72% at September 30, 2023 compared to 17.90% at June 30, 2023 and 19.60% at December 31, 2022. Total Capital to risk-weighted assets ratio[2] was 17.98% at September 30, 2023 compared to 18.14% at June 30, 2023 and 19.83% at December 31, 2022. Leverage ratio[2] was 9.76% at September 30, 2023 compared to 9.71% at June 30, 2023 and 9.83% at December 31, 2022. Beginning June 30, 2023, our total capital and leverage ratios decreased due to OSFI's revised rules that incorporate Basel III reforms that came into effect. All of our capital and leverage ratios are within our regulatory and internal risk appetite guidelines.

[1] *Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*
[2] *These measures have been calculated in accordance with OSFI's Leverage Requirements and Capital Adequacy Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital were 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.*
[3] *For further information refer to the "Income Tax Capital" section of this MD&A. Tax balances are calculated in accordance with the Tax Act.*

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %) For the Periods Ended	Q3 2023	Q2 2023	Change (%)	Q3 2022	Change (%)	YTD 2023	YTD 2022	Change (%)
Net Investment Income - Corporate Assets								
Mortgage interest	$ 44,144	$ 38,691	14%	$ 27,216	62%	$118,591	$ 70,539	68%
Equity income from MCAP Commercial LP	4,310	5,268	(18%)	8,236	(48%)	17,581	19,743	(11%)
Non-marketable securities	2,056	2,428	(15%)	2,202	(7%)	6,706	5,732	17%
Marketable securities	693	1,177	(41%)	864	(20%)	2,797	2,692	4%
Fees	480	638	(25%)	682	(30%)	1,689	1,843	(8%)
Interest on cash and other income	1,071	1,047	2%	579	85%	3,147	858	267%
Net loss on securities	(1,581)	(5,017)	68%	(5,092)	69%	(5,599)	(13,809)	59%
Gain on dilution of investment in MCAP Commercial LP	—	1,048	(100%)	—	n/a	1,048	—	n/a
	51,173	**45,280**	**13%**	**34,687**	**48%**	**145,960**	**87,598**	**67%**
Term deposit interest and expenses	21,083	18,034	17%	12,330	71%	53,858	31,033	74%
Mortgage expenses	1,794	1,797	—%	1,592	13%	5,392	4,769	13%
Interest on loans payable	2,241	1,414	58%	1,064	111%	4,813	2,488	93%
Other financial expenses	—	100	(100%)	—	n/a	100	210	(52%)
Provision for (recovery of) credit losses	399	796	(50%)	856	(53%)	2,380	27	8,715%
	25,517	**22,141**	**15%**	**15,842**	**61%**	**66,543**	**38,527**	**73%**
	25,656	**23,139**	**11%**	**18,845**	**36%**	**79,417**	**49,071**	**62%**
Net Investment Income - Securitization Assets								
Mortgage interest	9,616	9,342	3%	7,949	21%	28,026	22,804	23%
Other securitization income	453	433	5%	195	132%	1,276	383	233%
	10,069	**9,775**	**3%**	**8,144**	**24%**	**29,302**	**23,187**	**26%**
Interest on financial liabilities from securitization	8,147	7,524	8%	6,214	31%	23,172	17,096	36%
Mortgage expenses	1,152	1,092	5%	1,050	10%	3,329	3,025	10%
Provision for credit losses	—	—	n/a	3	(100%)	—	6	(100%)
	9,299	**8,616**	**8%**	**7,267**	**28%**	**26,501**	**20,127**	**32%**
	770	**1,159**	**(34%)**	**877**	**(12%)**	**2,801**	**3,060**	**(8%)**
Operating Expenses								
Salaries and benefits	6,015	6,187	(3%)	5,044	19%	17,499	14,679	19%
General and administrative	2,527	2,589	(2%)	2,442	3%	7,884	6,831	15%
	8,542	**8,776**	**(3%)**	**7,486**	**14%**	**25,383**	**21,510**	**18%**
Net income before income taxes	17,884	15,522	15%	12,236	46%	56,835	30,621	86%
Provision for (recovery of) income taxes	(595)	(365)	63%	586	(202%)	(808)	(645)	25%
Net Income	**$ 18,479**	**$ 15,887**	**16%**	**$ 11,650**	**59%**	**$ 57,643**	**$ 31,266**	**84%**
Basic and diluted earnings per share	$ 0.53	$ 0.46	15%	$ 0.37	43%	$ 1.66	$ 1.01	64%
Dividends per share - cash	$ 0.38	$ 0.36	6%	$ 0.36	6%	$ 1.10	$ 1.08	2%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ —	$ 0.97	(100%)

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	September 30, 2023			June 30, 2023			September 30, 2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages									
Insured	$ 303,108	$ 3,295	4.04 %	$ 225,621	$ 1,902	3.76 %	$ 210,271	$ 1,418	2.74 %
Uninsured	930,150	14,750	6.32 %	869,404	12,745	5.86 %	855,224	8,772	4.09 %
Uninsured - completed inventory	9,576	259	10.73 %	29,603	718	9.72 %	33,047	609	7.31 %
Construction loans									
Residential	963,016	23,450	9.87 %	894,919	21,051	9.43 %	763,841	14,537	7.55 %
Non residential	3,222	55	6.71 %	—	—	— %	5,077	93	7.28 %
Commercial loans									
Multi family residential	97,728	2,182	8.85 %	102,044	2,128	8.36 %	92,659	1,537	6.58 %
Other	6,291	153	9.62 %	6,300	147	9.38 %	17,800	250	5.56 %
Mortgages - corporate portfolio	$2,313,091	$ 44,144	7.63 %	$2,127,891	$ 38,691	7.32 %	$1,977,919	$ 27,216	5.47 %
Term deposit interest and expenses [2]	2,019,738	21,083	4.14 %	1,906,062	18,034	3.69 %	1,790,540	12,330	2.64 %
Net corporate mortgage spread income[1]		$ 23,061			$ 20,657			$ 14,886	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.49 %			3.63 %			2.83 %
Average term to maturity (months)									
Mortgages - corporate	13.1			12.7			12.9		
Term deposits	19.2			16.1			17.1		

Table 5: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Year to Date

For the Nine Months Ended September 30	2023			2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages						
Insured	$ 229,578	$ 6,537	3.80 %	$ 206,877	$ 3,522	2.30 %
Uninsured	877,546	38,394	5.83 %	835,976	24,270	3.87 %
Uninsured - completed inventory	25,065	1,782	9.50 %	36,883	1,718	6.22 %
Construction loans						
Residential	901,611	65,022	9.57 %	723,853	36,335	6.71 %
Non residential	1,086	55	6.67 %	5,029	262	6.97 %
Commercial loans						
Multi family residential	100,244	6,359	8.48 %	83,716	3,605	5.87 %
Other commercial	6,301	442	9.38 %	17,905	827	5.60 %
Mortgages - corporate portfolio	$ 2,141,431	$ 118,591	7.36 %	$ 1,910,239	$ 70,539	4.93 %
Term deposit interest and expenses [2]	1,901,975	53,858	3.72 %	1,743,658	31,033	2.30 %
Net corporate mortgage spread income[1]		$ 64,733			$ 39,506	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.64 %			2.63 %

[1] *Considered to be a Non-GAAP and other financial measure. The net corporate mortgage spread income and the spread of corporate mortgages over term deposit interest and expenses are indicators of the profitability of income earning assets less the cost of funding. Net corporate mortgage spread income is calculated as the difference between corporate mortgage interest and term deposit interest and expenses, both of which are IFRS measures. Average rate is equal to income/expense divided by the average balance over the period on an annualized basis. Income/expense incorporates items such as penalty income, commitment fee income, origination expense and commission expense. The average 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 rate as applicable. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.*

[2] *Beginning in Q4 2022, includes the net hedging impact. See "Derivatives and Hedging" sub-section of this MD&A.*

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q3 2023	Q2 2023	Change (%)	Q3 2022	Change (%)	YTD 2023	YTD 2022	Change (%)
Originations								
Residential mortgages - insured fixed [2]	$ 159,495	$ 139,603	14%	$ 44,951	255%	$ 359,012	$ 205,276	75%
Residential mortgages - insured adjustable rate [2]	3,878	3,704	5%	81,341	(95%)	15,842	294,104	(95%)
Residential mortgages - uninsured	107,421	114,105	(6%)	72,361	48%	284,487	320,290	(11%)
Residential mortgages - uninsured completed inventory [1]	9,502	148	6,320%	12,567	(24%)	18,941	17,399	9%
Residential construction [1]	200,672	156,477	28%	120,226	67%	472,796	387,090	22%
Non-residential construction [1]	3,311	—	n/a	34	9,638%	3,311	115	2,779%
Commercial [1]	—	—	n/a	—	n/a	3,675	26,855	(86%)
	$ 484,279	**$ 414,037**	**17%**	**$ 331,480**	**46%**	**$1,158,064**	**$1,251,129**	**(7%)**

[1] Construction, commercial and completed inventory originations represent all advances on loans.
[2] Includes insured residential mortgage commitments sold to MSLP that the Company originated.

Overview

For Q3 2023 and year to date 2023, the increase in the spread of corporate mortgages over term deposit interest and expenses from Q3 2022 and year to date 2022 was mainly attributable to the rising interest rate environment's impact on floating rates on residential construction loans that are now well above their floor rates. In Q3 2023 compared to Q2 2023, we saw the increase in average term deposit rates generally exceeding the pace of increase in our mortgage portfolio, given the amount of term deposits we originated coupled with the impact of maturing lower-rate term deposits. As well, deposit customers are seeking higher rates due to actual and expected Bank of Canada policy interest rate increases and current economic uncertainty. That said, we have been actively managing our interest rate risk during this period of higher interest rates by continually reviewing, and if necessary, changing the laddering of the duration of our term deposits relative to our corporate mortgage portfolio. We continue to make a conscious effort to focus on residential lending spreads, which have compressed.

Residential Mortgage Lending

Residential mortgages provide comparatively lower yields given their risk profile, with uninsured residential mortgages providing higher yields than insured residential mortgages. We opportunistically invest in our residential uninsured completed inventory portfolio which often migrate from our own construction book.

Total origination volumes year to date 2023 on our residential mortgages were lower compared to year to date 2022. The economic environment and its impact on the housing market and borrowers, has caused a slowdown in origination volumes. As well, we have continued to have a more purposeful focus on protecting our net interest margin over quantity of originations. However, we have seen an increase in our uninsured residential mortgage renewals with $380 million year to date 2023 compared to $308 million year to date 2022, as borrowers find it more convenient to stay with their current lender in the current market environment. Origination volumes for Q3 2023 did improve compared to Q2 2023 and Q3 2022 as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets.

Our insured adjustable rate residential mortgage product also saw a slowdown due to higher short term interest rates and uncertainty around further Bank of Canada rate increases. Of note, unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages adjust as interest rates change with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise.

We continue to enhance our internal sales and marketing capabilities, and strengthen relationships and customer service with the broker community. We will continue to invest in new technology and add new products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers.

We have an agreement with MSLP, a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured residential mortgage commitments. We originated and sold $3 million in commitments in Q3 2023 (Q2 2023 - $9 million; Q3 2022 - $87 million) and $25 million year to date 2023 (year to date 2022 - $184 million) under this agreement.

We securitize our insured residential mortgages opportunistically through the CMHC National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") program. Our Q3 2023 residential mortgage securitization volumes were $144 million (Q2 2023 - $76 million; Q3 2022 - $56 million) and $232 million year to date 2023 (year to date 2022 - $314 million). Overall, for the year to date, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Mortgage Renewal Rights

Through our origination platform, we retain the renewal rights to internally originated residential 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 including renewal income. At September 30, 2023, we had the renewal rights to $3.0 billion of residential mortgages (June 30, 2023 - $2.8 billion; December 31, 2022 - $2.6 billion).

Construction and Commercial

We continue to focus on growing our balances in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile as they tend to provide comparatively higher yields given their risk profile. Higher average balances and higher average residential construction rates from the higher interest rate environment for the quarter and year to date mainly contributed to a higher corporate mortgage interest compared to prior periods.

Some projects have experienced construction delays due to labour shortages and cost overruns from higher interest costs and the inflationary impact on building supplies, which has led to some loan extension and amendment requests. To date, projects continue to progress toward completion. Impaired construction and commercial mortgages include three construction and commercial mortgages where asset recovery programs have already been initiated and we expect to recover all past due principal and interest. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets.

Equity Income from MCAP

As a result of the higher interest rate environment, in Q3 2023, MCAP's origination volumes were $6.3 billion, a decrease from $8.7 billion in Q3 2022. At August 31, 2023 (we account for MCAP on a one-month lag basis), MCAP had $153.7 billion of assets under management compared to $155.0 billion at May 31, 2023 and $151.1 billion at August 31, 2022. Equity income from MCAP totalled $4.3 million in Q3 2023, a decrease of $3.9 million from $8.2 million in Q3 2022. For Q3 2023, the decrease in equity income from MCAP was primarily due to (i) lower mortgage origination fees from lower mortgage originations and sales; (ii) a decrease in fair value adjustments on mortgages due to the higher interest rate environment; and (iii) higher interest expense on credit facilities. These were partially offset by (i) higher securitized mortgage interest income from a higher average securitized portfolio; (ii) higher hedge gains; (iii) higher investment revenue from higher average mortgage rates; and (iv) lower mortgage origination expenses from lower origination volumes. For year to date 2023, equity income from MCAP totalled $17.6 million, a decrease of $2.1 million from $19.7 million year to date 2022. For the year to date, the decrease in equity income from MCAP was due mainly to lower mortgage origination fees from lower mortgage originations and sales.

We recognize equity income from MCAP on a one-month lag such that our 2023 equity income from MCAP is based on MCAP's net income for the quarter ended August 31, 2023. 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

KingSett High Yield Fund ("KSHYF"): We received distribution income of $1.7 million in Q3 2023 (Q3 2022 - $1.5 million) and $5.7 million year to date 2023 (year to date 2022 - $4.5 million). The distribution yield[1] on this portfolio was 15.51% in Q3 2023 (Q3 2022 - 11.89%) and 15.24% year to date 2023 (year to date 2022 - 12.62%).

KingSett Senior Mortgage Fund LP ("KSSMF"): We received distribution income of $0.3 million in Q3 2023 (Q3 2022 - $0.2 million) and $0.9 million year to date 2023 (year to date 2022 - $0.5 million). The distribution yield[1] on this portfolio was 10.43% in Q3 2023 (Q3 2022 - 8.93%) and 10.23% year to date 2023 (year to date 2022 - 9.45%).

The distribution yield has been calculated based on the average portfolio carrying value. For further information, refer to the "Other Corporate Assets" section of this MD&A.

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Marketable Securities

Marketable securities income consists of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 5.68% in Q3 2023 (Q3 2022 - 6.07%) and 6.22% year to date 2023 (year to date 2022 - 5.86%). For the current quarter, the lower distribution yield compared to Q3 2022 is mainly due to lower distribution income from one REIT in our portfolio partially offset by the decline in unrealized fair value. For year to date, the higher distribution yield is mainly due to the decline in unrealized fair value in the current year given increased volatility in REIT stocks from the uncertain interest rate and macroeconomic environment. The distribution 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 Loss on Securities

In Q3 2023, we recorded a $1.6 million net unrealized loss on securities compared to a $5.1 million net unrealized loss on securities in Q3 2022. Our year to date net unrealized loss on securities was $5.6 million for 2023 compared to a year to date net realized and unrealized loss on securities of $13.8 million for 2022. In Q3 2023, we had a $2.1 million unrealized gain on our non-marketable securities investments due to value-add leasing activity on one underlying property investment. In 2023, we saw REIT prices decrease due to Bank of Canada interest rate increases resuming and uncertainty around future rate increases, and recessionary pressures. In 2022, we saw more significant declines in REIT prices mainly from the steeply rising interest rate environment. During Q1 2022, one REIT in our portfolio had a mandatory corporate action resulting in privatization and as such we recognized a $1.8 million realized loss. We expect continued volatility in the REIT market, given the economic uncertainty and interest rate environment. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

Gain on Dilution of Investment in MCAP

In Q2 2023, MCAP issued additional class B units to employees of MCAP which decreased our equity interest from 13.83% to 13.73%. 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 $1.0 million in Q2 2023.

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarters and year to date 2023 compared to prior periods was mostly due to a higher average term deposit balance and higher average term deposit rates. Beginning in 2022, average term deposit rates have increased due to the rising interest rate environment as well as dislocation in the term deposit market precipitated by the Russia/Ukraine conflict causing high demand by financial institutions for term deposits in Q1 2022. More recently, deposit customers are seeking higher rates due to actual and expected Bank of Canada policy interest rate increases and current economic uncertainty. That said, we have been actively managing our interest rate risk during this period of higher interest rates by changing the laddering of the duration of our term deposits relative to our corporate mortgage portfolio. 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 $144 million in Q3 2023 (Q3 2022 - $56 million) and $232 million year to date 2023 (year to date 2022 - $314 million). The increase in Q3 2023 was mainly due to higher insured residential mortgage originations as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets. The decrease compared to the prior year to date was mainly due to lower insured residential mortgage originations (a market trend as a result of the higher interest rate environment, making home purchases less affordable, especially for first time home buyers).

For further information on the market MBS and CMB programs, refer to the "Financial Position" section of this MD&A.

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Table 7: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	September 30, 2023			June 30, 2023			September 30, 2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$1,723,456	$ 9,616	2.28 %	$1,699,947	$ 9,342	2.15 %	$1,684,139	$ 7,949	1.89 %
Financial liabilities from securitization [2]	1,738,809	8,147	1.86 %	1,708,854	7,524	1.76 %	1,701,259	6,214	1.45 %
Net securitized mortgage spread income [1]		$ 1,469			$ 1,818			$ 1,735	
Spread of securitized mortgages over liabilities [1]			0.42 %			0.39 %			0.44 %

Table 8: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Year to Date

For the Nine Months Ended September 30	2023			2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 1,715,471	$ 28,026	2.18 %	$ 1,651,788	$ 22,804	1.85 %
Financial liabilities from securitization [2]	1,726,550	23,172	1.79 %	1,669,363	17,096	1.35 %
Net securitized mortgage spread income [1]		$ 4,854			$ 5,708	
Spread of securitized mortgages over liabilities [1]			0.39 %			0.50 %

[1] Considered to be a non-GAAP and other financial measure. The net securitized mortgage spread income and spread of securitized mortgages over liabilities are indicators of the profitability of securitized assets less securitized liabilities. Net securitized mortgage spread income is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization, both of which are IFRS measures. Average rate is equal to income/expense divided by the average balance over the period on an annualized basis. Income/expense incorporates items such as penalty income and indemnity expense. The average 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. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.
[2] Beginning in Q4 2022, includes the net hedging impact. See "Derivatives and Hedging" sub-section of this MD&A.

In 2023, 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 rose significantly as we entered a higher interest rate environment. We have seen some improvement in Q3 2023 due to the impact of our hedging program discussed below.

Derivatives and Hedging

Beginning in Q4 2022, we began to enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to reduce our net income volatility related to changes in interest rates. All of our derivative transactions are with highly rated Canadian financial institutions.

Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in fair value of either the pool of fixed-rate mortgages or term deposits due to interest rate fluctuations. The term of these hedges is generally less than 60 days. The derivative instruments are settled at either the time of securitization or funding of the term deposits, as applicable. We apply cash flow hedge accounting to these derivative transactions with the intention to recognize the effective matching of the gain or loss on the derivative transactions with the recognition of the related interest expense for either the securitization or term deposit funding.

At September 30, 2023, the Company had derivative financial instruments outstanding with net unrealized fair value gains of $0.2 million recognized in the consolidated statements of comprehensive income (June 30, 2023 - $nil; December 31, 2022 - $nil). During Q3 2023, we recognized a net realized gain on our derivative transactions of $0.4 million (Q3 2022 - $nil) in the consolidated statements of comprehensive income.

For further information, refer to Note 11 to the interim consolidated financial statements.

Provision for (Recovery of) Credit Losses

Table 9: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) **For the Periods Ended**	**Q3 2023**	**Q2 2023**	**Change (%)**	**Q3 2022**	**Change (%)**	**YTD 2023**	**YTD 2022**	**Change (%)**
Provision for (recovery of) impaired corporate mortgages								
Residential mortgages								
Uninsured	$ 204	20	920%	(7)	3,014%	$ 235	$ (20)	1,275%
Construction loans	711	—	n/a	—	n/a	711	—	n/a
Commercial loans								
Other commercial	(995)	(378)	(163%)	—	n/a	225	—	n/a
	(80)	(358)	78%	(7)	(1,043%)	1,171	(20)	5,955%
Provision for (recovery of) performing corporate mortgages								
Residential mortgages								
Insured	—	—	n/a	—	n/a	—	1	(100%)
Uninsured	208	345	(40%)	265	(22%)	469	(952)	149%
Uninsured - completed inventory	36	(92)	139%	57	(37%)	(114)	(94)	(21%)
Construction loans	355	919	(61%)	581	(39%)	1,096	1,038	6%
Commercial loans								
Multi family residential	(125)	(17)	(635%)	23	(643%)	(218)	120	(282%)
Other commercial	(3)	(1)	(200%)	(42)	93%	(30)	(72)	58%
	471	1,154	(59%)	884	(47%)	1,203	41	2,834%
Other provisions (recoveries)	8	—	n/a	(21)	138%	6	6	0%
Total corporate provision for (recovery of) credit losses	399	796	(50%)	856	(53%)	2,380	27	8,715%
Provision for (recovery of) performing securitized mortgages	—	—	n/a	3	(100%)	—	6	(100%)
Total provision for (recovery of) credit losses	$ 399	$ 796	(50%)	$ 859	(54%)	$ 2,380	$ 33	7,112%
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 391	$ 796	(51%)	$ 877	(55%)	$ 2,374	$ 21	11,205%
Net write offs	$ —	$ —	n/a	$ 11	(100%)	$ —	$ 11	(100%)
Net write offs (basis points)	—	—	n/a	0.2	(100%)	—	0.1	(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 provision for credit losses on our corporate mortgage portfolio of $0.4 million in Q3 2023, which was mainly due to growth in our portfolio and less favourable underlying economic forecasts. In Q3 2022, we had a provision for credit losses of

$0.9 million mainly due to changes in economic forecasts from uncertainty around inflation and the rising interest rate environment, as well as growth in our portfolio. We had a provision for credit losses on our corporate mortgage portfolio of $2.4 million for year to date 2023 mainly due to the same factors as described for Q3 2023. For year to date 2022, there was a provision for credit losses of $27 thousand due to growth in the portfolio partially offset by improved economic forecasts following the pandemic. The current inflationary and higher interest rate environment has increased the level of uncertainty with respect to management's judgements and estimates including the probability weights assigned to each scenario, the impacts of monetary policy on macroeconomic indicators and the mortgage portfolio. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at September 30, 2023. IFRS 9, Financial Instruments ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since September 30, 2023, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to September 30, 2023, 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 specific significant stress or deterioration.

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) **For the Periods Ended**	**Q3 2023**	**Q2 2023**	**Change (%)**	**Q3 2022**	**Change (%)**	**YTD 2023**	**YTD 2022**	**Change (%)**
Salaries and benefits	$ 6,015	$ 6,187	(3%)	$ 5,044	19%	$ 17,499	$ 14,679	19%
General and administrative	2,527	2,589	(2%)	2,442	3%	7,884	6,831	15%
	$ 8,542	**$ 8,776**	**(3%)**	**$ 7,486**	**14%**	**$ 25,383**	**$ 21,510**	**18%**

The increase in salaries and benefits in 2023 is primarily due to additional resources as well as regular pay increases and enhancements to our wellness, benefit and compensation plans.

The increase in general and administrative expenses in 2023 is primarily due to professional fees and technology costs relating to new system enhancements for our business operations and customer experience.

Taxable Income

The table below provides a reconciliation between consolidated net income (loss) for accounting purposes and non-consolidated taxable income (loss). Taxable income is calculated in accordance with the Tax Act. In order to take advantage of the tax benefits of our MIC status, we pay out 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.

Table 11: Taxable Income Reconciliation

(in thousands) **For the Periods Ended**	**Q3 2023**	**Q3 2022**	**YTD 2023**	**YTD 2022**
Consolidated net income for accounting purposes	$ 18,479	$ 11,650	$ 57,643	$ 31,266
Adjustments to calculate taxable income (loss):				
Reverse: Equity income from MCAP - accounting purposes	(4,310)	(8,236)	(17,581)	(19,743)
Add: MCAP taxable income (loss)	(1,409)	(23,284)	310	(12,771)
Reverse: Provision for (recovery of) credit losses [2]	463	864	1,319	50
Add: Amortization of upfront securitization program costs [3]	2,738	2,565	8,157	7,140
Deduct: Securitization program mortgage origination costs [3]	(356)	305	(2,039)	160
Add: Securitization program premium (discount)	(2,585)	(2,462)	(2,811)	(10,769)
Reverse: Net unrealized loss (gain) on securities [4]	3,643	5,005	7,661	13,817
Add: Capital gains (losses)	—	—	—	(285)
Reverse: Loss (income) earned in subsidiaries [5]	(775)	(1,447)	(1,503)	(4,510)
Deduct: Gain on dilution of MCAP [6]	—	—	(1,048)	—
Other items	(23)	164	56	521
Taxable Income (Loss)[1]	**$ 15,865**	**$ (14,876)**	**$ 50,164**	**$ 4,876**

[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 increase in taxable income for Q3 2023 and year to date 2023 compared to Q3 2022 and year to date 2022 was primarily due to higher net corporate mortgage spread income, higher taxable income or lower tax losses recorded by MCAP and lower discounts on our securitization transactions. As a MIC, we pay out all of our taxable income to shareholders through dividends. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 50,473	$ 116,588	(57%)	$ 78,210	(35%)
Marketable securities	46,081	49,723	(7%)	53,743	(14%)
Mortgages	2,337,717	2,224,427	5%	1,939,494	21%
Non-marketable securities	111,590	107,176	4%	97,228	15%
Equity investment in MCAP Commercial LP	110,222	109,818	—%	106,168	4%
Deferred tax asset	1,872	1,278	46%	1,095	71%
Derivative financial instruments	247	—	n/a	—	n/a
Other assets	8,534	9,886	(14%)	7,182	19%
	2,666,736	**2,618,896**	**2%**	**2,283,120**	**17%**
Securitization Assets					
Cash held in trust	28,307	43,653	(35%)	34,531	(18%)
Mortgages	1,835,318	1,754,886	5%	1,751,303	5%
Other assets	10,121	9,687	4%	9,722	4%
	1,873,746	**1,808,226**	**4%**	**1,795,556**	**4%**
	$ 4,540,482	**$ 4,427,122**	**3%**	**$ 4,078,676**	**11%**

Our total corporate and securitized assets increased compared to June 30, 2023 and December 31, 2022 primarily due to origination volumes, particularly renewal activity, in our portfolios outpacing maturities.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time and move up homebuyers. These segments are characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas in proximity to transit. We focus on a diverse portfolio of predominantly first mortgage positions with 65-75% LTVs in our normal segment of lending. At September 30, 2023, the average outstanding construction loan balance was $10 million (June 30, 2023 - $9 million; December 31, 2022 - $8 million) with a maximum individual loan commitment of $40 million (June 30, 2023 - $40 million; December 31, 2022 - $40 million).

Securitized Mortgages

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. Securitization assets consist of insured residential 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 consolidated balance sheet as securitized assets and are also included in total exposures in the calculation of our 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" section of this MD&A.

We securitized $144 million in Q3 2023 (Q2 2023 - $76 million; Q3 2022 - $56 million) and $232 million year to date 2023 (year to date 2022 - $314 million) of insured residential mortgages through the market MBS program and CMB program. Overall, for the year to date, total origination volumes (including commitments sold) were lower in 2023 as a result of the higher interest rate environment, particularly for first time home buyers, who would be a significant portion of the borrowers of insured residential mortgages.

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 September 30, 2023, we held $101 million of retained MBS on our balance sheet (June 30, 2023 - $102 million; December 31, 2022 - $63 million), which is included in the insured residential mortgage portfolio in corporate mortgages.

Table 13: Mortgage Summary

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 269,271	$ 244,600	10%	$ 144,569	86%
Uninsured	956,188	906,074	6%	828,540	15%
Uninsured - completed inventory	18,201	9,803	86%	36,680	(50%)
Construction loans	997,423	956,569	4%	825,126	21%
Commercial loans					
Multi family residential	90,285	102,114	(12%)	98,238	(8%)
Other commercial	6,349	5,267	21%	6,341	—%
	2,337,717	**2,224,427**	**5%**	**1,939,494**	**21%**
Securitized portfolio	**1,835,318**	**1,754,886**	**5%**	**1,751,303**	**5%**
	$ 4,173,035	**$ 3,979,313**	**5%**	**$ 3,690,797**	**13%**

Table 14: Corporate Mortgage Portfolio Continuity for Q3 2023

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 244,600**	**$ 906,074**	**$ 9,803**	**$ 956,569**	**$ 107,381**	**$ 2,224,427**
Originations[1]	198,914	215,103	9,502	203,882	—	627,401
Payments and prepayments	(2,846)	(3,923)	(1,046)	(163,581)	(12,021)	(183,417)
Maturities	(24,172)	(161,331)	—	—	—	(185,503)
Securitizations	(144,238)	—	—	—	—	(144,238)
Sale of commitments to MCAP	(3,081)	—	—	—	—	(3,081)
Capitalization and amortization of fees	94	265	(58)	553	1,274	2,128
Balance, end of the period	**$ 269,271**	**$ 956,188**	**$ 18,201**	**$ 997,423**	**$ 96,634**	**$ 2,337,717**

[1] *includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.*

Table 15: Corporate Mortgage Portfolio Continuity for Q3 2022

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 220,885**	**$ 870,633**	**$ 31,349**	**$ 744,020**	**$ 110,213**	**$ 1,977,100**
Originations[1]	149,121	163,883	12,484	170,956	—	496,444
Payments and prepayments	(2,555)	(6,379)	(4,856)	(143,683)	(25)	(157,498)
Maturities	(15,011)	(179,971)	—	—	—	(194,982)
Securitizations	(56,031)	—	—	—	—	(56,031)
Sale of commitments and loans to MCAP	(87,465)	—	—	(3,162)	—	(90,627)
Capitalization and amortization of fees	(163)	(2)	(7)	540	183	551
Balance, end of the period	**$ 208,781**	**$ 848,164**	**$ 38,970**	**$ 768,671**	**$ 110,371**	**$ 1,974,957**

[1] *includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.*

Table 16: Corporate Mortgage Portfolio Continuity for Year to Date 2023

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 144,569**	**$ 828,540**	**$ 36,680**	**$ 825,126**	**$ 104,579**	**$ 1,939,494**
Originations[1]	448,886	607,494	18,941	474,626	3,675	1,553,622
Payments and prepayments	(7,252)	(12,824)	(37,357)	(306,444)	(12,063)	(375,940)
Maturities	(62,294)	(468,345)	—	—	—	(530,639)
Securitizations	(231,332)	—	—	—	—	(231,332)
Sale of commitments to MCAP	(24,876)	—	—	—	—	(24,876)
Capitalization and amortization of fees	1,570	1,323	(63)	4,115	443	7,388
Balance, end of the period	**$ 269,271**	**$ 956,188**	**$ 18,201**	**$ 997,423**	**$ 96,634**	**$ 2,337,717**

[1] *includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.*

Table 17: Corporate Mortgage Portfolio Continuity for Year to Date 2022

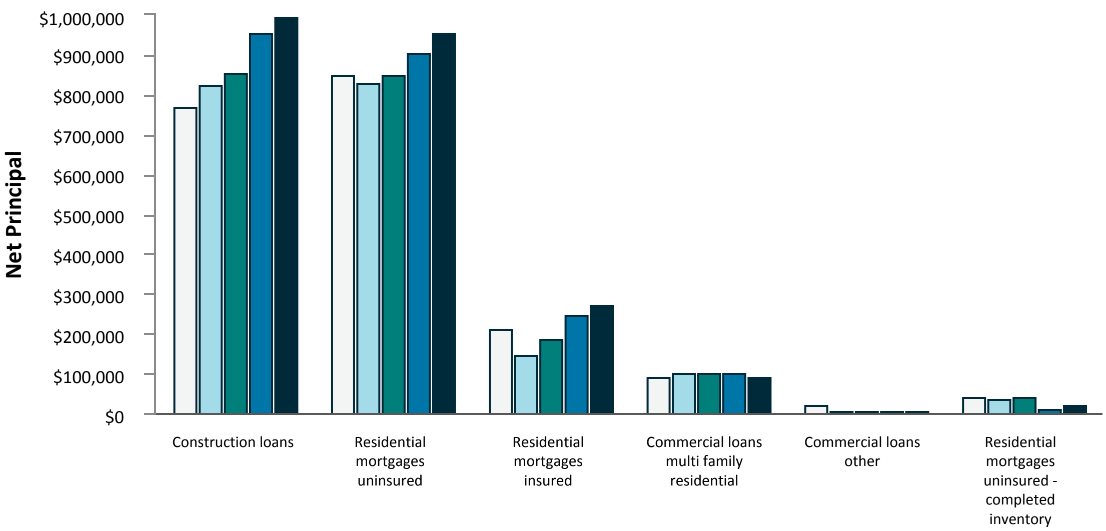
(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 196,580**	**$ 783,075**	**$ 49,431**	**$ 684,297**	**$ 92,761**	**$ 1,806,144**
Originations[1]	569,262	544,439	15,696	543,120	26,855	1,699,372
Payments and prepayments	(7,156)	(18,022)	(26,363)	(386,039)	(9,333)	(446,913)
Maturities	(51,981)	(463,211)	—	—	—	(515,192)
Securitizations	(313,742)	—	—	—	—	(313,742)
Sale of commitments and loans to MCAP	(184,315)	—	—	(73,877)	—	(258,192)
Capitalization and amortization of fees	133	1,883	206	1,170	88	3,480
Balance, end of the period	**$ 208,781**	**$ 848,164**	**$ 38,970**	**$ 768,671**	**$ 110,371**	**$ 1,974,957**

[1] *includes originations, including insured residential mortgage commitments originated and sold to MCAP, renewals and transfers in from our securitization portfolio.*

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 and we maintain a high quality of underwriting. We have also enhanced our internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and increased underwriting capacity. We continue to focus on our construction and commercial portfolio growing it in selected markets, with our preferred borrowers and risk profile given they tend to provide higher yields compared to our residential mortgages.

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

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



	Construction loans	Residential mortgages uninsured	Residential mortgages insured	Commercial loans multi family residential	Commercial loans other	Residential mortgages uninsured - completed inventory
Sep 30, 2022	$768,671 (39%)	$848,164 (42%)	$208,781 (11%)	$92,518 (5%)	$17,853 (1%)	$38,970 (2%)
Dec 31, 2022	$825,126 (43%)	$828,540 (43%)	$144,569 (7%)	$98,238 (5%)	$6,341 (0%)	$36,680 (2%)
Mar 31, 2023	$856,165 (42%)	$848,342 (42%)	$187,218 (9%)	$102,114 (5%)	$4,845 (0%)	$38,060 (2%)
Jun 30, 2023	$956,569 (43%)	$906,074 (41%)	$244,600 (11%)	$102,114 (5%)	$5,267 (0%)	$9,803 (0%)
Sep 30, 2023	$997,423 (42%)	$956,188 (41%)	$269,271 (12%)	$90,285 (4%)	$6,349 (0%)	$18,201 (1%)

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

Table 18: Mortgage Portfolio Geographic Distribution

	September 30, 2023		June 30, 2023		December 31, 2022	
	Corporate	**Securitized**	**Corporate**	**Securitized**	**Corporate**	**Securitized**
Ontario	59.4 %	87.1 %	57.6 %	86.7 %	57.6 %	86.4 %
British Columbia	29.4 %	3.1 %	30.6 %	3.3 %	29.4 %	3.3 %
Alberta	9.9 %	7.7 %	10.5 %	7.8 %	11.0 %	8.0 %
Atlantic Provinces	0.4 %	1.1 %	0.3 %	1.2 %	0.3 %	1.3 %
Quebec	0.3 %	0.4 %	0.3 %	0.5 %	1.2 %	0.5 %
Other	0.6 %	0.6 %	0.7 %	0.5 %	0.5 %	0.5 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

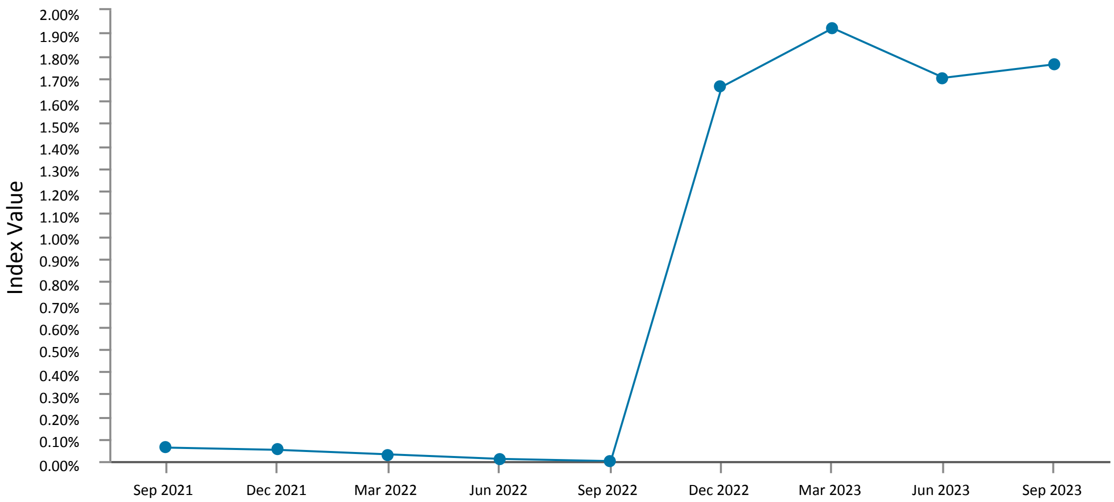
Credit Quality

Table 19: Arrears and Impaired Mortgages

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ 483	$ 481	—%	$ —	n/a
Residential mortgages - uninsured	3,931	1,382	184%	186	2,013%
Residential mortgages - uninsured - completed inventory	—	—	n/a	—	n/a
Construction loans	31,787	32,088	(1%)	32,085	(1%)
Commercial loans - other	4,855	3,858	26%	—	n/a
	41,056	37,809	9%	32,271	27%
Securitized	310	322	(4%)	550	(44%)
Total impaired mortgages	$ 41,366	$ 38,131	8%	$ 32,821	26%
Impaired corporate mortgage ratio [1]	1.76 %	1.70 %	0.06%	1.66 %	0.10%
Impaired total mortgage ratio [1]	0.99 %	0.96 %	0.03%	0.89 %	0.10%
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 849	$ 1,226	(31%)	$ 511	66%
Residential mortgages - uninsured	35,246	26,479	33%	14,177	149%
Residential mortgages - uninsured - completed inventory	2,218	—	n/a	2,577	(14%)
Construction loans	42,345	32,088	32%	32,085	32%
Commercial loans - other	4,855	3,858	26%	5,080	(4%)
Total corporate mortgage arrears	85,513	63,651	34%	54,430	57%
Total securitized mortgage arrears	4,438	5,130	(13%)	3,439	29%
Total mortgage arrears	$ 89,951	$ 68,781	31%	$ 57,869	55%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 9,808	$ 6,658	47%	$ 5,157	90%
Residential mortgages - uninsured	186,623	167,461	11%	132,934	40%
Residential mortgages - uninsured - completed inventory	2,218	2,566	(14%)	2,577	(14%)
Construction loans	32,388	7,714	320%	7,341	341%
Commercial loans - multi-family residential	39,821	39,739	—%	27,406	45%
Commercial loans - other	—	—	n/a	5,080	(100%)
	270,858	224,138	21%	180,495	50%
Stage 3					
Residential mortgages - insured	483	481	—%	—	n/a
Residential mortgages - uninsured	3,931	1,382	184%	186	2,013%
Residential mortgages - uninsured - completed inventory	—	—	n/a	—	n/a
Construction loans	31,787	32,088	(1%)	32,085	(1%)
Commercial loans - other	4,855	3,858	26%	—	n/a
	41,056	37,809	9%	32,271	27%
Total stage 2 and 3 corporate mortgages	$ 311,914	$ 261,947	19%	$ 212,766	47%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,752	$ 6,281	7%	$ 5,549	22%
Allowance on impaired mortgages	1,220	1,300	(6%)	49	2,390%
	7,972	7,581	5%	5,598	42%
Securitized - allowance on performing mortgages	—	—	n/a	—	n/a
Total allowance for credit losses	$ 7,972	$ 7,581	5%	$ 5,598	42%

[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

Figure 3: Impaired Corporate Mortgage Ratio[1]



The impaired corporate mortgage ratio, as presented above, reflects impaired (stage 3) mortgages under IFRS 9 as a percentage of the total corporate portfolio. At September 30, 2023, impaired mortgages are mainly two construction mortgages and one commercial mortgage where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

In the event of a protracted economic downturn due to the current inflationary and higher interest rate environment, or for any other reason, we would expect to observe an increase in overall mortgage default and arrears rates as realization periods on collateral become longer and borrowers adjust to the new economic conditions and potentially changing real estate values in such an event. An economic downturn could also result in an increase in our allowance for credit losses. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on residential mortgages; however, traditional actions may not be available or effective.

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-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to similar terms used by other issuers.

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 residential 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 residential uninsured and residential uninsured - completed inventory loans.

The HELOC balances displayed below relate to insured residential mortgages that were acquired by MCAN previously. We do not originate HELOCs at this time.

Table 20: Residential Mortgages by Province at September 30, 2023

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 186,044	68.8 %	$ 874,875	89.8 %	$ 82	83.7 %	$1,596,560	87.1 %	$ 2,657,561	86.3 %
Alberta	60,339	22.6 %	28,711	2.9 %	16	16.3 %	141,955	7.7 %	231,021	7.5 %
British Columbia	8,733	3.3 %	61,953	6.4 %	—	— %	57,338	3.1 %	128,024	4.2 %
Quebec	1,755	0.7 %	1,233	0.1 %	—	— %	7,776	0.4 %	10,764	0.3 %
Atlantic Provinces	7,256	2.7 %	2,457	0.3 %	—	— %	20,826	1.1 %	30,539	1.0 %
Other	5,046	1.9 %	5,160	0.5 %	—	— %	10,863	0.6 %	21,069	0.7 %
Total	**$ 269,173**	**100.0 %**	**$ 974,389**	**100.0 %**	**$ 98**	**100.0 %**	**$1,835,318**	**100.0 %**	**$ 3,078,978**	**100.0 %**

Table 21: Residential Mortgages by Province at December 31, 2022

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 96,828	67.1 %	$ 745,343	86.2 %	$ 80	81.6 %	$1,514,305	86.4 %	$ 2,356,556	85.3 %
Alberta	34,926	24.2 %	30,319	3.5 %	18	18.4 %	139,420	8.0 %	204,683	7.4 %
British Columbia	4,762	3.3 %	66,010	7.6 %	—	— %	57,828	3.3 %	128,600	4.7 %
Quebec	3,239	2.2 %	16,045	1.9 %	—	— %	7,896	0.5 %	27,180	1.0 %
Atlantic Provinces	3,793	2.6 %	2,754	0.3 %	—	— %	22,817	1.3 %	29,364	1.1 %
Other	923	0.6 %	4,749	0.5 %	—	— %	9,037	0.5 %	14,709	0.5 %
Total	**$ 144,471**	**100.0 %**	**$ 865,220**	**100.0 %**	**$ 98**	**100.0 %**	**$1,751,303**	**100.0 %**	**$ 2,761,092**	**100.0 %**

Table 22: Residential Mortgages by Amortization Period at September 30, 2023

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 144,651	$ 291,836	$ 446,075	$ 361,098	$ 1,243,660
	11.6 %	23.4 %	35.9 %	29.1 %	100.0 %
Securitized	$ 531,849	$ 1,300,231	$ 3,238	$ —	$ 1,835,318
	29.0 %	70.8 %	0.2 %	— %	100.0 %
Total	**$ 676,500**	**$ 1,592,067**	**$ 449,313**	**$ 361,098**	**$ 3,078,978**
	22.0 %	**51.7 %**	**14.6 %**	**11.7 %**	**100.0 %**

Table 23: Residential Mortgages by Amortization Period at December 31, 2022

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 121,572	$ 171,941	$ 453,693	$ 262,583	$ 1,009,789
	12.0 %	17.1 %	44.9 %	26.0 %	100.0 %
Securitized	$ 415,475	$ 1,260,250	$ 75,231	$ 347	$ 1,751,303
	23.7 %	72.0 %	4.3 %	— %	100.0 %
Total	**$ 537,047**	**$ 1,432,191**	**$ 528,924**	**$ 262,930**	**$ 2,761,092**
	19.5 %	**51.8 %**	**19.2 %**	**9.5 %**	**100.0 %**

Table 24: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) **For the Periods Ended**	**Q3 2023**	**Average LTV**	**Q3 2022**	**Average LTV**	**YTD 2023**	**Average LTV**	**YTD 2022**	**Average LTV**
Ontario	$110,359	67.1%	$ 66,521	70.6%	$271,915	68.6%	$288,663	67.9%
Alberta	916	74.7%	1,895	66.5%	7,050	70.8%	7,683	70.1%
British Columbia	5,648	68.8%	16,223	71.6%	24,313	68.2%	36,496	70.2%
Quebec	—	—%	82	52.8%	—	—%	4,432	52.8%
Other	—	—%	207	80.0%	150	22.2%	415	67.1%
	$116,923	**67.2%**	**$ 84,928**	**70.7%**	**$303,428**	**68.6%**	**$337,689**	**68.0%**

Table 25: Average LTV Ratios at Origination by Mortgage Portfolio

	September 30 2023	**December 31 2022**
Corporate portfolio		
Residential mortgages		
Insured	71.1 %	68.0 %
Uninsured[1]	65.7 %	63.1 %
Uninsured - completed inventory	52.9 %	56.6 %
Construction loans		
Residential	64.0 %	65.7 %
Commercial loans		
Multi family residential	75.8 %	74.6 %
Other commercial	89.6 %	62.1 %
	66.0 %	65.0 %
Securitized portfolio	79.9 %	80.1 %
	72.1 %	**72.2 %**

[1] MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 68.4% at September 30, 2023 (December 31, 2022 - 65.6%). Based on an industry index that incorporates current real estate values, the ratios would be 67.0% at September 30, 2023 (December 31, 2022 - 62.1%).

Other Corporate Assets

Cash and Cash Equivalents

At September 30, 2023, our cash balance was $50 million (June 30, 2023 - $117 million; December 31, 2022 - $78 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices. See "Liquidity and Funding Risk" sub-section of this MD&A.

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 September 30, 2023, the portfolio balance was $46 million (June 30, 2023 - $50 million; December 31, 2022 - $54 million). Year to date 2023, we had $8 million of unrealized fair value losses due to volatility in REIT stocks as a result of Bank of Canada interest rate increases resuming and uncertainty around future rate increases and recessionary pressures. We expect continued volatility in the REIT market, given the economic uncertainty and interest rate environment. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

Non-Marketable Securities

At September 30, 2023, our non-marketable securities balance was $112 million (June 30, 2023 - $107 million; December 31, 2022 - $97 million). The increase to our security balance from prior periods mainly relates to (i) funding of capital advances; and (ii) a $2 million unrealized gain on our investments in TAS 3 and TAS Co due to value-add leasing activity on one underlying property investment held by both TAS 3 and TAS Co in Q3 2023. We have $78 million in remaining capital advances for non-marketable securities expected to fund mainly over the next five years. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF representing a 5.9% equity interest at September 30, 2023 (June 30, 2023 - 5.9%; December 31, 2022 - 5.9%). At September 30, 2023, the carrying value of our investment was $55 million (June 30, 2023 - $55 million; December 31, 2022 - $53 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At September 30, 2023, our total remaining commitment to the KSHYF was $33 million, consisting of $4 million of capital advances for the KSHYF and $29 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested $18 million in Class A Securitization Notes. The final distribution date was March 15, 2023 and we received all scheduled principal and interest repayments over the life of the Securitization Notes. The issuer of the Securitization Notes was a wholly-owned subsidiary of MCAP.

KSSMF: We invest in KSSMF representing a 2.1% partnership interest at September 30, 2023 (June 30, 2023 - 2.1%; December 31, 2022 - 1.5%). At September 30, 2023, the carrying value of our investment was $16 million (June 30, 2023 - $15 million; December 31, 2022 - $9 million) with an additional $9 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 ("TAS 3"): We invest in TAS 3 representing a 9.7% partnership interest at September 30, 2023 (June 30, 2023 - 9.7%; December 31, 2022 - 9.7%). At September 30, 2023, the carrying value of our investment was $10 million (June 30, 2023 - $10 million; December 31, 2022 - $9 million) with an additional $104 thousand remaining commitment. TAS 3 invests in, and develops, residential and mixed use properties with a focus on assets that drive environmental and social impacts.

TAS LP 3 Co-Invest LP ("TAS Co"): We invest in TAS Co representing a 34.8% partnership interest at September 30, 2023 (June 30, 2023 - 34.8%; December 31, 2022 - 34.8%). At September 30, 2023, the carrying value of our investment was $6 million (June 30, 2023 - $4 million; December 31, 2022 - $4 million) with an additional $1 million remaining commitment. TAS Co has an approximately 17.5% to 24% interest in some of the same properties invested in by TAS 3 as noted above.

Pearl Group Growth Fund LP ("Pearl"): We invest in Pearl representing a 6.9% partnership interest at September 30, 2023 (June 30, 2023 - 6.9%; December 31, 2022 - 6.9%). At September 30, 2023, the carrying value of our investment was $2 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $1 million remaining commitment. Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial and multi-unit residential properties in the Greater Toronto area.

Crown Realty V Limited Partnership ("Crown"): We invest in Crown representing a 7.7% partnership interest at September 30, 2023 (June 30, 2023 - 7.7%; December 31, 2022 - 7.7%). At September 30, 2023, the carrying value of our investment was $9 million (June 30, 2023 - $9 million; December 31, 2022 - $9 million) with an additional $11 million remaining commitment. Crown integrates environmental and social focused initiatives to acquire, lease, manage and reposition commercial real estate properties across Ontario.

Harbour Equity JV Development Fund VI ("Harbour"): We invest in Harbour representing a 12.1% partnership interest at September 30, 2023 (June 30, 2023 - 12.1%; December 31, 2022 - 12.1%). At September 30, 2023, the carrying value of our investment was $3 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $7 million remaining commitment. Harbour provides equity capital to real estate developers in joint ventures or co-ownership structures for ground up development of residential and mixed-use properties across Canada.

TAS Impact Development LP 4 ("TAS 4"): We invest in TAS 4 representing a 14.8% partnership interest (June 30, 2023 - 14.8%; December 31, 2022 - 17.6%). At September 30, 2023, the carrying value of our investment was $2 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $18 million remaining commitment. TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive environmental and social impacts.

Broccolini Limited Partnership No. 8 ("Broccolini"): We invest in Broccolini representing a 5.7% partnership interest at September 30, 2023 (June 30, 2023 - 5.7%; December 31, 2022 - 5.7%). At September 30, 2023, the carrying value of our investment was $2 million (June 30, 2023 - $2 million; December 31, 2022 - $2 million) with an additional $18 million remaining commitment. Broccolini manages real estate development funds primarily focused on ground up development of industrial, residential and mixed-use properties across Canada, with a focus on Ontario and Quebec.

Fiera Real Estate Development Fund IV, LP ("Fiera"): We invest in Fiera representing a 6.5% partnership interest at September 30, 2023 (June 30, 2023 - 6.5%; December 31, 2022 - 7.1%). At September 30, 2023, the carrying value of our investment was $6 million (June 30, 2023 - $5 million; December 31, 2022 - $4 million) with an additional $9 million remaining commitment. Fiera focuses on development and re-development of multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

Equity Investment in MCAP

We have a strategic investment in MCAP, which is Canada's largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.73% equity interest in MCAP (June 30, 2023 - 13.73%; December 31, 2022 - 13.65%), which represents 4.0 million units held by MCAN at September 30, 2023 (June 30, 2023 - 4.0 million; December 31, 2022 - 4.0 million) of the 29.1 million total outstanding MCAP partnership units (June 30, 2023 - 29.1 million; December 31, 2022 - 29.3 million). The investment had a net book value of $110 million at September 30, 2023 (June 30, 2023 - $110 million; December 31, 2022 - $106 million). The net book value is not indicative of the fair market value of our equity interest in MCAP.

During Q3 2023, we received $3.9 million of unitholder distributions from MCAP (Q2 2023 - $5.7 million; Q3 2022 - $4.6 million). For year to date 2023, we have received $14.6 million of unitholder distributions from MCAP (year to date 2022 - $12.6 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

Pursuant to 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. Any sale by MCAN of its units in MCAP pursuant to this majority partner right, could result in a taxable gain, which could be material.

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 26: Liabilities and Shareholders' Equity

(in thousands except %)	September 30 2023	June 30 2023	Change (%)	December 31 2022	Change (%)
Corporate Liabilities					
Term deposits	$ 2,094,788	$ 2,021,372	4%	$ 1,819,830	15%
Loans payable	83,235	132,110	(37%)	6,532	1,174%
Other liabilities	10,513	9,008	17%	22,616	(54%)
	2,188,536	**2,162,490**	**1%**	**1,848,978**	**18%**
Securitization Liabilities					
Financial liabilities from securitization	1,824,258	1,747,984	4%	1,740,388	5%
	1,824,258	**1,747,984**	**4%**	**1,740,388**	**5%**
	4,012,794	**3,910,474**	**3%**	**3,589,366**	**12%**
Shareholders’ Equity					
Share capital	406,581	401,231	1%	389,986	4%
Contributed surplus	510	510	—%	510	—%
Retained earnings	118,315	113,183	5%	98,990	20%
Accumulated other comprehensive income	2,282	1,724	32%	(176)	(1,397%)
	527,688	**516,648**	**2%**	**489,310**	**8%**
	$ 4,540,482	**$ 4,427,122**	**3%**	**$ 4,078,676**	**11%**

Term Deposits

Our primary source of funding for our corporate operations is the issuance of term deposits that are eligible for 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.

Loans Payable

We have a secured demand revolver facility from a Canadian Schedule I Chartered bank with a facility limit of $220 million. The facility is due and payable upon demand. Under the facility, there is a sublimit for issued letters of credit which are used for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans.

We also have a $100 million senior secured mortgage warehouse facility with a Canadian Schedule I Chartered bank. The facility is used to fund insured residential mortgages prior to securitization activities.

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 may reflect new common shares issued through the DRIP, Executive Share Purchase Plan, special stock dividend and other share offerings and their related costs, as applicable. For further information, refer to the “Description of Capital Structure” section of this MD&A and Note 13 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q3 2023 consists of net income of $18.5 million (Q2 2023 - $15.9 million; Q3 2022 - $11.7 million) less dividends of $13.3 million (Q2 2023 - $12.5 million; Q3 2022 - $11.4 million). Retained earnings activity for year to date 2023 consists of a net income of $57.6 million (year to date 2022 - $31.3 million) less dividends of $38.3 million (year to date 2022 - $62.3 million).

Accumulated Other Comprehensive Income

We enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to reduce our net income volatility related to changes in interest rates. In Q3 2023, we had net realized fair value gains of $0.4 million (Q2 2023 - $1.9 million fair value gains; Q3 2022 - $nil) and net unrealized fair value gains of $0.2 million (Q2 2023 - $0.2 million fair value losses; Q3 2022 - $nil) on our derivative transactions recognized in accumulated other comprehensive income. For further information, refer to the "Derivatives and Hedging" sub-section of this MD&A and Note 11 to the interim consolidated financial statements.

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. We calculate our income tax capital in accordance with the Tax Act.

Table 27: Income Tax Capital

(in thousands except ratios)

	September 30 2023	December 31 2022
Income tax assets		
Consolidated assets	$ 4,540,482	$ 4,078,676
Adjustment for assets in subsidiaries	(49,895)	29,833
Non-consolidated assets in MIC entity	4,490,587	4,108,509
Add: corporate mortgage allowances	6,843	5,545
Less: securitization assets [1]	(1,848,363)	(1,768,828)
Adjustments to equity investments in MCAP and subsidiaries	(47,409)	(41,090)
Other adjustments	10,304	4,064
	$ 2,611,962	$ 2,308,200
Income tax liabilities		
Consolidated liabilities	$ 4,012,794	$ 3,589,366
Adjustment for liabilities in subsidiaries	(87,791)	(11,537)
Non-consolidated liabilities in MIC entity	3,925,003	3,577,829
Less: securitization liabilities [1]	(1,821,446)	(1,738,216)
	$ 2,103,557	$ 1,839,613
Income tax capital	$ 508,405	$ 468,587
Income tax capital ratios		
Income tax assets to capital ratio	5.14	4.93
Income tax liabilities to capital ratio	4.14	3.93

[1] 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 in accordance with the Tax Act.

Regulatory Capital

As a Loan Company under 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. 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 September 30, 2023, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. Our total capital and leverage ratios have decreased due to OSFI's new revised rules that incorporate Basel III reforms. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 28: Regulatory Capital [3]

(in thousands except %)

	September 30 2023	December 31 2022
OSFI Regulatory Ratios		
Share capital	$ 406,581	$ 389,986
Contributed surplus	510	510
Retained earnings	118,315	98,990
Accumulated other comprehensive income	2,282	(176)
Deduction from equity investment in MCAP [1]	(57,453)	(57,201)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	—	357
Common Equity Tier 1 and Tier 1 Capital (A)	470,235	432,466
Tier 2 Capital	6,752	5,192
Total Capital (D)	$ 476,987	$ 437,658
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,540,482	$ 4,078,676
Less: deduction for equity investment in MCAP [1]	(57,453)	(57,201)
Other adjustments [2]	2,627	2,994
Total On-Balance Sheet Exposures	4,485,656	4,024,469
Mortgages and non-marketable securities funding commitments	307,564	352,069
Letters of credit	23,479	23,994
Total Off-Balance Sheet Items	331,043	376,063
Total Exposure/Regulatory Assets (B)	$ 4,816,699	$ 4,400,532
Leverage ratio (A / B)	9.76 %	9.83 %
Risk-weighted assets (C)	$ 2,653,164	$ 2,206,580
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	17.72 %	19.60 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	17.72 %	19.60 %
Total capital to risk-weighted assets ratio **(D / C)**	17.98 %	19.83 %

[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 mortgage allowances.

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

[3] These measures have been calculated in accordance with OSFI's Capital Adequacy Requirements and Leverage Requirements guidelines. Effective March 31, 2020, the total capital ratios in 2022 reflected 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 were included in CET 1 capital. The adjustment to CET 1 capital was 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.

Table 29: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	September 30, 2023			December 31, 2022		
	Amounts	Average Rate	Risk-Weighted Assets	Amounts	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 50,473	21 %	$ 10,620	$ 78,210	21 %	$ 16,241
Cash held in trust	28,307	20 %	5,661	34,531	20 %	6,906
Marketable securities	46,081	100 %	46,081	53,743	100 %	53,743
Mortgages - corporate	2,337,717	67 %	1,558,282	1,939,494	66 %	1,279,396
Mortgages - securitized	1,835,318	5 %	100,070	1,751,303	6 %	96,599
Non-marketable securities	111,590	161 %	180,005	97,228	179 %	174,338
Equity investment in MCAP Commercial LP	110,222	120 %	131,922	106,168	46 %	48,967
Deferred tax asset	1,872	100 %	1,872	1,095	100 %	1,095
Other assets	18,655	100 %	18,655	16,904	100 %	16,904
Derivative Financial Instruments	247	— %	—	—	— %	—
	4,540,482		2,053,168	4,078,676		1,694,189
Off-Balance Sheet Items						
Letters of credit	46,959	50 %	23,480	47,988	50 %	23,994
Commitments	768,910	43 %	328,346	704,139	47 %	330,109
Derivative Financial Instruments	18,447	2 %	345	—	— %	—
			352,171			354,103
Charge for operational risk [2]			247,825			158,288
Risk-Weighted Assets			**$ 2,653,164**			**$ 2,206,580**

[1] This measure has been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines.
[2] 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.

Other Capital Management Activity

In conjunction with the annual strategic planning and budgeting process, we complete an Internal Capital Adequacy Assessment Process ("ICAAP") in order to ensure that we have sufficient capital to support our business plan and risk appetite. The ICAAP assesses the capital necessary to support the various inherent risks that we face, including liquidity and funding, credit, interest rate, market, operational, regulatory compliance, strategic and reputational risks. Our business plan is also stress-tested under various adverse scenarios to determine the impact on our results from operations and financial condition. The ICAAP is reviewed by both management and the Board and is submitted to OSFI annually. In addition, the Company performs stress testing on our internal forecasts for capital adequacy on a quarterly basis, and the results of such testing are reported to the Board.

RISK MANAGEMENT

Effective risk management and an established risk management framework support a strong risk and resilient culture, and help the Company provide sustainable growth and returns while maintaining an appropriate balance between risk and return. The Company's risk management framework is subject to constant evaluation in order to meet operational demands, regulatory requirements and industry best practices, and it is updated in alignment with our strategy and risk appetite. The Company's framework which is designed to identify, measure, monitor and report risks and vulnerabilities is outlined in the "Risk Management" section of the 2022 Annual MD&A.

Major Risk Types

For a complete discussion of major risk types to which the Company is exposed, refer to the "Risk Management" section of the 2022 Annual MD&A.

Economic uncertainty risks remain persistent with ongoing inflationary pressures, foreign bank hardships or failures, higher debt servicing costs, volatility in interest rate sensitive products and geopolitical conflicts. Though the nature and extent of these risks may vary depending on circumstances, these factors continue to impact the demand and affordability of mortgages and the financial health of the Canadian economy and borrowers. An inability to respond and manage these risks effectively may have an adverse effect on our future results and operations.

Liquidity and Funding Risk

Liquidity risk is the risk that cash and liquid assets are insufficient to honour all cash outflow commitments (both on- and off-balance sheet) as they come due. Funding risk is the risk that available sources of liquidity and long term funding are insufficient to sustain business growth or mitigate funding gaps.

On a daily basis, we monitor our liquidity position to ensure that the level of liquid assets held, together with our ability to raise new deposits and other funding sources, are sufficient to meet our commitments, deposit maturity obligations, and other financial obligations.

On a monthly basis, we plan out our funding using a 12-month rolling forecast of expected business growth and balance sheet obligations. This provides us with a forward-looking perspective on the adequacy of our funding and liquidity channels.

Stress testing is performed using multiple scenarios incorporating simultaneous impacts to the Company's funding sources and uses. MCAN's stress testing is designed to assess the viability of liquidity and funding channels, as well as contingency funding to remain within Board-approved liquidity risk limits. At September 30, 2023, the Company held sufficient funding and liquidity to meet all requirements under the stress test scenarios.

The Board is accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient funding and liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF provides guidance for 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 and 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.

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 funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are 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 September 30, 2023, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

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 maintained a secured demand 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 $220 million.

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.

We have a credit agreement with a Canadian Schedule I Chartered bank for a $100 million senior secured mortgage warehouse facility. The facility is used to fund insured residential mortgages prior to securitization activities. This facility provides improved funding in response to our continued growth.

We have an agreement with MSLP, a wholly owned subsidiary of MCAP, whereby the Company can sell to MSLP insured residential mortgage commitments. This agreement provides liquidity and the opportunity to fund other core business activities in line with our strategy.

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 30: Liquidity Analysis

At September 30, 2023 (in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Sources of liquidity						
Cash and cash equivalents	$ 50,473	$ —	$ —	$ —	$ —	$ 50,473
Marketable securities	46,081	—	—	—	—	46,081
Mortgages - corporate	527,406	1,009,610	637,648	146,801	16,252	2,337,717
Non-marketable securities	—	—	—	—	111,590	111,590
Derivative Financial Instruments	247	—	—	—	—	247
Other loans	2,309	—	—	—	—	2,309
	626,516	1,009,610	637,648	146,801	127,842	2,548,417
Uses of liquidity						
Term deposits	234,211	762,923	304,448	793,206	—	2,094,788
Loans payable	83,235	—	—	—	—	83,235
Other liabilities	6,702	841	1,934	1,036	—	10,513
	324,148	763,764	306,382	794,242	—	2,188,536
Net liquidity surplus (deficit)	**$ 302,368**	**$ 245,846**	**$ 331,266**	**$ (647,441)**	**$ 127,842**	**$ 359,881**

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. 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 September 30, 2023, 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.

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.

The Interest Rate Risk Management Framework, which is reviewed and approved by the Board, provides guidance on 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.

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at September 30, 2023 would have an estimated positive effect of $7.7 million (June 30, 2023 - positive effect of $6.6 million; December 31, 2022 - positive effect of $8.3 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2023 would have an estimated adverse effect of $7.4 million (June 30, 2023 - adverse effect of $6.5 million; December 31, 2022 - adverse effect of $8.3 million) to net income over the following twelve month period.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at September 30, 2023 and December 31, 2022 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 items include 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 31: Interest Rate Sensitivity at September 30, 2023

At September 30, 2023								
(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	$1,169,759	$172,023	$449,522	$446,076	$136,277	$ 14,780	$ 278,299	$ 2,666,736
Securitization	130,145	14,982	108,970	1,133,286	447,935	—	38,428	1,873,746
	1,299,904	187,005	558,492	1,579,362	584,212	14,780	316,727	4,540,482
Liabilities								
Corporate	83,235	234,211	762,923	304,448	793,206	—	10,513	2,188,536
Securitization	128,684	12,907	96,708	1,087,467	498,492	—	—	1,824,258
	211,919	247,118	859,631	1,391,915	1,291,698	—	10,513	4,012,794
Shareholders' Equity	—	—	—	—	—	—	527,688	527,688
GAP	**$1,087,985**	**$(60,113)**	**$(301,139)**	**$187,447**	**$(707,486)**	**$ 14,780**	**$ (221,474)**	**$ —**
YIELD SPREAD	**4.20 %**	**1.75 %**	**1.90 %**	**1.23 %**	**(0.80)%**	**5.26 %**		

Table 32: Interest Rate Sensitivity at December 31, 2022

At December 31, 2022 (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	$1,047,280	$148,537	$520,269	$223,858	$ 76,963	$ 1,819	$ 264,394	$ 2,283,120
Securitization	132,705	5,314	51,191	730,114	831,979	—	44,253	1,795,556
	1,179,985	153,851	571,460	953,972	908,942	1,819	308,647	4,078,676
Liabilities								
Corporate	6,533	171,543	760,203	691,343	196,741	—	22,615	1,848,978
Securitization	131,077	4,259	48,331	688,660	868,061	—	—	1,740,388
	137,610	175,802	808,534	1,380,003	1,064,802	—	22,615	3,589,366
Shareholders' Equity	—	—	—	—	—	—	489,310	489,310
GAP	**$1,042,375**	**$(21,951)**	**$(237,074)**	**$(426,031)**	**$(155,860)**	**$ 1,819**	**$ (203,278)**	**$ —**
YIELD SPREAD	**4.97 %**	**1.34 %**	**1.49 %**	**0.79 %**	**0.04 %**	**4.87 %**		

Market Risk

Market risk is the exposure to adverse changes in the value of financial assets. Market risk includes price risk on marketable securities, execution risk, real estate values and commodity prices, among others.

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 September 30, 2023, there were 35,431,938 common shares outstanding (June 30, 2023 - 35,067,948; December 31, 2022 - 34,305,704). At November 6, 2023, there were 35,431,938 common shares outstanding.

We issued $4.0 million in new common shares in Q3 2023 (Q3 2022 - $2.0 million) and $14.5 million year to date 2023 ($7.4 million - year to date 2022) 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. The DRIP participation rate for the 2023 third quarter dividend was 30% (2023 second quarter - 29%; 2022 third quarter - 17%).

During the current quarter, we renewed our (i) Base Shelf Prospectus; and (ii) ATM Program established pursuant to a Prospectus Supplement to our Base Shelf Prospectus allowing us to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at our sole discretion. During Q3 2023, we sold 100,000 common shares at a weighted average price of $16.28 for gross proceeds of $1,629 thousand and net proceeds of $1,366 thousand including $33 thousand of agent commission paid and $230 thousand of other share issuance costs under the ATM Program. Year to date 2023, we sold 153,400 common shares at a weighted average price of $16.12 for gross proceeds of $2,473 thousand and net proceeds of $2,137 thousand including $50 thousand of agent commission paid and $285 thousand of other share issuance costs under the ATM Program.

For additional information related to share capital, refer to Note 13 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 33: Contractual Commitments

At September 30, 2023 (in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 380,985	$ 225,812	$ 55,691	$ —	$ —	$ 662,488
Commitment - TAS 3	104	—	—	—	—	104
Commitment - TAS Co	—	326	750	—	—	1,076
Commitment - TAS 4	—	8,177	5,497	3,926	—	17,600
Commitment - Harbour	700	2,800	2,500	1,000	—	7,000
Commitment - KSSMF	500	2,000	6,800	—	—	9,300
Commitment - Pearl	327	721	—	—	—	1,048
Commitment - Crown	964	3,564	6,519	—	—	11,047
Commitment - Fiera	1,103	2,480	2,857	1,013	1,500	8,953
Commitment - Broccolini	—	6,000	8,600	2,000	1,000	17,600
Commitment - KSHYF	—	3,000	850	—	28,844	32,694
	$ 384,683	**$ 254,880**	**$ 90,064**	**$ 7,939**	**$ 31,344**	**$ 768,910**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At September 30, 2023, these derecognized securitized insured multi family mortgages totalled $68 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 19 to the interim consolidated financial statements.

DIVIDENDS

On November 6, 2023, the Board declared a regular quarterly cash dividend of $0.38 per share to be paid on January 2, 2024 to shareholders of record as at December 15, 2023.

In order to take advantage of the tax benefits provided by the MIC status, we pay out 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 regular 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. 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. As a result of tax timing differences on various investing strategies that we have engaged in, we currently do not expect to have taxable income per share materially greater than our regular cash dividends per share for 2023. We therefore do not anticipate distributing a special dividend, or if so not a material one, in the first quarter of 2024. Depending on various factors, whether we distribute a special dividend may be subject to change.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended September 30, 2023 and September 30, 2022 and related party balances at September 30, 2023 and December 31, 2022 are discussed in Notes 8 and 18 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 September 30, 2023, we had 136 team members (June 30, 2023 - 138; December 31, 2022 - 128) including full-time, part-time, contract and summer students.

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 2022 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At September 30, 2023, the 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.

There were no changes in our ICFR during the interim period ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our control framework. Beginning in 2024, we expect to implement a new enterprise resource planning ("ERP") system. This ERP implementation is not expected to result in any significant changes in internal controls. We will have appropriate testing on the new system to ensure a proper transition as well as appropriate procedures to ensure internal controls over financial reporting are in place during and after this implementation.

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-GAAP AND OTHER FINANCIAL MEASURES

We prepare our interim consolidated financial statements in accordance with IFRS, which is current GAAP. We use a number of financial measures and ratios 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 other issuers using these measures. The non-GAAP and other financial measures used in this MD&A are defined as follows:

Non-GAAP Financial Measures

Net Corporate Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning corporate assets less cost of funding for our corporate mortgage portfolio. It is calculated as the difference between corporate mortgage interest and term deposit interest and expenses as reported on the interim consolidated statements of income. Calculations can also be found in Tables 1, 2, and 4 of this MD&A.

Table 34: Net Corporate Mortgage Spread Income

(in thousands) For the Periods Ended September 30	Q3 2023	Q3 2022	Change ($)	YTD 2023	YTD 2022	Change ($)
Mortgage interest - corporate assets	$ 44,144	$ 27,216		$ 118,591	$ 70,539	
Term deposit interest and expenses	21,083	12,330		53,858	31,033	
Net Corporate Mortgage Spread Income	**$ 23,061**	**$ 14,886**	**$ 8,175**	**$ 64,733**	**$ 39,506**	**$ 25,227**

Securitized Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning securitized assets less cost of securitized liabilities for our securitized mortgage portfolio. It is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization as reported on the interim consolidated statements of income. Calculations can also be found in Table 7 of this MD&A.

Table 35: Net Securitized Mortgage Spread Income

(in thousands) For the Periods Ended September 30	Q3 2023	Q3 2022	Change ($)	YTD 2023	YTD 2022	Change ($)
Mortgage interest - securitized assets	$ 9,616	$ 7,949		$ 28,026	$ 22,804	
Interest on financial liabilities from securitization	8,147	6,214		23,172	17,096	
Net Securitized Mortgage Spread Income	**$ 1,469**	**$ 1,735**	**$ (266)**	**$ 4,854**	**$ 5,708**	**$ (854)**

Supplementary Financial Measures

Average Rates
Supplementary financial measures that are an indicator of interest profitability of income-earning assets or the cost of liabilities. It is calculated as income or expense as a percentage of average interest-earning assets or liabilities balance. This financial measure includes average interest rates for (i) mortgages - corporate portfolios; (ii) term deposit interest and expenses; (iii) mortgages - securitized portfolio; and (iv) financial liabilities from securitization. The average income-earning asset or liability balance that is incorporated into the average interest rate calculations is calculated on either a daily or monthly basis depending on the nature of the asset or liability.

Spread of Corporate Mortgages over Term Deposit Interest and Expenses
Supplementary financial measure that is an indicator of net interest profitability of income-earning corporate assets less cost of funding. The spread of corporate mortgages over term deposit interest and expenses is calculated by taking the total corporate mortgage interest as a percentage of the average corporate mortgage average portfolio balance less the average term deposit interest and expenses rate.

Spread of Securitized Mortgages over Liabilities
Supplementary financial measure that is an indicator of net interest profitability of income-earning securitized assets less cost of securitized liabilities. The spread of securitized mortgages over liabilities is calculated by taking the securitized mortgage portfolio average interest rate less the financial liabilities average interest rate.

Return on Average Shareholders' Equity
Supplementary financial measure that measures profitability by presenting the annualized net income available (loss attributable) to shareholders as a percentage of the average capital deployed to earn the income (loss). It is calculated as net income (loss) divided by average shareholders' equity. Average shareholders' equity is calculated as a monthly average using all components of shareholders' equity.

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

Distribution Yield
Supplementary financial measure that is an indicator of profitability on marketable and non-marketable securities. It is calculated by dividing the distribution income as a percentage of the average balance.

Book Value per Common Share
Supplementary financial measure that is calculated as total shareholders' equity divided by the number of common shares outstanding as of that date.

GLOSSARY

CET 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 OSFI's Capital Adequacy Requirements and Leverage Requirements guidelines.

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.

CONSOLIDATED BALANCE SHEETS

(Unaudited) (in thousands of Canadian dollars)

	Note	September 30 2023	December 31 2022
Assets			
Corporate Assets			
Cash and cash equivalents		$ 50,473	$ 78,210
Marketable securities		46,081	53,743
Mortgages	6	2,337,717	1,939,494
Non-marketable securities	7	111,590	97,228
Equity investment in MCAP Commercial LP	8	110,222	106,168
Derivative financial instruments	11	247	—
Deferred tax assets		1,872	1,095
Other assets		8,534	7,182
		2,666,736	**2,283,120**
Securitization Assets			
Cash held in trust		28,307	34,531
Mortgages	10	1,835,318	1,751,303
Other assets	10	10,121	9,722
		1,873,746	**1,795,556**
		$ 4,540,482	**$ 4,078,676**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits		$ 2,094,788	$ 1,819,830
Demand loans payable	19	83,235	6,532
Other liabilities		10,513	22,616
		2,188,536	**1,848,978**
Securitization Liabilities			
Financial liabilities from securitization	12	1,824,258	1,740,388
		1,824,258	**1,740,388**
		4,012,794	**3,589,366**
Shareholders' Equity			
Share capital	13	406,581	389,986
Contributed surplus		510	510
Retained earnings		118,315	98,990
Accumulated other comprehensive income		2,282	(176)
		527,688	**489,310**
		$ 4,540,482	**$ 4,078,676**

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 September 30	Note	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net Investment Income - Corporate Assets					
Mortgage interest		$ 44,144	$ 27,216	$ 118,591	$ 70,539
Equity income from MCAP Commercial LP	8	4,310	8,236	17,581	19,743
Non-marketable securities		2,056	2,202	6,706	5,732
Marketable securities		693	864	2,797	2,692
Fees		480	682	1,689	1,843
Interest on cash and other income		1,071	579	3,147	858
Net loss on securities	15	(1,581)	(5,092)	(5,599)	(13,809)
Gain on dilution of investment in MCAP Commercial LP	8	—	—	1,048	—
		51,173	**34,687**	**145,960**	**87,598**
Term deposit interest and expenses	11	21,083	12,330	53,858	31,033
Mortgage expenses	16	1,794	1,592	5,392	4,769
Interest on loans payable		2,241	1,064	4,813	2,488
Other financial expenses	18	—	—	100	210
Provision for credit losses	17	399	856	2,380	27
		25,517	**15,842**	**66,543**	**38,527**
		25,656	**18,845**	**79,417**	**49,071**
Net Investment Income - Securitization Assets					
Mortgage interest		9,616	7,949	28,026	22,804
Other securitization income		453	195	1,276	383
		10,069	**8,144**	**29,302**	**23,187**
Interest on financial liabilities from securitization	11	8,147	6,214	23,172	17,096
Mortgage expenses	16	1,152	1,050	3,329	3,025
Provision for credit losses	17	—	3	—	6
		9,299	**7,267**	**26,501**	**20,127**
		770	**877**	**2,801**	**3,060**
Operating Expenses					
Salaries and benefits		6,015	5,044	17,499	14,679
General and administrative		2,527	2,442	7,884	6,831
		8,542	**7,486**	**25,383**	**21,510**
Net Income Before Income Taxes		**17,884**	**12,236**	**56,835**	**30,621**
Provision for (recovery of) income taxes		(595)	586	(808)	(645)
Net Income		**$ 18,479**	**$ 11,650**	**$ 57,643**	**$ 31,266**
Basic and diluted earnings per share		$ 0.53	$ 0.37	$ 1.66	$ 1.01
Cash dividends per share		$ 0.38	$ 0.36	$ 1.10	$ 1.08
Stock dividends per share		$ —	$ —	$ —	$ 0.97
Weighted average number of basic and diluted shares (000's)		35,094	31,718	34,816	30,981

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 COMPREHENSIVE INCOME

(Unaudited) (in thousands of Canadian dollars)

For the Periods Ended September 30	Note	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net Income		$ 18,479	$ 11,650	$ 57,643	$ 31,266
Other comprehensive income items that may be subsequently reclassified to income (loss):					
Cash Flow Hedges	11				
Net gains (losses) from changes in fair value of cash flow hedges		637	—	2,488	—
Reclassification of net losses (gains) to net income		(79)	—	(30)	—
Total Other Comprehensive Income		**558**	**—**	**2,458**	**—**
Comprehensive Income		**$ 19,037**	**$ 11,650**	**$ 60,101**	**$ 31,266**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited) (in thousands of Canadian dollars)

For the Periods Ended September 30	Note	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Share Capital					
Balance, beginning of period		$ 401,231	$ 353,854	$ 389,986	$ 315,339
Share capital issued, net of share issuance costs	13	5,350	2,020	16,595	40,535
Balance, end of period		**406,581**	**355,874**	**406,581**	**355,874**
Contributed Surplus		**510**	**510**	**510**	**510**
Retained Earnings					
Balance, beginning of period		113,183	86,137	98,990	117,409
Net income		18,479	11,650	57,643	31,266
Dividends declared	13	(13,347)	(11,420)	(38,318)	(62,308)
Balance, end of period		**118,315**	**86,367**	**118,315**	**86,367**
Accumulated Other Comprehensive Income	11				
Balance, beginning of period		1,724	—	(176)	—
Other comprehensive income		558	—	2,458	—
Balance, end of period		**2,282**	**—**	**2,282**	**—**
Total Shareholders' Equity		**$ 527,688**	**$ 442,751**	**$ 527,688**	**$ 442,751**

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 September 30	Note	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Cash flows from (for):					
Operating Activities					
Net income		$ 18,479	$ 11,650	$ 57,643	$ 31,266
Adjustments to determine cash flows relating to operating activities:					
Provision for (recovery of) income taxes		(595)	586	(808)	(645)
Equity income from MCAP Commercial LP	8	(4,310)	(8,236)	(17,581)	(19,743)
Gain on dilution of investment in MCAP Commercial LP	8	—	—	(1,048)	—
Provision for credit losses	17	399	859	2,380	33
Net loss on securities		1,581	5,092	5,599	13,809
Amortization of cash flow hedges net losses (gains)		(79)	—	(30)	—
Amortization of securitized mortgage and liability transaction costs		2,514	2,145	6,705	5,771
Amortization of other assets		45	145	323	439
Changes in operating assets and liabilities:					
Marketable securities		—	—	—	(3,132)
Corporate and securitized mortgages		(195,662)	8,519	(488,432)	(280,449)
Non-marketable securities		(2,352)	(9,612)	(12,300)	(28,348)
Derivative Financial Instruments		390	—	2,241	—
Other assets		927	4,678	(1,743)	(1,433)
Cash held in trust		15,346	6,573	6,224	22,548
Term deposits		73,416	(53,912)	274,958	83,104
Financial liabilities from securitization		75,302	(20,597)	80,980	85,943
Other liabilities		1,501	1,761	(456)	(909)
Cash flows for operating activities		**(13,098)**	**(50,349)**	**(85,345)**	**(91,746)**
Investing Activities					
Distributions from MCAP Commercial LP	8	3,906	4,556	14,575	12,634
Acquisition of capital and intangible assets		(53)	(85)	(298)	(243)
Cash flows from investing activities		**3,853**	**4,471**	**14,277**	**12,391**
Financing Activities					
Proceeds from issuance of common shares, net of share issuance costs		1,366	11	2,137	4,045
Net change in demand loans		(48,875)	7,915	76,703	68,638
Other loan payable to MCAP Securities Limited Partnership		—	—	—	(41,205)
Repayment of premises lease liability		—	(89)	(183)	(266)
Dividends paid		(9,361)	(9,410)	(35,326)	(36,184)
Cash flows from (for) financing activities		**(56,870)**	**(1,573)**	**43,331**	**(4,972)**
Decrease in cash and cash equivalents		(66,115)	(47,451)	(27,737)	(84,327)
Cash and cash equivalents, beginning of period		116,588	85,393	78,210	122,269
Cash and cash equivalents, end of period		**$ 50,473**	**$ 37,942**	**$ 50,473**	**$ 37,942**
Supplementary Information					
Interest received		$ 57,391	$ 36,579	$ 156,842	$ 95,116
Interest paid		34,205	18,817	84,993	47,831
Distributions received from securities		2,148	2,193	7,004	6,524

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 doing business as ("d/b/a") MCAN Financial Group (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 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, MCAN Home Mortgage Corporation, is an originator of 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 November 6, 2023.

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 2022 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, 2022. 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, 2022.

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 September 30, 2023, 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;
- 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 current inflationary and rising interest rate environment. Key judgments and estimates, including around probability weights to assign to each scenario and the impacts of government policy and stimulus measures, will be heavily influenced by the extent and severity of these events. 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.

(Dollar amounts in thousands except for per share amounts)

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

At September 30, 2023	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Residential mortgages						
Insured	$ 269,271	$ —	$ —	$ —	$ —	$ 269,271
Uninsured	958,097	712	913	284	1,909	956,188
Uninsured - completed inventory	18,287	76	10	—	86	18,201
Construction loans	1,002,913	4,267	512	711	5,490	997,423
Commercial loans						
Multi family residential	90,544	223	36	—	259	90,285
Other commercial	6,577	3	—	225	228	6,349
	$ 2,345,689	**$ 5,281**	**$ 1,471**	**$ 1,220**	**$ 7,972**	**$ 2,337,717**

At December 31, 2022	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Residential mortgages						
Insured	$ 144,569	$ —	$ —	$ —	$ —	$ 144,569
Uninsured	829,745	514	642	49	1,205	828,540
Uninsured - completed inventory	36,880	200	—	—	200	36,680
Construction loans	828,809	3,503	180	—	3,683	825,126
Commercial loans						
Multi family residential	98,715	348	129	—	477	98,238
Other commercial	6,374	8	25	—	33	6,341
	$ 1,945,092	**$ 4,573**	**$ 976**	**$ 49**	**$ 5,598**	**$ 1,939,494**

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

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.

(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 residential 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 residential 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.

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, 2022.

(Dollar amounts in thousands except for per share amounts)

At	September 30, 2023				December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages								
Insured								
Insured performing	$ 258,980	$ 9,442	$ —	$ 268,422	$ 139,351	$ 4,707	$ —	$ 144,058
Monitored/Arrears	—	366	—	366	61	450	—	511
Impaired/Default	—	—	483	483	—	—	—	—
	258,980	9,808	483	269,271	139,412	5,157	—	144,569
Uninsured								
Very low/Low	338,265	68,198	—	406,463	361,995	69,030	—	431,025
Normal/Moderate	382,128	77,484	—	459,612	295,807	50,738	—	346,545
High/Higher	45,241	9,626	—	54,867	29,916	6,877	—	36,793
Monitored/Arrears	—	31,315	—	31,315	7,702	6,289	—	13,991
Impaired/Default	—	—	3,931	3,931	—	—	186	186
	765,634	186,623	3,931	956,188	695,420	132,934	186	828,540
Uninsured - completed inventory								
High/Higher	15,983	—	—	15,983	34,103	—	—	34,103
Monitored/Arrears	—	2,218	—	2,218	—	2,577	—	2,577
	15,983	2,218	—	18,201	34,103	2,577	—	36,680
Construction loans								
Normal/Moderate	—	—	—	—	5,886	—	—	5,886
High/Higher	933,248	—	—	933,248	779,814	—	—	779,814
Monitored/Arrears	—	32,388	—	32,388	—	7,341	—	7,341
Impaired/Default	—	—	31,787	31,787	—	—	32,085	32,085
	933,248	32,388	31,787	997,423	785,700	7,341	32,085	825,126
Commercial loans								
Multi family residential								
Normal/Moderate	12,868	—	—	12,868	37,012	—	—	37,012
High/Higher	37,596	39,821	—	77,417	33,820	27,406	—	61,226
	50,464	39,821	—	90,285	70,832	27,406	—	98,238
Other								
Normal/Moderate	1,494	—	—	1,494	1,261	—	—	1,261
Monitored/Arrears	—	—	—	—	—	5,080	—	5,080
Impaired/Default	—	—	4,855	4,855	—	—	—	—
	1,494	—	4,855	6,349	1,261	5,080	—	6,341
	$2,025,803	**$ 270,858**	**$ 41,056**	**$2,337,717**	**$1,726,728**	**$ 180,495**	**$ 32,271**	**$1,939,494**

(Dollar amounts in thousands except for per share amounts)

(c) Mortgage allowances

Quarters Ended September 30	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Residential mortgages								
Insured								
Allowance, beginning of quarter	$ —	$ —	$ —	$ —	$ 1	$ —	$ —	$ 1
Total provision	—	—	—	—	—	—	—	—
Allowance, end of quarter	—	—	—	—	1	—	—	1
Uninsured								
Allowance, beginning of quarter	$ 719	$ 698	$ 80	$ 1,497	$ 547	$ 354	$ —	$ 901
Transfer to stage 1 [3]	(358)	358	—	—	60	(60)	—	—
Transfer to stage 2 [3]	107	(190)	83	—	(271)	271	—	—
Net remeasurement of allowance [1]	63	78	122	263	154	93	(7)	240
Originations [4]	204	—	—	204	101	—	—	101
Mortgages derecognized or repaid [2]	(23)	(31)	(1)	(55)	(37)	(46)	—	(83)
Total provision	(7)	215	204	412	7	258	(7)	258
Write-off (recovery)	—	—	—	—	—	—	15	15
Allowance, end of quarter	712	913	284	1,909	554	612	8	1,174
Uninsured - completed inventory								
Allowance, beginning of quarter	$ 29	$ 21	$ —	$ 50	$ 194	$ —	$ —	$ 194
Transfer to stage 1 [3]	(8)	8	—	—	4	(4)	—	—
Transfer to stage 2 [3]	3	(3)	—	—	(7)	7	—	—
Net remeasurement of allowance [1]	(9)	(16)	—	(25)	65	(3)	—	62
Originations [4]	61	—	—	61	—	—	—	—
Mortgages derecognized or repaid [2]	—	—	—	—	(5)	—	—	(5)
Total provision	47	(11)	—	36	57	—	—	57
Allowance, end of quarter	76	10	—	86	251	—	—	251
Construction loans								
Allowance, beginning of quarter	$ 4,247	$ 177	$ —	$ 4,424	$ 4,196	$ 76	$ —	$ 4,272
Transfer to stage 1 [3]	(631)	631	—	—	428	(428)	—	—
Transfer to stage 2 [3]	515	(515)	—	—	(678)	678	—	—
Net remeasurement of allowance [1]	292	219	711	1,222	196	481	—	677
Originations [4]	310	—	—	310	91	—	—	91
Mortgages derecognized or repaid [2]	(466)	—	—	(466)	(187)	—	—	(187)
Total provision	20	335	711	1,066	(150)	731	—	581
Allowance, end of quarter	4,267	512	711	5,490	4,046	807	—	4,853

(Dollar amounts in thousands except for per share amounts)

Quarters Ended September 30	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commercial loans								
Multi family residential								
Allowance, beginning of quarter	$ 301	$ 83	$ —	$ 384	$ 317	$ 45	$ —	$ 362
Net remeasurement of allowance [1]	(6)	(47)	—	(53)	50	(27)	—	23
Mortgages derecognized or repaid [2]	(72)	—	—	(72)	—	—	—	—
Total provision (recovery)	(78)	(47)	—	(125)	50	(27)	—	23
Allowance, end of quarter	223	36	—	259	367	18	—	385
Other								
Allowance, beginning of quarter	$ 6	$ —	$ 1,220	$ 1,226	$ 7	$ 54	$ —	$ 61
Transfer to stage 1 [3]	—	—	—	—	54	(54)	—	—
Net remeasurement of allowance [1]	(3)	—	(995)	(998)	(42)	—	—	(42)
Total provision (recovery)	(3)	—	(995)	(998)	12	(54)	—	(42)
Allowance, end of quarter	3	—	225	228	19	—	—	19
Total								
Allowance, beginning of quarter	$ 5,302	$ 979	$ 1,300	$ 7,581	$ 5,262	$ 529	$ —	$ 5,791
Transfer to stage 1 [3]	(997)	997	—	—	546	(546)	—	—
Transfer to stage 2 [3]	625	(708)	83	—	(956)	956	—	—
Net remeasurement of allowance [1]	337	234	(162)	409	423	544	(7)	960
Originations [4]	575	—	—	575	192	—	—	192
Mortgages derecognized or repaid [2]	(561)	(31)	(1)	(593)	(229)	(46)	—	(275)
Total provision (recovery)	(21)	492	(80)	391	(24)	908	(7)	877
Allowance, end of quarter	**$ 5,281**	**$ 1,471**	**$ 1,220**	**$ 7,972**	**$ 5,238**	**$ 1,437**	**$ 8**	**$ 6,683**

[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 September 30, 2023	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	2.39%	6.21%	9.70%	6.73%	(1.99)%	5.24%
Greater Toronto Area	0.99%	5.97%	10.10%	7.01%	(2.06)%	5.45%
Greater Vancouver Area	2.12%	5.94%	9.90%	6.87%	(2.02)%	5.34%
Gross domestic product (annual change)	0.71%	1.54%	1.71%	1.66%	(0.92)%	1.41 %
Unemployment rate	6.09%	6.67%	5.59%	6.57%	7.09%	6.86%
Interest rates						
Prime rate	6.96%	5.25%	7.46%	5.75%	6.71%	5.00%

At December 31, 2022	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	(7.28%)	3.97%	(0.49%)	4.48%	(9.16)%	3.24%
Greater Toronto Area	(8.93%)	3.74%	(0.51%)	4.67%	(9.51)%	3.37%
Greater Vancouver Area	(8.70%)	3.70%	(0.50%)	4.58%	(9.34)%	3.30%
Gross domestic product (annual change)	0.08%	1.64%	1.08%	1.76%	(1.55)%	1.51%
Unemployment rate	5.94%	6.53%	5.44%	6.44%	6.94%	6.72%
Interest rates						
Prime rate	6.53%	5.36%	7.03%	5.86%	6.28%	5.11%

At September 30, 2022	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	(9.06%)	(0.12%)	(2.37%)	0.38%	(10.91)%	(0.37%)
Greater Toronto Area	(1.69%)	(0.94%)	0.05%	0.24%	(1.77)%	(0.93%)
Greater Vancouver Area	(1.56%)	(0.85%)	0.05%	0.23%	(1.73)%	(0.92%)
Gross domestic product (annual change)	0.37%	0.51%	1.37%	1.14%	(1.26)%	0.89%
Unemployment rate	5.80%	6.39%	6.25%	6.30%	6.80%	6.58%
Interest rates						
Prime rate	6.07%	5.72%	6.57%	6.22%	5.82%	5.47%

[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 judgements and estimates at the reporting date. The current inflationary and higher interest rate environment has increased the level of uncertainty with respect to management's judgements and estimates including the probability weights assigned to each scenario, the impacts of monetary policy on macroeconomic indicators and the mortgage portfolio. Since September 30, 2023, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to September 30, 2023, 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 the current inflationary and higher interest rate environment. It assumes the unemployment rate will increase. Gross domestic product is expected to increase slightly in the short term and gradually increase going forward. Housing prices are expected to increase more quickly in the mid to long term. The favourable scenario assumes a significant increase in housing prices, lower unemployment, and faster increases to gross domestic product compared to the base scenario. The unfavourable scenario represents the possibility of a recession resulting in an increase to the unemployment rate and decreases in housing prices and gross domestic product in the short term followed by a recovery in the mid to long 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 September 30, 2023 would be approximately $6,499 (December 31, 2022 - $4,829) compared to the reported ECL for corporate mortgages of $7,972 (December 31, 2022 - $5,598).

(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 September 30, 2023 would be approximately $9,252 (December 31, 2022 - $8,504) compared to the reported ECL for corporate mortgages of $7,972 (December 31, 2022 - $5,598).

(d) Mortgage arrears

Mortgages past due but not impaired are as follows:

At September 30, 2023	1 to 30 days	31 to 60 days	61 to 90 days	Total
Residential mortgages				
Insured	$ 366	$ —	$ —	$ 366
Uninsured	18,387	9,088	3,840	31,315
Uninsured - completed inventory	2,218	—	—	2,218
Construction loans	4,315	—	6,243	10,558
	$ 25,286	**$ 9,088**	**$ 10,083**	**$ 44,457**

At December 31, 2022	1 to 30 days	31 to 60 days	61 to 90 days	Total
Residential mortgages				
Insured	$ 60	$ 234	$ 217	$ 511
Uninsured	11,454	1,825	712	13,991
Uninsured - completed inventory	2,577	—	—	2,577
Commercial loans	5,080	—	—	5,080
	$ 19,171	**$ 2,059**	**$ 929**	**$ 22,159**

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

At September 30, 2023	Residential Mortgages		Construction	Commercial	
	Insured	Uninsured	loans	loans	Total
Ontario	$ —	$ 3,587	$ —	$ —	$ 3,587
Alberta	237	344	—	4,855	5,436
British Columbia	—	—	31,787	—	31,787
Atlantic Provinces	136	—	—	—	136
Other	110	—	—	—	110
	$ 483	**$ 3,931**	**$ 31,787**	**$ 4,855**	**$ 41,056**

At December 31, 2022	Residential Mortgages	Construction	
	Uninsured	Loans	Total
Alberta	$ 186	$ —	$ 186
British Columbia	—	32,085	32,085
	$ 186	**$ 32,085**	**$ 32,271**

At September 30, 2023, the total appraised value of the collateral related to the impaired uninsured - completed inventory, commercial and construction loans was $57,000.

(Dollar amounts in thousands except for per share amounts)

(e) Geographic analysis

At September 30, 2023	Residential Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 1,061,001	$ 244,086	$ 82,435	$ 1,387,522	59.4 %
Alberta	89,066	137,720	5,137	231,923	9.9 %
British Columbia	70,686	615,617	—	686,303	29.4 %
Quebec	2,988	—	4,083	7,071	0.3 %
Atlantic Provinces	9,713	—	—	9,713	0.4 %
Other	10,206	—	4,979	15,185	0.6 %
	$ 1,243,660	**$ 997,423**	**$ 96,634**	**$ 2,337,717**	**100.0 %**

At December 31, 2022	Residential Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 842,251	$ 183,088	$ 90,377	$ 1,115,716	57.6 %
Alberta	65,263	142,151	5,109	212,523	11.0 %
British Columbia	70,772	499,887	—	570,659	29.4 %
Quebec	19,284	—	4,113	23,397	1.2 %
Atlantic Provinces	6,547	—	—	6,547	0.3 %
Other	5,672	—	4,980	10,652	0.5 %
	$ 1,009,789	**$ 825,126**	**$ 104,579**	**$ 1,939,494**	**100.0 %**

(f) Other information

Outstanding commitments for future fundings of mortgages are as follows:

At	September 30, 2023	December 31, 2022
Residential mortgages		
Insured	$ 64,775	$ 32,270
Uninsured	22,871	19,804
Uninsured - completed inventory	990	129
Construction loans	573,578	542,609
Commercial loans		
Other	274	—
	$ 662,488	**$ 594,812**

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 September 30, 2023 was $2,324,262 (December 31, 2022 - $1,939,615). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages.

At September 30, 2023, insured residential mortgages included $101,138 (December 31, 2022 - $63,229) 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.

(Dollar amounts in thousands except for per share amounts)

7. Non-Marketable Securities

At	September 30, 2023	December 31, 2022
KingSett High Yield Fund	$ 54,947	$ 52,642
Securitization Notes	—	1,022
TAS LP 3	10,476	8,714
KingSett Senior Mortgage Fund LP	15,882	9,462
TAS LP 3 Co-Invest LP	5,507	3,750
Crown Realty V Limited Partnership	8,962	8,962
Pearl Group Growth Fund LP	1,952	1,745
TAS Impact Development LP 4	2,400	2,400
Broccolini Limited Partnership No. 8	2,400	2,400
Fiera Real Estate Development Fund IV, LP	6,064	3,806
Harbour Equity JV Development Fund VI	3,000	2,325
	$ 111,590	**$ 97,228**

KingSett High Yield Fund (“KSHYF”): The Company holds an investment in the KSHYF representing a 5.9% equity interest (December 31, 2022 - 5.9%). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the KSHYF, the Company advances its proportionate share. The KSHYF pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. At September 30, 2023, the Company’s total remaining commitment to the KSHYF was $32,694 (December 31, 2022 - $34,694), consisting of $3,850 available for capital advances for the KSHYF (December 31, 2022 - $5,850) and $28,844 that supports credit facilities throughout the life of the KSHYF (December 31, 2022 - $28,844).

Securitization Notes: The Company invested $18,000 in Class A Securitization Notes. The issuer of the Securitization Notes was a wholly-owned subsidiary of MCAP. The final distribution date was March 15, 2023. During 2023, the Company received $1,022 in principal repayment and recorded $8 of interest income at the contractual rate of the Securitization Notes in net investment income from non-marketable securities on the interim consolidated statements of income.

TAS LP 3 (“TAS 3”): The Company holds an investment in TAS 3 representing a 9.7% partnership interest (December 31, 2022 - 9.7%). At September 30, 2023, the Company’s total remaining commitment is $104. The Company advances its proportionate share as TAS 3 invests in, and develops, residential and mixed use properties with a focus on assets that drive environmental and social impacts.

KingSett Senior Mortgage Fund LP (“KSSMF”): The Company holds an investment in KSSMF representing a 2.1% partnership interest (December 31, 2022 - 1.5%). At September 30, 2023, the Company’s total remaining commitment is $9,300. The Company advances its proportionate share as KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 Co-Invest LP (“TAS Co”): The Company holds an investment in TAS Co, in which it has a 34.8% partnership interest (December 31, 2022 - 34.8%). At September 30, 2023, the Company’s total remaining commitment is $1,076. The Company advances its proportionate share as TAS Co invests and it invests in some of the same properties as TAS 3 noted above.

Pearl Group Growth Fund LP (“Pearl”): The Company holds an investment in Pearl, in which it has a 6.9% partnership interest (December 31, 2022 - 6.9%). At September 30, 2023, the Company’s total remaining commitment is $1,048. The Company advances its proportionate share as Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial and multi-unit residential properties in the Greater Toronto area.

Crown Realty V Limited Partnership (“Crown”): The Company holds an investment in Crown representing a 7.7% partnership interest (December 31, 2022 - 7.7%). At September 30, 2023, the Company’s total remaining commitment is $11,047. The Company advances its proportionate share as Crown integrates environmental and social focused initiatives to acquire, lease, manage and reposition commercial real estate properties across Ontario.

TAS Impact Development LP 4 (“TAS 4”): The Company holds an investment in TAS 4 representing a 14.8% partnership interest (December 31, 2022 - 17.6%). At September 30, 2023, the Company’s total remaining commitment is $17,600. The Company advances its proportionate share as TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive environmental and social impacts.

Broccolini Limited Partnership No. 8 (“Broccolini”): The Company holds an investment in Broccolini representing a 5.7% partnership interest (December 31, 2022 - 5.7%). At September 30, 2023, the Company’s total remaining commitment is

(Dollar amounts in thousands except for per share amounts)

$17,600. The Company advances its proportionate share as Broccolini invests in ground up development of industrial, residential and mixed-use properties across Canada, with a focus on Ontario and Quebec.

Harbour Equity JV Development Fund VI ("Harbour"): The Company holds an investment in Harbour representing a 12.1% partnership interest (December 31, 2022 - 12.1%). At September 30, 2023, the Company's total remaining commitment is $7,000. The Company advances its proportionate share as Harbour provides equity capital to real estate developers in joint ventures or co-ownership structures for ground up development of residential and mixed-use properties across Canada.

Fiera Real Estate Development Fund IV, LP ("Fiera"): The Company holds an investment in Fiera representing an 6.5% partnership interest (December 31, 2022 - 7.1%). At September 30, 2023, the Company's total remaining commitment is $8,953. The Company advances its proportionate share as Fiera develops and re-develops multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

8. Equity Investment in MCAP Commercial LP

At September 30, 2023, the Company held a 13.73% equity interest in MCAP (December 31, 2022 - 13.65%), representing 4.0 million units held by MCAN (December 31, 2022 - 4.0 million) of the 29.1 million total outstanding MCAP partnership units (December 31, 2022 - 29.3 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 periods ended August 31 adjusted for the impacts of significant transactions or events up to the date of our financial statements.

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

For the Periods Ended September 30	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Balance, beginning of period	$ 109,818	$ 99,615	$ 106,168	$ 96,186
Equity income	4,310	8,236	17,581	19,743
Dilution gain	—	—	1,048	—
Distributions received	(3,906)	(4,556)	(14,575)	(12,634)
Balance, end of period	**$ 110,222**	**$ 103,295**	**$ 110,222**	**$ 103,295**

Selected MCAP financial information is as follows:

At	August 31 2023	November 30 2022
MCAP's balance sheet:		
Assets	$ 59,871,648	$ 50,903,680
Liabilities	59,074,115	50,117,275
Equity	797,533	786,405

For the Periods Ended August 31	Q3 2023	Q3 2022	YTD 2023	YTD 2022
MCAP's revenue and net income:				
Revenue	$ 263,786	$ 301,208	$ 761,662	$ 736,719
Net income	$ 31,398	$ 59,071	$ 127,889	$ 141,610

9. Securitization Activities

The Company is an NHA MBS issuer, which involves the securitization of insured mortgages to create and sell MBS through Canada Mortgage and Housing Corporation ("CMHC") market MBS and Canada Mortgage Bonds ("CMB") programs.

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.

(Dollar amounts in thousands except for per share amounts)

Pursuant to the NHA MBS program, MBS investors receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. CMHC makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the Timely Payment 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 Q3 2023, MCAN securitized $144,406 of insured residential mortgages through the market MBS and CMB programs (Q3 2022 - $56,151).

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 residential mortgage CMB program sale transactions, MCAN continues to recognize the securitized mortgages (Note 10) and financial liabilities from securitization (Note 12) 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:

	2025	2026	2029	2030	Total
At September 30, 2023	$ 14,775	$ 8,229	$ 13,066	$ 32,407	**$ 68,477**

10. Mortgages - Securitized

(a) Summary

	Gross Principal	Allowance Total	Net Principal
At September 30, 2023	**$ 1,835,318**	**$ —**	**$ 1,835,318**
At December 31, 2022	**$ 1,751,303**	**$ —**	**$ 1,751,303**

(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 residential 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.

(Dollar amounts in thousands except for per share amounts)

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, 2022.

At	September 30, 2023				December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Insured Performing	$1,729,618	$ 101,262	$ —	$1,830,880	$1,654,140	$ 93,724	$ —	$1,747,864
Monitored/Arrears	—	4,128	—	4,128	803	2,086	—	2,889
Impaired/Default	—	—	310	310	—	—	550	550
	$1,729,618	**$ 105,390**	**$ 310**	**$1,835,318**	**$1,654,943**	**$ 95,810**	**$ 550**	**$1,751,303**

(c) Mortgage allowances

The allowance for credit losses on the securitized portfolio at September 30, 2023 was $nil (December 31, 2022 - $nil). The provision for credit losses recorded during Q3 2023 was $nil (Q3 2022 - provision for credit losses of $3).

(d) Mortgage arrears

Securitized mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Total
At September 30, 2023	$ 3,555	$ 573	$ —	**$ 4,128**
At December 31, 2022	$ 1,641	$ 1,248	$ —	**$ 2,889**

Impaired securitized mortgages are as follows:

At	September 30, 2023	December 31, 2022
Ontario	$ —	$ 447
Alberta	310	—
Atlantic Provinces	—	103
	$ 310	**$ 550**

(e) Geographic analysis

At	September 30, 2023		December 31, 2022	
Ontario	$ 1,596,560	87.1 %	$ 1,514,305	86.4 %
Alberta	141,955	7.7 %	139,420	8.0 %
British Columbia	57,338	3.1 %	57,828	3.3 %
Quebec	7,776	0.4 %	7,896	0.5 %
Atlantic Provinces	20,826	1.1 %	22,817	1.3 %
Other	10,863	0.6 %	9,037	0.5 %
	$ 1,835,318	**100.0 %**	**$ 1,751,303**	**100.0 %**

(f) Other information

Capitalized transaction costs are included in mortgages and are amortized using the EIM. At September 30, 2023, the unamortized capitalized transaction cost balance was $11,039 (December 31, 2022 - $11,268).

The fair value of the securitized mortgage portfolio at September 30, 2023 was $1,749,182 (December 31, 2022 - $1,675,759).

Other assets of $10,121 at September 30, 2023 (December 31, 2022 - $9,722) includes interest-only strips of $1,127 (December 31, 2022 - $1,325) from the Company's CMB insured multi family securitizations.

(Dollar amounts in thousands except for per share amounts)

11. Derivative Financial Instruments

The Company enters into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Realized gains or losses on these derivatives are reclassified from other comprehensive income ("OCI") to interest on financial liabilities from securitization and term deposit interest and expenses on the consolidated statements of income over the expected life of the underlying hedged item.

At September 30, 2023, the Company had $247 of derivative financial instruments outstanding (December 31, 2022 - $nil).

The following table presents the effects of cash flow hedges entered into during the year on the consolidated statements of income and the consolidated statements of comprehensive income:

For the Periods Ended September 30	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Liabilities - Interest Rate Risk				
Change in value of hedged item for ineffectiveness measurement	$ (637)	$ —	$ (2,488)	$ —
Change in value of hedging item for ineffectiveness measurement	637	—	2,488	—
Hedge Ineffectiveness	—	—	—	—
Hedging gains recognized in other comprehensive income	637	—	2,488	—
Amount reclassified from accumulated other comprehensive income to net income	(79)	—	(30)	—
Effect on OCI	$ 558	$ —	$ 2,458	$ —

The following table provides a reconciliation of OCI related to cash flow hedges entered into during the year:

For the Periods Ended September 30	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Liabilities - Interest Rate Risk				
Accumulated OCI at the beginning of the year	$ 1,724	$ —	$ (176)	$ —
OCI	558	—	2,458	—
Accumulated OCI at the End of the Period	$ 2,282	$ —	$ 2,282	$ —
OCI on designated hedges	$ 558	$ —	$ 2,458	$ —

Derivative-Related Risks

The potential for derivatives to increase or decrease in value as a result of changes in relevant factors, such as interest rate changes is referred to as market risk. Credit risk on derivatives, also known as counterparty credit risk, is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligation to the Company. The risks are actively monitored and managed by the Company.

(Dollar amounts in thousands except for per share amounts)

12. Financial Liabilities from Securitization

Total financial liabilities from securitization mature as follows:

At	September 30, 2023	December 31, 2022
2023	$ 12,907	$ 52,590
2024	153,277	167,671
2025	482,322	520,989
2026	677,083	635,435
2027	351,297	363,703
2028	147,372	—
	$ 1,824,258	**$ 1,740,388**

13. Share Capital

For the Periods Ended September 30	2023		2022	
	Number of Shares	Share Capital	Number of Shares	Share Capital
Balance, January 1	34,305,704	$ 389,986	29,620,939	$ 315,339
Issued				
Dividend reinvestment plan	708,844	10,474	318,591	5,367
ATM Program	53,400	771	236,000	4,105
Stock dividend	—	—	1,522,308	28,750
Executive Share Purchase Plan	—	—	16,669	293
Balance, June 30	35,067,948	401,231	31,714,507	353,854
Issued				
Dividend reinvestment plan	263,990	3,984	140,190	2,009
ATM Program	100,000	1,366	600	11
Balance, September 30	**35,431,938**	**$ 406,581**	**31,855,297**	**$ 355,874**

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%.

The Company has a Prospectus Supplement to its Base Shelf prospectus establishing an at-the-market equity program ("ATM Program") to issue up to $30,000 common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program are determined at MCAN's sole discretion. The Company began issuing shares under the ATM Program in 2022. During Q3 2023, the Company sold 100,000 common shares at a weighted average price of $16.28 for gross proceeds of $1,629 and net proceeds of $1,366 including $33 of agent commission paid and $230 of other share issuance costs under the ATM Program. Year to date 2023, the Company sold 153,400 common shares at a weighted average price of $16.12 for gross proceeds of $2,473 and net proceeds of $2,137 including $50 of agent commission paid and $285 of other share issuance costs under the ATM Program.

The Company had no potentially dilutive instruments at September 30, 2023 or December 31, 2022.

14. Dividends

On November 6, 2023, the Board declared a quarterly regular cash dividend of $0.38 per share to be paid on January 2, 2024 to shareholders of record as of December 15, 2023.

(Dollar amounts in thousands except for per share amounts)

15. Net Loss on Securities

For the Periods Ended September 30	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Net realized gain (loss) on marketable securities	$ —	$ —	$ —	$ (1,786)
Net unrealized gain (loss) on marketable securities	(3,643)	(5,005)	(7,661)	(12,031)
Net unrealized gain (loss) on non-marketable securities	2,062	(87)	2,062	8
	$ (1,581)	**$ (5,092)**	**$ (5,599)**	**$ (13,809)**

In Q3 2023, the Company recorded a $2,062 unrealized gain on its investments in TAS 3 and TAS Co due to value-add leasing activity on one underlying property investment held by both TAS 3 and TAS Co.

16. Mortgage Expenses

Corporate assets

For the Periods Ended September 30	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Mortgage servicing expense	$ 1,541	$ 1,246	$ 4,233	$ 3,597
Letter of credit expense	79	125	567	552
Other mortgage expenses	174	221	592	620
	$ 1,794	**$ 1,592**	**$ 5,392**	**$ 4,769**

Letter of credit expense relates to outstanding letters of credit under the Company's credit facility, discussed in Note 19.

Securitization assets

Mortgage expenses associated with securitization assets for Q3 2023 of $1,152 (Q3 2022 - $1,050) and year to date 2023 of $3,329 (year to date 2022 - $3,025) consist primarily of mortgage servicing expenses.

17. Provision for (Recovery of) Credit Losses

For the Periods Ended September 30	Note	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Corporate portfolio:					
Stage 1 - provisions for (recoveries of) performing mortgages	6	$ (21)	$ (24)	$ 708	$ (609)
Stage 2 - provisions for (recoveries of) performing mortgages	6	492	908	495	650
Stage 3 - provisions for (recoveries of) impaired mortgages	6	(80)	(7)	1,171	(20)
		391	877	2,374	21
Other provisions (recoveries), net		8	(21)	6	6
Provision for credit losses		**399**	**856**	**2,380**	**27**
Securitized portfolio:					
Stage 1 - provisions for (recoveries of) performing mortgages	10	—	3	—	6
Provision for credit losses		**$ —**	**$ 3**	**$ —**	**$ 6**

18. Related Party Disclosures

Transactions with MCAP

In Q3 2023, the Company entered into related party transactions with MCAP as follows:

- Purchase of mortgage origination and administration services of $1,815 (Q3 2022 - $1,611)
- Purchase of uninsured residential mortgages of $4,097 (Q3 2022 - $nil)
- The Company has an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby the Company can sell to MCAP Securities Limited Partnership insured residential mortgage commitments. The Company sold commitments of $3,081 (Q3 2022 - $87,465) under this agreement and

(Dollar amounts in thousands except for per share amounts)

received revenue of $31 (Q3 2022 - $969) recorded in interest on cash and other income on the consolidated statements of income.

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 September 30	Q3 2023 RSU	Q3 2023 PSU	Q3 2022 RSU	Q3 2022 PSU	YTD 2023 RSU	YTD 2023 PSU	YTD 2022 RSU	YTD 2022 PSU
Share units outstanding, beginning of period	110,199	137,416	105,285	101,617	104,994	100,340	102,440	86,280
New share units granted	—	—	—	—	43,460	55,693	32,808	41,799
Share units issued as dividends	2,774	3,460	2,573	2,459	11,017	12,519	12,792	11,676
Share units vested	—	—	(201)	(287)	(45,776)	(26,954)	(32,697)	(31,322)
Share units forfeited	—	—	(2,663)	(3,449)	(722)	(722)	(10,349)	(8,093)
Share units outstanding, end of period	**112,973**	**140,876**	**104,994**	**100,340**	**112,973**	**140,876**	**104,994**	**100,340**
Compensation expense for the period	$ 142	$ 280	$ 42	$ 18	$ 558	$ 697	$ 344	$ 222
Outstanding liability, end of period					$ 748	$ 1,285	$ 760	$ 792

Of the total outstanding PSU share units at Q3 2023 and Q3 2022, the Company has recorded a liability on all of these units.

Executive Share Purchase Plan

At September 30, 2023, $1,858 of loans were outstanding under the Executive Share Purchase Plan (the "Share Purchase Plan") (December 31, 2022 - $2,276). The shares are pledged as security for the loans and had a fair value of $2,290 at September 30, 2023 (December 31, 2022 - $2,617). In Q3 2023, MCAN recognized $40 of interest income (Q3 2022 - $32) 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.

19. Credit Facilities

The Company has a secured demand revolver facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.25% (December 31, 2022 - prime plus 0.25%), with a facility limit of $220,000 (December 31, 2022 - $220,000). The facility is due and payable upon demand. At September 30, 2023, the outstanding loan principal payable was $nil (December 31, 2022 - $nil).

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 September 30, 2023, there were letters of credit in the amount of $46,959 issued (December 31, 2022 - $47,988) and additional letters of credit in the amount of $24,321 committed but not issued (December 31, 2022 - $25,965).

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 September 30, 2023, the outstanding facility balance was $nil (December 31, 2022 - $nil).

(Dollar amounts in thousands except for per share amounts)

The Company has a demand loan credit agreement with a Canadian Schedule I Chartered bank for a $100,000 senior secured mortgage warehouse facility (December 31, 2022 - $100,000) at either prime plus 0.05% or bankers' acceptance rate plus 1.05%. The facility is used to fund insured residential mortgages prior to securitization activities. At September 30, 2023, the outstanding loan principal payable was $82,760 (December 31, 2022 - $6,370).

20. 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. Through the Company's risk management and corporate governance framework, assessments of current and projected asset growth, economic conditions, housing market activity, the interest rate environment and changes to credit quality are made to determine appropriate levels of capital. The Company expects 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.

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. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% common equity tier 1 capital, 8.5% tier 1 capital and 10.5% total capital.

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	September 30, 2023	December 31, 2022
Regulatory ratios (OSFI)		
Share capital	$ 406,581	$ 389,986
Contributed surplus	510	510
Retained earnings	118,315	98,990
Accumulated other comprehensive income	2,282	(176)
Deduction for equity investment in MCAP [1]	(57,453)	(57,201)
Eligible stage 1 and stage 2 allowances [3]	—	357
Common Equity Tier 1 and Tier 1 Capital [3] (A)	**470,235**	**432,466**
Tier 2 Capital [3]	6,752	5,192
Total Capital [3]	**$ 476,987**	**$ 437,658**
Total exposures/Regulatory assets		
Consolidated assets	$ 4,540,482	$ 4,078,676
Less: deduction for equity investment in MCAP [1]	(57,453)	(57,201)
Other adjustments [2]	2,627	2,994
Total on-balance sheet exposures	**4,485,656**	**4,024,469**
Mortgage and investment funding commitments	768,910	704,139
Less: conversion to credit equivalent amount	(461,346)	(352,070)
Letters of credit	46,959	47,988
Less: conversion to credit equivalent amount	(23,480)	(23,994)
Off-balance sheet items	**331,043**	**376,063**
Total exposures/Regulatory assets (B)	**$ 4,816,699**	**$ 4,400,532**
Leverage ratio (A / B)	**9.76%**	**9.83%**

[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 was 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, was subject to a scaling factor that decreased over time and was 25% in fiscal 2022.*

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.

Other Capital Management Activity

In conjunction with the annual strategic planning and budgeting process, the Company completes an Internal Capital Adequacy Assessment Process ("ICAAP") in order to ensure that it has sufficient capital to support its business plan and risk appetite. The ICAAP assesses the capital necessary to support the various inherent risks that the Company faces, including liquidity and funding, credit, interest rate, market, operational, regulatory compliance, strategic and reputational risks. The Company's business plan is also stress-tested under various adverse scenarios to determine the impact on results from operations and financial condition. The ICAAP is reviewed by both management and the Board and is submitted to OSFI annually. In addition, the Company performs stress testing on its internal forecasts for capital adequacy on a quarterly basis, and the results of such testing are reported to the Board.

21. 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 loans 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.

(Dollar amounts in thousands except for per share amounts)

At September 30, 2023	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 46,081	$ —	$ —	$ 46,081	$ 46,081
Non-marketable securities - KSHYF [1]	—	—	54,947	54,947	54,947
Non-marketable securities - TAS 3 [9]	—	—	10,476	10,476	10,476
Non-marketable securities - KSSMF [1]	—	—	15,882	15,882	15,882
Non-marketable securities - TAS Co [9]	—	—	5,507	5,507	5,507
Non-marketable securities - Crown [8]	—	—	8,962	8,962	8,962
Non-marketable securities - Pearl [9]	—	—	1,952	1,952	1,952
Non-marketable securities - TAS 4 [8]	—	—	2,400	2,400	2,400
Non-marketable securities - Broccolini [8]	—	—	2,400	2,400	2,400
Non-marketable securities - Fiera [8]	—	—	6,064	6,064	6,064
Non-marketable securities - Harbour [8]	—	—	3,000	3,000	3,000
	$ 46,081	**$ —**	**$ 111,590**	**$ 157,671**	**$ 157,671**
Assets measured at FVOCI					
Derivative financial instruments - assets	$ —	$ 247	$ —	$ 247	$ 247
	$ —	**$ 247**	**$ —**	**$ 247**	**$ 247**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 50,473	$ —	$ —	$ 50,473	$ 50,473
Mortgages - corporate [3]	—	—	2,324,262	2,324,262	2,337,717
Other assets - other loans [4]	—	—	2,309	2,309	2,309
Securitization program cash held in trust	28,307	—	—	28,307	28,307
Mortgages - securitized [3]	—	—	1,749,182	1,749,182	1,835,318
	$ 78,780	**$ —**	**$ 4,075,753**	**$ 4,154,533**	**$ 4,254,124**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 2,084,238	$ 2,084,238	$ 2,094,788
Demand loans payable [5]	—	—	83,235	83,235	83,235
Other liabilities - corporate [5]	—	—	10,513	10,513	10,513
Financial liabilities from securitization [7]	—	—	1,718,693	1,718,693	1,824,258
	$ —	**$ —**	**$ 3,896,679**	**$ 3,896,679**	**$ 4,012,794**

(Dollar amounts in thousands except for per share amounts)

At December 31, 2022	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 53,743	$ —	$ —	$ 53,743	$ 53,743
Non-marketable securities - KSHYF [1]	—	—	52,642	52,642	52,642
Non-marketable securities - Securitization Notes [2]	—	—	1,022	1,022	1,022
Non-marketable securities - TAS 3 [9]	—	—	8,714	8,714	8,714
Non-marketable securities - KSSMF [1]	—	—	9,462	9,462	9,462
Non-marketable securities - TAS Co [9]	—	—	3,750	3,750	3,750
Non-marketable securities - Crown [8]	—	—	8,962	8,962	8,962
Non-marketable securities - Pearl [9]	—	—	1,745	1,745	1,745
Non-marketable securities - TAS 4 [8]	—	—	2,400	2,400	2,400
Non-marketable securities - Broccolini [8]	—	—	2,400	2,400	2,400
Non-marketable securities - Fiera [8]	—	—	3,806	3,806	3,806
Non-marketable securities - Harbour [8]	—	—	2,325	2,325	2,325
	$ 53,743	**$ —**	**$ 97,228**	**$ 150,971**	**$ 150,971**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 78,210	$ —	$ —	$ 78,210	$ 78,210
Mortgages - corporate [3]	—	—	1,939,615	1,939,615	1,939,494
Other assets - other loans [4]	—	—	2,276	2,276	2,276
Securitization program cash held in trust	34,531	—	—	34,531	34,531
Mortgages - securitized [3]	—	—	1,675,759	1,675,759	1,751,303
	$ 112,741	**$ —**	**$ 3,617,650**	**$ 3,730,391**	**$ 3,805,814**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 1,792,257	$ 1,792,257	$ 1,819,830
Demand loan payable [6]	—	—	6,532	6,532	6,532
Other liabilities - corporate [5]	—	—	22,616	22,616	22,616
Financial liabilities from securitization [7]	—	—	1,641,692	1,641,692	1,740,388
	$ —	**$ —**	**$ 3,463,097**	**$ 3,463,097**	**$ 3,589,366**

[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 insured adjustable rate residential 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.
[8] Fair value based on recent transaction price.
[9] Fair value based on the net asset value of the underlying partnerships.

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

For the Periods Ended September 30	Q3 2023	Q3 2022	YTD 2023	YTD 2022
Balance, beginning of period	$ 107,176	$ 83,777	$ 97,228	$ 64,946
Advances / Purchases	2,352	11,830	13,322	32,942
Repayments / Dispositions	—	(2,218)	(1,022)	(4,594)
Changes in fair value, recognized in net income	2,062	(87)	2,062	8
Balance, end of period	**$ 111,590**	**$ 93,302**	**$ 111,590**	**$ 93,302**

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. For the nature of these risks and how they are managed, please refer to the shaded sections of 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.

22. Commitments and Contingencies

For the nature of the Company's commitments and contingencies, please refer to the shaded sections of the "Off-Balance Sheet Arrangements" section of the MD&A. The shaded section of the MD&A relating to off-balance sheet arrangements forms an integral part of these interim consolidated financial statements.

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

Bonnie Agostinho
Chief Information Officer, Canadian Tire Financial Services
Member of Audit Committee
Member of Enterprise Risk Management and Compliance Committee
Director since May 2022

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

John Coke
Lead Director, MCAN
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
Member of Audit Committee
Chair of Enterprise Risk Management and Compliance Committee
Director since May 2020

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

Gaelen Morphet
President, Morphet Family Wealth Advisors Inc.
Member 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
President, Canadazil Capital Inc.
Director since May 2017

EXECUTIVE OFFICERS

Derek Sutherland
Interim Chief Executive Officer

Floriana Cipollone
Senior Vice President and Chief Financial Officer

Avish Buck
Senior Vice President and Chief Operating Officer

Carl Brown
Senior Vice President, Investments & Corporate Development

Aaron Corr
Vice President and Chief Risk Officer

Michelle Liotta
Vice President, Human Resources

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

Sylvia Pinto
Vice President, Corporate Secretary & Governance Officer

Paul Gill
Vice President, Information Technology

Nazeera Khan
Vice President and Chief Audit Officer

Alysha Rahim
Vice President, Finance

Peter Ryan
Vice President, Controller

Justin Silva
Vice President, Treasurer

CORPORATE INFORMATION

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

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

Stock Listing
Toronto Stock Exchange
Symbol: MKP

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

Website
www.mcanfinancial.com

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

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

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 d/b/a MCAN Financial Group Registrar and Transfer Agent, Computershare (see left for contact).

Report Copies
This MCAN Mortgage Corporation d/b/a MCAN Financial Group 2023 Third Quarter Report is available for viewing/printing on our website at www.mcanfinancial.com, and also on SEDAR+ at www.sedarplus.ca.

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

INVESTING IN COMMUNITIES AND HOMES FOR CANADIANS

MCAN Financial Group
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