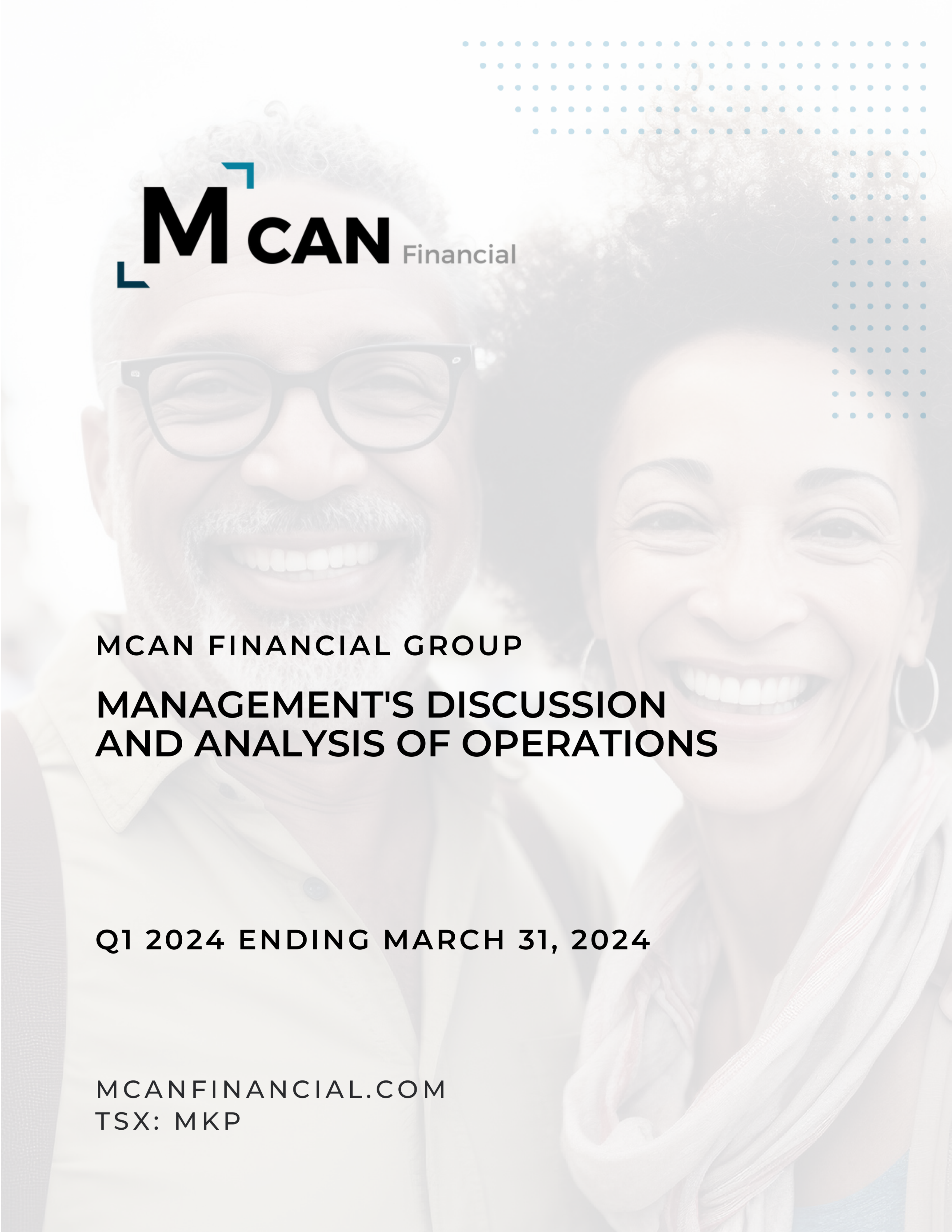

MCAN FINANCIAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Q1 2024 ENDING MARCH 31, 2024

MCANFINANCIAL.COM
TSX: MKP

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 ended March 31, 2024 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2023. 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 2023 remain substantially unchanged. Information has been presented as of May 6, 2024.

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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;
- 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, and government and Bank of Canada economic policy 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 impacts that any further or escalating geopolitical conflicts or infectious disease outbreaks, including measures to prevent their spread, and the 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, 2023, 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 - Q1 2024

(in thousands except for per share amounts and %) For the Periods Ended	Q1 2024	Q4 2023	Change (%)	Q1 2023	Change (%)
Income Statement Highlights					
Mortgage interest - corporate assets [A]	$ 48,008	$ 47,406	1%	$ 35,756	34%
Term deposit interest and expenses [B]	$ 26,070	$ 24,361	7%	$ 14,741	77%
Net corporate mortgage spread income[1] [A-B]	$ 21,938	$ 23,045	(5%)	$ 21,015	4%
Equity income from MCAP Commercial LP	$ 7,183	$ 4,429	62%	$ 8,003	(10%)
Net gain on securities	$ 27	$ 1,977	(99%)	$ 999	(97%)
Net investment income - corporate assets	$ 30,597	$ 28,130	9%	$ 30,622	—%
Net investment income - securitization assets	$ 1,314	$ 1,451	(9%)	$ 872	51%
Net income	$ 23,220	$ 19,855	17%	$ 23,277	—%
Basic and diluted earnings per share	$ 0.65	$ 0.56	16%	$ 0.67	(3%)
Dividends per share - cash	$ 0.39	$ 0.38	3%	$ 0.36	8%
Next quarter's dividend per share - cash	$ 0.39				
Return on average shareholders' equity [1]	17.09 %	15.01 %	2.08%	18.60 %	(1.51%)
Taxable income per share [2]	$ 0.67	$ (0.13)	(615%)	$ 0.33	103%
Yields					
Spread of corporate mortgages over term deposit interest and expenses [1]	3.14 %	3.34 %	(0.20%)	3.78 %	(0.64%)
Spread of securitized mortgages over liabilities [1]	0.46 %	0.39 %	0.07%	0.39 %	0.07%
Average term to maturity (in months)					
Mortgages - corporate	11.5	12.7	(9%)	11.5	—%
Term deposits	18.2	18.5	(2%)	14.9	22%

At	March 31 2024	December 31 2023	Change (%)	March 31 2023	Change (%)
Balance Sheet Highlights					
Total assets	$ 4,894,436	$ 4,739,087	3%	$ 4,151,937	18%
Mortgages - corporate	$ 2,385,267	$ 2,414,855	(1%)	$ 2,036,744	17%
Mortgages - securitized	$ 2,094,637	$ 1,929,948	9%	$ 1,724,278	21%
Total liabilities	$ 4,318,019	$ 4,207,243	3%	$ 3,644,678	18%
Shareholders' equity	$ 576,417	$ 531,844	8%	$ 507,259	14%
Capital Ratios					
Income tax assets to capital ratio [2]	5.14	5.52	(7%)	5.02	2%
CET 1 & Tier 1 capital ratio [4]	19.00 %	17.61 %	8%	19.59 %	(0.59%)
Total capital ratio [4]	19.23 %	17.91 %	1.32%	19.81 %	(0.58%)
Leverage ratio [3]	10.11 %	9.49 %	0.62%	9.94 %	0.17%
Credit Quality					
Impaired mortgage ratio (corporate) [1]	3.42 %	3.26 %	0.16%	1.92 %	1.50%
Impaired mortgage ratio (total) [1]	1.83 %	1.82 %	0.01%	1.05 %	0.78%
Mortgage Arrears					
Corporate	$ 136,175	$ 112,789	21%	$ 54,873	148%
Securitized	6,085	4,661	31%	4,096	49%
Total	$ 142,260	$ 117,450	21%	$ 58,969	141%
Common Share Information (end of period)					
Number of common shares outstanding	37,831	35,432	7%	34,788	9%
Book value per common share [1]	$ 15.24	$ 15.01	2%	$ 14.58	5%
Common share price - close	$ 15.73	$ 15.89	(1%)	$ 15.00	5%
Market capitalization	$ 595,082	$ 563,014	6%	$ 521,820	14%

[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.

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q1 2024	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$48,008	$47,406	$44,144	$38,691	$35,756	$30,747	$27,216	$22,815
Term deposit interest and expenses [B]	$26,070	$24,361	$21,083	$18,034	$14,741	$13,189	$12,330	$10,185
Net corporate mortgage spread income[1] [A-B]	$21,938	$23,045	$23,061	$20,657	$21,015	$17,558	$14,886	$12,630
Equity income from MCAP Commercial LP	$ 7,183	$ 4,429	$ 4,310	$ 5,268	$ 8,003	$ 6,860	$ 8,236	$ 6,288
Net gain (loss) on securities	$ 27	$ 1,977	$(1,581)	$(5,017)	$ 999	$ 1,735	$(5,092)	$(9,906)
Net investment income - corporate assets	$30,597	$28,130	$25,656	$23,139	$30,622	$30,734	$18,845	$ 9,468
Net investment income - securitization assets	$ 1,314	$ 1,451	$ 770	$ 1,159	$ 872	$ 838	$ 877	$ 1,068
Net income	$23,220	$19,855	$18,479	$15,887	$23,277	$24,088	$11,650	$ 4,137
Basic and diluted earnings per share	$ 0.65	$ 0.56	$ 0.53	$ 0.46	$ 0.67	$ 0.75	$ 0.37	$ 0.13
Dividends per share - cash	$ 0.39	$ 0.38	$ 0.38	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Return on average shareholders' equity [1]	17.09 %	15.01 %	14.20 %	12.47 %	18.60 %	21.17 %	10.52 %	3.75 %
Taxable income (loss) per share [2]	$ 0.67	$ (0.13)	$ 0.45	$ 0.66	$ 0.33	$ 1.11	$ (0.47)	$ 0.30
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.14 %	3.34 %	3.49 %	3.63 %	3.78 %	3.32 %	2.83 %	2.50 %
Spread of securitized mortgages over liabilities [1]	0.46 %	0.39 %	0.42 %	0.39 %	0.39 %	0.39 %	0.44 %	0.51 %
Average term to maturity (in months)								
Mortgages - corporate	11.5	12.7	13.1	12.7	11.5	11.4	12.9	13.9
Term deposits	18.2	18.5	19.2	16.1	14.9	16.0	17.1	17.7
Balance Sheet Highlights ($ million)								
Total assets	$ 4,894	$ 4,739	$ 4,540	$ 4,427	$ 4,152	$ 4,079	$ 4,004	$ 4,066
Mortgages - corporate	$ 2,385	$ 2,415	$ 2,338	$ 2,224	$ 2,037	$ 1,939	$ 1,975	$ 1,977
Mortgages - securitized	$ 2,095	$ 1,930	$ 1,835	$ 1,755	$ 1,724	$ 1,751	$ 1,691	$ 1,700
Total liabilities	$ 4,318	$ 4,207	$ 4,013	$ 3,910	$ 3,645	$ 3,589	$ 3,562	$ 3,626
Shareholders' equity	$ 576	$ 532	$ 528	$ 517	$ 507	$ 489	$ 443	$ 441
Capital Ratios								
Income tax assets to capital ratio [2]	5.14	5.52	5.14	5.22	5.02	4.93	5.76	5.53
CET 1 & Tier 1 capital ratios [4]	19.00 %	17.61 %	17.72 %	17.90 %	19.59 %	19.60 %	18.35 %	18.82 %
Total capital ratio [4]	19.23 %	17.91 %	17.98 %	18.14 %	19.81 %	19.83 %	18.64 %	19.09 %
Leverage ratio [3]	10.11 %	9.49 %	9.76 %	9.71 %	9.94 %	9.83 %	8.88 %	8.82 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	3.42 %	3.26 %	1.76 %	1.70 %	1.92 %	1.66 %	0.00 %	0.01 %
Impaired mortgage ratio (total) [1]	1.83 %	1.82 %	0.99 %	0.96 %	1.05 %	0.89 %	0.01 %	0.02 %
Mortgage Arrears								
Corporate	$136,175	$112,789	$85,513	$63,651	$54,873	$54,430	$37,792	$ 9,908
Securitized	6,085	4,661	4,438	5,130	4,096	3,439	2,842	3,397
Total	$142,260	$117,450	$89,951	$68,781	$58,969	$57,869	$40,634	$13,305
Common Share Information (end of period)								
Number of common shares outstanding	37,831	35,432	35,432	35,068	34,788	34,306	31,855	31,715
Book value of common share [1]	$ 15.24	$ 15.01	$ 14.89	$ 14.73	$ 14.58	$ 14.26	$ 13.90	$ 13.89
Common share price - close	$ 15.73	$ 15.89	$ 15.13	$ 15.36	$ 15.00	$ 15.00	$ 14.57	$ 16.75
Market capitalization ($ million)	$ 595	$ 563	$ 536	$ 539	$ 522	$ 515	$ 464	$ 531

[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.*

Quarterly Trends

- In 2022, we saw a rising interest rate environment and large unrealized losses in our REIT portfolio. In 2023, we saw some stabilization in interest rates compared to 2022 but still with a total of 75 basis points increase in interest rates in 2023, as well as uncertainty on future increases by the Bank of Canada and on the Canadian economy's risk of recession, there continued to be volatility in REIT stock prices and therefore unrealized losses recorded. In Q4 2023 and Q1 2024, we saw a re-stabilization of interest rates and a net partial recovery in our REIT portfolio on the expectation of future interest rate cuts by the Bank of Canada.

- The spread of corporate mortgages over term deposit interest and expenses had been declining until Q3 2022. In Q2 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 and continuing through 2023, 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 increased our spread of corporate mortgages over term deposit interest and expenses. In Q1 2024, we saw declining spreads of corporate mortgages over term deposit interest and expenses mainly due to higher effective interest rates on our term deposits and unrealized fair value hedge losses. This was partially offset by higher average mortgage rates primarily due to the impact of the higher rate environment on our floating rate residential construction loans.

- We have seen spreads decline on securitizations in 2022 and through the first half of 2023 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 in 2022. As a result, we had reduced our securitization volumes in 2022 and 2023. 2023 volumes were also impacted by lower insured residential mortgage originations due to the higher interest rate environment. Since Q3 2023, we have seen better economics on securitizations as the spread of Government of Canada bond yields versus our mortgage rates has widened. We participate in this market opportunistically.

- 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. In 2023, we had higher taxable income from our core business as well as from our investment in MCAP. In Q4 2023, we had lower taxable income as a result of tax timing differences on various investing strategies that we engaged in. In Q1 2024, we had higher taxable income as a result of higher taxable income from MCAP.

- 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 a $34 million capital raise by way of a rights offering in December 2022. In 2022 and 2023, we also raised $4 million and $2 million, respectively, of capital through our at-the-market equity program ("ATM Program"). In Q1 2024, we raised $27.2 million net capital through an overnight marketed share offering. 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 to 29%. 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. Improvement to our ratios in Q1 2024 was due to our overnight marketed offering mentioned above.

- 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 has increased in our uninsured residential mortgages, we believe overall that we have a quality uninsured residential mortgage loan portfolio with an average loan to value ("LTV") of 65.5% at March 31, 2024 based on an industry index of current real estate values. We have also seen our arrears stabilize since Q1 2024. For the construction and commercial mortgage arrears, these loans have either been brought current or we expect them to be brought current, or we have initiated asset recovery programs. We have a strong track record with our default management processes and asset recovery programs as the need arises. 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 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, and expanding, 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 has begun to soften under the weight of higher interest rates with moderating wage growth and a rising unemployment rate. While inflation is trending downwards, higher mortgage costs, which are directly related to higher interest rates, and energy prices continue to keep inflation above the 2% Bank of Canada target. Most economists believe that by mid-2024, the Bank of Canada will begin to see sustained easing of core inflation to justify the beginning of interest rate cuts. Higher leveraged households and the prospects of a weakening job market have shifted consumer spending toward debt servicing and more conservative spending habits. Strong immigration is another unique factor for Canada's economy. Most economists believe that there will be modest gross domestic product growth in the short-term and our unemployment rate will increase but still remain low. Although much of the Canadian consumer market continues to demonstrate credit strength, there is increasing delinquency rates on non-housing-related consumer debt and some pullback on consumer spending that indicates that the tighter monetary policy and high interest rates are working their way through the economy. We expect inflation and interest rates to continue to be the dominant concern for 2024.

Housing Market Outlook

High interest rates and resilient house prices remain headwinds on housing affordability in all provincial markets in the short term. That said, resale activity has increased in Canada and house prices have also followed suit. Recent forecasts of interest rate cuts will help a little with demand for housing and home price growth in the short-term; however, we do not expect a sustained recovery until interest rates cuts actually begin. 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 sale and home price growth, particularly in and around our core markets of (i) the Greater Toronto area; (ii) the Capital region; and (iii) the Greater Vancouver area. However, housing affordability will likely keep this growth from being even stronger. 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 and proposed actions, 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 believe that there is opportunity to grow our core business without taking on significantly more risk. 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. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in any of our divisions in the short term, as well as in managing interest rate risk as we will likely see Bank of Canada rate cuts this year.

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. 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 continued growth in our average residential construction and commercial portfolio balance, which is over $1 billion, but we do expect runoff from completed projects and, therefore, we are building our pipeline to manage those runoffs to try to maintain invested balances. Specifically 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 asset recovery programs have been initiated. We continue to monitor that entire portfolio and the market very closely, 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 more 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 and look to onboard new borrowers and developers that fit within our lending philosophy. 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 returns. For projects currently being undertaken, we actively monitor their progress and the fair values of those projects may experience volatility from quarter to quarter. With respect to our REIT portfolio, the expected relief to interest rates should improve market valuations.

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 believe we have a portfolio with a strong credit profile with good LTV ratios supporting our loans. 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. Given higher forecasted interest rate cuts, we expect an increase in home purchase activity and more competition in order to attract what demand is coming in. We expect that forecasted interest rate cuts will create opportunity in the second half of the year on our originations of residential mortgages. 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. OSFI is also implementing a loan-to-income limit for new uninsured residential mortgages beginning in Q1 2025 that will restrict high levels of household debt across each institution's uninsured residential mortgage portfolio and may restrict some origination volume in the long-term. We are 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 will also look to expand to other urban 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, as well as through our digital direct-to-consumer platform. We expect strong originations of term deposits in the year given the level of corporate growth and higher mortgage renewals. We expect there will continue to be volatility in the Government of Canada bond yield curve and, therefore, volatility in pricing in the term deposit market due to changes in deposit customer demand from forecasted interest rate cuts and related higher demand by financial institutions for term deposits. Given current and expected interest rates, we continue to look for opportunities to adjust the maturity terms of our term deposits relative to our corporate mortgage portfolio. We have actively utilized our hedging strategies to minimize interest rate risk in a rising rate environment and we will continue to do the same to protect our net interest margin in a forecasted declining rate environment, particularly as our floating rate construction lending portfolio floats down to floor rates. We will continue to expand our broker networks, grow our direct-to-consumer platform and look for other channels to source term deposits. 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 plan to use the net proceeds from our overnight marketed offering for our residential mortgage lending and residential construction lending business. 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 and existing shareholder demand for our shares. We will continue to leverage 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 to achieve our targeted average annual growth in corporate assets over the long term of 10%.

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

Financial Performance

- Net income totalled $23.2 million in Q1 2024, a decrease of $0.1 million (0.2%) from net income of $23.3 million in Q1 2023.

- Earnings per share totalled $0.65 in Q1 2024, a decrease of $0.02 (3%) from earnings per share of $0.67 in Q1 2023.

- Return on average shareholders' equity[1] was 17.09% in Q1 2024, a decrease from 18.60% in Q1 2023.

- Net corporate mortgage spread income[1] increased by $0.9 million in Q1 2024 from Q1 2023. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from mortgage portfolio growth, partly offset by a reduction in the spread of corporate mortgages over term deposit interest and expenses. The decrease in the spread of corporate mortgages over term deposit interest and expenses is mainly due to higher effective interest rates on our term deposits and unrealized fair value hedge losses. This was partially offset by higher average mortgage rates primarily due to the impact of the higher rate environment on our floating rate residential construction loans.

- Net securitized mortgage spread income[1] increased by $0.6 million in Q1 2024 from Q1 2023. The net securitized mortgage spread income increased due to a higher spread of securitized mortgages over liabilities and a higher average securitized mortgage portfolio balance from higher securitization volumes of insured residential mortgages exceeding maturities. We have seen better economics on securitizations as the spread of Government of Canada bond yields versus our mortgage rates has widened on the expectation of interest rate cuts in the second half of the year.

- Recovery of credit losses on our corporate mortgage portfolio of $0.6 million in Q1 2024 mainly due to improved economic forecasts, particularly around the housing price index and gross domestic product, partially offset by an increase in impaired uninsured residential mortgages. We believe that we have a quality uninsured residential mortgage loan portfolio with an average LTV of 65.5% at March 31, 2024 based on an industry index of current real estate values. We have also seen our arrears stabilize since Q1 2024. In Q1 2023, we had a provision for credit losses of $1.2 million mainly due to one commercial loan where an asset recovery program was initiated. We recovered all past due principal and interest.

- Equity income from MCAP Commercial LP ("MCAP") totalled $7.2 million in Q1 2024, a decrease of $0.8 million (10%) from $8.0 million in Q1 2023, which was primarily due to (i) higher hedge losses; (ii) higher interest expense on credit facilities; and (iii) higher securitization expenses. These were partially offset by (i) higher securitized mortgage net interest income from a higher average securitized portfolio; (ii) higher servicing and administration income from higher assets under management; (iii) higher mortgage origination fees as a result of higher mortgage origination fee rates; and (iv) higher investment revenue from higher average mortgage rates on non-securitized mortgages.

- Net unrealized fair value loss on our marketable securities of $0.3 million in Q1 2024 compared to a $1.0 million net unrealized fair value gain in Q1 2023. 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. In Q1 2024, we received distributions of $0.8 million (distribution yield[1] of 5.94%) from our REITs compared to $0.9 million (distribution yield[1] of 6.50%) in Q1 2023.

- Net unrealized fair value gain on our non-marketable securities of $0.3 million in Q1 2024 mainly relating to an updated property valuation as well as actual execution on leasing activities on another underlying property. In Q1 2023, there was no fair value gain or loss on our non-marketable securities as these investments were in early stages.

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 $2.75 billion at March 31, 2024, a net decrease of $5 million (0.2%) from December 31, 2023.

- Corporate mortgage portfolio totalled $2.39 billion at March 31, 2024, a net decrease of $30 million (1%) from December 31, 2023.

- Construction and commercial portfolios totalled $1.09 billion at March 31, 2024, a net decrease of $26 million (2%) from December 31, 2023. Our construction portfolio totalled $1.03 billion at March 31, 2024, a net decrease of $12 million (1%) from December 31, 2023. In Q1 2024, the movement in the construction and commercial portfolios is attributed to net originations of $122 million in new construction and commercial mortgages, offset by maturities and repayments.

- Uninsured residential mortgage portfolio totalled $1.01 billion at March 31, 2024, a net increase of $41 million (4%) from December 31, 2023. Uninsured residential mortgage originations were $84 million in Q1 2024, an increase of $17 million (25%) from Q4 2023 and an increase of $21 million (34%) from Q1 2023. The economic and interest rate environment and its impact on the housing market and borrowers has improved due to expectations about future interest rate cuts. Canadian housing resale activity was strong in Q1 2024, creating demand for mortgages. We also continue to see an increase in our uninsured residential mortgage renewals with $127 million in Q1 2024 compared to $112 million in Q1 2023, as borrowers find it more convenient to stay with their existing 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 $171 million in Q1 2024, an increase of $23 million (16%) from Q4 2023 and an increase of $103 million (151%) from Q1 2023. Insured residential mortgage securitization volumes were $214 million in Q1 2024, an increase of $86 million (67%) from Q4 2023 and an increase of $203 million (1,845%) from Q1 2023. Overall, total insured residential origination volumes, including an increase in our adjustable rate mortgage originations compared to last quarter, are higher due to expectations about future interest rate cuts and improved economic forecasts. 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. As we have seen favourable securitization spreads, we opted to securitize our insured residential mortgages as opposed to selling them at the commitment stage.

Dividend

- The Board declared a second quarter regular cash dividend of $0.39 per share to be paid June 28, 2024 to shareholders of record as of June 14, 2024. As a Mortgage Investment Corporation ("MIC"), we are entitled to deduct the dividends that we pay to shareholders from our taxable income.

Credit Quality

- Arrears total mortgage ratio[1] was 3.18% at March 31, 2024 compared to 2.70% at December 31, 2023. 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 has increased in our uninsured residential mortgages, we believe overall that we have a quality uninsured residential mortgage loan portfolio with an average LTV of 65.5% at March 31, 2024 compared to 63.4% at December 31, 2023 based on an industry index of current real estate values. We have also seen our arrears stabilize since Q1 2024. With respect to our construction and commercial loan portfolio, we have a strong track record with our default management processes and asset recovery programs as the need arises.

- Impaired corporate mortgage ratio[1] was 3.42% at March 31, 2024 compared to 3.26% at December 31, 2023. At March 31, 2024, impaired mortgages mainly represent five impaired construction mortgages where asset recovery programs have been initiated.
- Impaired total mortgage ratio[1] was 1.83% at March 31, 2024 compared to 1.82% at December 31, 2023.

- Net write-offs were $19,000 (0.3 basis points of the average corporate portfolio) in Q1 2024 compared to $nil (0.0 basis points) in Q1 2023.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the "Tax Act") and OSFI. All of our capital ratios are within our regulatory and internal risk appetite guidelines.

- We have a Base Shelf prospectus allowing us to make certain public offerings of debt or equity securities during the period that it is effective, through Prospectus Supplements.
    - On March 28, 2024, we closed an overnight marketed offering, established pursuant to a Prospectus Supplement to our Base Shelf prospectus, at a price of $15.40 per common share for gross proceeds of $28.8 million and net proceeds of $27.2 million including share issuance costs.
    - We have an 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 at the market prices prevailing at the time of sale. In Q1 2024, we issued no common shares through our ATM Program. At March 31, 2024, we have $28.4 million remaining available to be issued through our ATM Program. The volume and timing of distributions under the ATM Program are determined at MCAN's sole discretion.

- We issued $8.2 million in new common shares through the DRIP in Q1 2024 compared to $6.9 million in new common shares in Q1 2023. The DRIP participation rate was 29% for the Q1 2024 dividend (Q1 2023 - 29%).

- Income tax assets to capital ratio[3] was 5.14 at March 31, 2024 compared to 5.52 at December 31, 2023.

- CET 1 and Tier 1 Capital to risk-weighted assets ratios[2] were 19.00% at March 31, 2024 compared to 17.61% at December 31, 2023. Total Capital to risk-weighted assets ratio[2] was 19.23% at March 31, 2024 compared to 17.91% at December 31, 2023. Leverage ratio[2] was 10.11% at March 31, 2024 compared to 9.49% at December 31, 2023. Improvement to our March 31, 2024 capital and leverage ratios was due to the timing of our overnight marketed offering mentioned above.

[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.*
[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 Quarters Ended	Q1 2024	Q4 2023	Change (%)	Q1 2023	Change (%)
Net Investment Income - Corporate Assets					
Mortgage interest	$ 48,008	$ 47,406	1%	$ 35,756	34%
Equity income from MCAP Commercial LP	7,183	4,429	62%	8,003	(10%)
Non-marketable securities	1,832	2,066	(11%)	2,222	(18%)
Marketable securities	750	828	(9%)	927	(19%)
Fees	873	728	20%	571	53%
Interest on cash and other income	992	914	9%	1,029	(4%)
Net gain on securities	27	1,977	(99%)	999	(97%)
	59,665	**58,348**	**2%**	**49,507**	**21%**
Term deposit interest and expenses	26,070	24,361	7%	14,741	77%
Mortgage expenses	2,054	2,098	(2%)	1,801	14%
Interest on loans payable	1,584	1,645	(4%)	1,158	37%
Provision for (recovery of) credit losses	(640)	2,114	(130%)	1,185	(154%)
	29,068	**30,218**	**(4%)**	**18,885**	**54%**
	30,597	**28,130**	**9%**	**30,622**	**—%**
Net Investment Income - Securitization Assets					
Mortgage interest	13,340	11,309	18%	9,068	47%
Other securitization income	490	958	(49%)	390	26%
	13,830	**12,267**	**13%**	**9,458**	**46%**
Interest on financial liabilities from securitization	11,187	9,597	17%	7,501	49%
Mortgage expenses	1,329	1,219	9%	1,085	22%
	12,516	**10,816**	**16%**	**8,586**	**46%**
	1,314	**1,451**	**(9%)**	**872**	**51%**
Operating Expenses					
Salaries and benefits	5,999	5,316	13%	5,297	13%
General and administrative	2,992	2,873	4%	2,768	8%
	8,991	**8,189**	**10%**	**8,065**	**11%**
Net income before income taxes	22,920	21,392	7%	23,429	(2%)
Recovery of income taxes	(300)	1,537	(120%)	152	(297%)
Net Income	**$ 23,220**	**$ 19,855**	**17%**	**$ 23,277**	**—%**
Basic and diluted earnings per share	$ 0.65	$ 0.56	16%	$ 0.67	(3%)
Dividends per share - cash	$ 0.39	$ 0.38	3%	$ 0.36	8%

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	March 31, 2024			December 31, 2023			March 31, 2023		
(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	$ 280,792	$ 2,989	4.26 %	$ 310,538	$ 3,428	4.40 %	$ 158,417	$ 1,341	3.40 %
Uninsured	987,369	16,494	6.69 %	955,780	15,593	6.50 %	832,005	10,927	5.26 %
Uninsured - completed inventory	49,556	1,202	9.75 %	39,041	1,001	10.17 %	36,311	777	8.98 %
Construction loans									
Residential	1,055,167	25,802	9.83 %	1,011,924	25,665	9.86 %	845,606	20,520	9.25 %
Non residential	1,710	40	9.38 %	2,546	65	10.15 %	—	—	— %
Commercial loans									
Multi family residential	55,952	1,453	10.44 %	78,146	1,576	9.00 %	100,995	2,049	8.22 %
Other	1,193	28	9.31 %	4,515	78	9.40 %	6,310	142	9.13 %
Mortgages - corporate portfolio	$2,431,739	$ 48,008	7.92 %	$2,402,490	$ 47,406	7.80 %	$1,979,644	$ 35,756	7.05 %
Term deposit interest and expenses	2,145,322	26,070	4.78 %	2,118,745	24,361	4.46 %	1,777,461	14,741	3.27 %
Net corporate mortgage spread income[1]		$ 21,938			$ 23,045			$ 21,015	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.14 %			3.34 %			3.78 %
Average term to maturity (months)									
Mortgages - corporate	11.5			12.7			11.5		
Term deposits	18.2			18.5			14.9		

[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, commission expense and term deposit hedging gains or losses. 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.

Table 5: Mortgage Originations

(in thousands except %) For the Quarters Ended	Q1 2024	Q4 2023	Change (%)	Q1 2023	Change (%)
Originations					
Residential mortgages - insured fixed [2]	$ 131,476	$ 122,397	7%	$ 59,914	119%
Residential mortgages - insured adjustable rate [2]	39,714	25,763	54%	8,260	381%
Residential mortgages - uninsured	84,454	67,751	25%	62,961	34%
Residential mortgages - uninsured completed inventory [1]	1,080	46,227	(98%)	9,291	(88%)
Residential construction [1]	121,699	185,939	(35%)	115,647	5%
Non-residential construction [1]	47	72	(35%)	—	n/a
Commercial [1]	—	—	n/a	3,675	(100%)
	$ 378,470	**$ 448,149**	**(16%)**	**$ 259,748**	**46%**

[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 Q1 2024, the decrease in the spread of corporate mortgages over term deposit interest and expenses compared to Q4 2023 and Q1 2023 is mainly due to (i) an 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; (ii) higher competition for residential mortgage originations, particularly insured mortgages, and forecasted interest rate cuts pushing new mortgage origination rates lower; and (iii) unrealized term deposit hedge losses in Q1 2024 on interest rate swaps as the timing of interest rate cuts is now not expected until the second half of 2024. We actively manage our interest rate risk by continually reviewing, and if necessary, changing the laddering of the duration of our term deposits relative to our corporate mortgage portfolio as well as utilizing our hedging strategies to lock-in spreads. For information on our term deposit fair value hedging, see "Derivatives and Hedging" sub-section below.

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.

Excluding uninsured completed inventory, which is invested in opportunistically as deals arise, total origination volumes so far in 2024 on our residential mortgages were higher compared to Q4 2023 and Q1 2023. The economic and interest rate environment and its impact on the housing market and borrowers has improved due to expectations about future interest rate cuts. Canadian housing resale activity was strong in Q1 2024, creating demand for mortgages. Origination volumes compared to Q1 2023 also improved as we continued to increase our mortgage lending in the Alberta and British Columbia urban markets. We also saw an increase in our uninsured residential mortgage renewals with $127 million so far in 2024 compared to $112 million in Q1 2023, as borrowers find it more convenient to stay with their existing lender in the current market environment.

Our insured adjustable rate residential mortgage product also saw an increase in the current year, as many borrowers believe that interest rates may have peaked and that there could be interest rate cuts in 2024. 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 product to change as interest rates change.

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 MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured residential mortgage commitments. We originated and sold $nil in commitments in Q1 2024 (Q1 2023 - $12 million) under this agreement.

We securitize our insured residential mortgages opportunistically through the CMHC National Housing Act ("NHA") Mortgage-Backed Securities ("MBS") program. Our Q1 2024 residential mortgage securitization volumes were $214 million compared to $11 million in Q1 2023. Insured residential mortgage originations and securitization volumes increased as we saw wider securitization spreads compared to Q1 2023 when there were extremely tight and even negative securitization spreads. 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 March 31, 2024, we had the renewal rights to $3.3 billion of residential mortgages (December 31, 2023 - $3.1 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 Q1 2024 and Q4 2023 mainly contributed to a higher corporate mortgage interest compared to Q1 2023. Since this portfolio is entirely at prime-based floating rates, we are utilizing our hedging strategies on term deposits to effectively lock-in net spreads on our construction and commercial loans in a potentially decreasing interest rate environment in the second half of the year. For information on our term deposit fair value hedging, see "Derivatives and Hedging" sub-section below.

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. Current impaired construction and commercial mortgages include five construction mortgages where asset recovery programs have already been initiated. We have a strong track record with our default management processes and asset recovery programs as the need arises. 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

In Q1 2024, MCAP's origination volumes were $4.4 billion, an increase from $4.1 billion in Q1 2023. At February 29, 2024 (we account for MCAP on a one-month lag basis), MCAP had $154.9 billion of assets under management compared to $154.3 billion at November 30, 2023 and $154.1 billion at February 28, 2023. Equity income from MCAP totalled $7.2 million in Q1 2024, a decrease of $0.8 million from $8.0 million in Q1 2023. For Q1 2024, the decrease in equity income from MCAP was primarily due to (i) higher hedge losses; (ii) higher interest expense on credit facilities; and (iii) higher securitization expenses. These were partially offset by (i) higher securitized mortgage net interest income from a higher average securitized portfolio; (ii) higher servicing and administration income from higher assets under management; (iii) higher mortgage origination fees as a result of higher mortgage origination fee rates; and (iv) higher investment revenue from higher average mortgage rates on non-securitized mortgages.

We recognize equity income from MCAP on a one-month lag such that our 2024 equity income from MCAP is based on MCAP's net income for the quarter ended February 29, 2024. 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 $1.5 million in Q1 2024 (Q1 2023 - $1.9 million). The distribution yield[1] on this portfolio was 11.35% in Q1 2024 compared to 14.95% in Q1 2023.

KingSett Senior Mortgage Fund LP ("KSSMF"): We received distribution income of $0.3 million in Q1 2024 (Q1 2023 - $0.3 million). The distribution yield[1] on this portfolio was 7.39% in Q1 2024 compared to 9.97% in Q1 2023.

For further information, refer to the "Other Corporate Assets" section of this MD&A.

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. In Q1 2024, we received distributions of $0.8 million (distribution yield[1] of 5.94%) from our REITs compared to $0.9 million (distribution yield[1] of 6.50%) in Q1 2023. For the quarter, the lower distribution yield is mainly due to lower distribution income from the underlying REITs. 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 Gain (Loss) on Securities

In Q1 2024, we recorded a $27,000 net unrealized fair value gain on securities (marketable and non-marketable securities) compared to a $1.0 million net unrealized fair value gain in Q1 2023. With respect to our marketable securities, we recognized a net unrealized fair value loss of $303,000 in Q1 2024 compared to a $1.0 million net unrealized fair value gain in Q1 2023. 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. With respect to our non-marketable securities, we recognized a net unrealized fair value gain of $330,000 in Q1 2024 mainly relating to an updated property valuation as well as actual execution on leasing activities on another underlying property. In Q1 2023, there was no fair value gain or loss on our non-marketable securities as these investments were in early stages.

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarter compared to Q4 2023 and Q1 2023 was mostly due to a larger average term deposits balance, higher average term deposit rates from the higher interest rate environment and unrealized hedge losses in Q1 2024 on interest rate swaps as the timing of interest rate cuts is not expected until the second half of 2024. 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 and utilizing hedging strategies. Term deposit expenses include costs related to insurance, operating infrastructure and administration. For information on our term deposit fair value hedging, see "Derivatives and Hedging" sub-section below.

[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.

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 $214 million in Q1

2024 (Q1 2023 - $11 million). The increase compared to the prior year was due to higher securitization volumes of insured residential mortgages as well as better economics on securitization spreads. As securitization spreads continue to be favourable, we expect to continue to be aggressive in originating insured residential mortgages for securitization.

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

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

For the Quarters Ended	March 31, 2024			December 31, 2023			March 31, 2023		
(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	$1,969,913	$ 13,340	2.72 %	$1,825,364	$ 0	2.48 %	$1,723,003	$ 9,068	2.12 %
Financial liabilities from securitization[2]	1,979,850	11,187	2.26 %	1,836,593	0	2.09 %	1,731,910	7,501	1.73 %
Net securitized mortgage spread income[1]		$ 2,153			$ 0			$ 1,567	
Spread of securitized mortgages over liabilities[1]			0.46 %			0.39 %			0.39 %

[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, indemnity expense and cash flow hedging gains (losses). 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.

In Q1 2024, we have seen spreads improve on securitizations compared to Q4 2023 and Q1 2023 as a result of an increase in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have been declining on the expectation of rate cuts in the second half of 2024.

Derivatives and Hedging

Cash Flow Hedging

We may 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. 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 our cash flow 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 March 31, 2024, we had $nil of derivatives outstanding relating to cash flow hedges (December 31, 2023 - $nil) on our consolidated balance sheets. In Q1 2024, we had net realized fair value gains of $31,000 (Q1 2023 - $144,000 net realized and unrealized fair value gains) on our derivative transactions recognized in other comprehensive income in the statements of comprehensive income.

Fair Value Hedging

We may enter into interest rate swaps to hedge interest rate risk arising from fair value changes in our fixed-rate term deposits due to movements in interest rates. Hedges are structured such that the fair value movements of the hedge instruments offset, within a reasonable range, the changes in fair value of the pool of term deposits due to interest rate fluctuations. The terms of our fair value hedges are generally less than 2 years but may go up to 5 years. The derivative instruments are settled at the time of maturity of the pool of term deposits. We apply fair value hedge accounting to these derivative transactions with the intention to recognize the effective matching of the fair value gain or loss on the derivative transactions with the fair value gain or loss on the pool of term deposits, within a reasonable range. Any unmatched fair value is recorded in term deposit interest and expenses as hedge ineffectiveness.

Given the expectation of a decline in interest rates in 2024 and the impact on our interest rate risk given our floating rate construction loan book, we entered into interest rate swaps with total notional principal amount of $475.1 million at March 31, 2024 (December 31, 2023 - $317.0 million). At March 31, 2024, the Company had $0.8 million of derivative liabilities outstanding related to fair value hedges (December 31, 2023 - $0.2 million derivative assets) on our consolidated balance sheets. In Q1 2024, we had unrealized fair value hedge losses of $0.8 million recorded in term deposit interest and expenses in the consolidated statements of income.

Achieving hedge accounting for both our cash flow and fair values hedges 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.

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

Provision for (Recovery of) Credit Losses

Table 7: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) **For the Quarters Ended**	**Q1 2024**	**Q4 2023**	**Change (%)**	**Q1 2023**	**Change (%)**
Provision for (recovery of) impaired corporate mortgages					
Residential mortgages					
Insured					
Uninsured	456	244	87%	11	4,045%
Construction loans	655	883	(26%)	—	n/a
Commercial loans					
Other commercial	—	(225)	100%	1,598	(100%)
	1,111	902	23%	1,609	(31%)
Provision for (recovery of) performing corporate mortgages					
Residential mortgages					
Uninsured	(73)	527	(114%)	(84)	13%
Uninsured - completed inventory	(162)	261	(162%)	(58)	(179%)
Construction loans	(1,361)	431	(416%)	(178)	(665%)
Commercial loans					
Multi family residential	(153)	(17)	(800%)	(76)	(101%)
Other commercial	—	(1)	100%	(26)	100%
	(1,749)	1,201	(246%)	(422)	(314%)
Other provisions (recoveries)	(2)	11	(118%)	(2)	0%
Total corporate provision for (recovery of) credit losses	(640)	2,114	(130%)	1,185	(154%)
Provision for (recovery of) performing securitized mortgages	—	—	n/a	—	n/a
Total provision for (recovery of) credit losses	$ (640)	$ 2,114	(130%)	$ 1,185	(154%)
Corporate mortgage portfolio data:					
Provision for (recovery of) credit losses, net	$ (638)	$ 2,103	(130%)	$ 1,187	(154%)
Net write offs	$ 19	$ 341	(94%)	$ —	n/a
Net write offs (basis points)	0.3	5.7	(95%)	—	n/a

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

We had a recovery of credit losses on our corporate mortgage portfolio of $0.6 million in Q1 2024 compared to a provision for credit losses of $1.2 million in Q1 2023. The recovery of credit losses in Q1 2024 was mainly due to improved economic forecasts, particularly around the housing price index and gross domestic product, partially offset by an increase in impaired uninsured residential mortgages. We believe that we have a quality uninsured residential mortgage loan portfolio with an average LTV of 65.5% at March 31, 2024 based on an industry index of current real estate values. We have also seen our arrears stabilize since Q1 2024. The current 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 March 31, 2024. IFRS 9, *Financial Instruments*

("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since March 31, 2024, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to March 31, 2024, 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 8: Operating Expenses

(in thousands except %) For the Quarters Ended	Q1 2024	Q4 2023	Change (%)	Q1 2023	Change (%)
Salaries and benefits	$ 5,999	$ 5,316	13%	$ 5,297	13%
General and administrative	2,992	2,873	4%	2,768	8%
	$ 8,991	**$ 8,189**	**10%**	**$ 8,065**	**11%**

The increase in salaries and benefits in 2024 is due to additional resources as well as regular pay increases.

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 9: Taxable Income Reconciliation

(in thousands) For the Quarters Ended March 31	2024	2023
Consolidated net income for accounting purposes	$ 23,220	$ 23,277
Adjustments to calculate taxable income (loss):		
Reverse: Equity income from MCAP - accounting purposes	(7,183)	(8,003)
Add: MCAP taxable income (loss)	6,199	(4,234)
Reverse: Provision for (recovery of) credit losses [2]	(1,656)	(262)
Add: Amortization of upfront securitization program costs [3]	3,542	2,722
Deduct: Securitization program mortgage origination costs [3]	(154)	(641)
Add: Securitization program premium (discount)	640	(124)
Reverse: Net unrealized loss (gain) on securities [4]	303	(999)
Reverse: Loss (income) earned in subsidiaries [5]	(790)	(546)
Other items	(1)	125
Taxable Income (Loss)[1]	**$ 24,120**	**$ 11,315**

[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.

The change in taxable income for Q1 2024 compared to Q1 2023 was primarily due to higher taxable income from MCAP. The tax loss from MCAP recorded in the prior year related to timing differences only and arose as a result of the tax treatment on sales of loans into certain securitization programs. As a MIC, we pay out all of our taxable income to shareholders through dividends.

FINANCIAL POSITION

Assets

Table 10: Assets

(in thousands except %)	March 31 2024	December 31 2023	Change (%)	March 31 2023	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 78,275	$ 60,345	30%	$ 66,621	17%
Marketable securities	50,227	50,320	—%	54,741	(8%)
Mortgages	2,385,267	2,414,855	(1%)	2,036,744	17%
Non-marketable securities	112,574	109,943	2%	101,782	11%
Equity investment in MCAP Commercial LP	115,189	111,367	3%	109,167	6%
Deferred tax asset	697	336	107%	912	(24%)
Derivative financial instruments	—	198	(100%)	231	(100%)
Other assets	9,021	8,965	1%	15,154	(40%)
	2,751,250	**2,756,329**	**—%**	**2,385,352**	**15%**
Securitization Assets					
Cash held in trust	29,886	30,909	(3%)	32,978	(9%)
Mortgages	2,094,637	1,929,948	9%	1,724,278	21%
Other assets	18,663	21,901	(15%)	9,329	100%
	2,143,186	**1,982,758**	**8%**	**1,766,585**	**21%**
	$ 4,894,436	**$ 4,739,087**	**3%**	**$ 4,151,937**	**18%**

Our total corporate assets were flat compared to December 31, 2023 and our securitization assets were higher compared to December 31, 2023 and March 31, 2023 both mainly due to higher insured residential mortgage originations being securitized during the current quarter as we saw wider securitization spreads compared to Q4 2023 and Q1 2023 when there were extremely tight and even negative securitization spreads. Compared to March 31, 2023, total corporate assets are higher primarily due to higher origination volumes 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 March 31, 2024, the average outstanding construction loan balance was $10 million (December 31, 2023 - $11 million) with a maximum individual loan commitment of $38 million (December 31, 2023 - $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.

During Q1 2024, we securitized $214 million (Q1 2023 - $11 million) of MBS through the market MBS program and CMB program.

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 March 31, 2024, we held $96 million of retained MBS on our balance sheet (December 31, 2023 - $125 million), which is included in the insured residential mortgage portfolio in corporate mortgages.

Table 11: Mortgage Summary

(in thousands except %)	March 31 2024	December 31 2023	Change (%)	March 31 2023	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 239,680	$ 276,685	(13%)	$ 187,218	28%
Uninsured	1,007,946	966,726	4%	848,342	19%
Uninsured - completed inventory	46,707	54,367	(14%)	38,060	23%
Construction loans	1,034,004	1,045,768	(1%)	856,165	21%
Commercial loans					
Multi family residential	55,734	70,103	(20%)	102,114	(45%)
Other commercial	1,196	1,206	(1%)	4,845	(75%)
	2,385,267	**2,414,855**	**(1%)**	**2,036,744**	**17%**
Securitized portfolio	**2,094,637**	**1,929,948**	**9%**	**1,724,278**	**21%**
	$ 4,479,904	**$ 4,344,803**	**3%**	**$ 3,761,022**	**19%**

Table 12: Corporate Mortgage Portfolio Continuity for Q1 2024

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 276,685**	**$ 966,726**	**$ 54,367**	**$ 1,045,768**	**$ 71,309**	**$ 2,414,855**
Originations[1]	197,615	182,615	1,080	134,434	—	515,744
Payments and prepayments	(3,091)	(3,179)	(8,971)	(149,638)	(14,485)	(179,364)
Maturities	(19,192)	(138,249)	—	—	—	(157,441)
Securitizations	(211,851)	—	—	—	—	(211,851)
Capitalization and amortization of fees	(486)	33	231	3,440	106	3,324
Balance, end of the period	**$ 239,680**	**$ 1,007,946**	**$ 46,707**	**$ 1,034,004**	**$ 56,930**	**$ 2,385,267**

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

Table 13: Corporate Mortgage Portfolio Continuity for Q1 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]	82,822	158,918	9,291	115,251	3,675	369,957
Payments and prepayments	(2,059)	(4,898)	(8,043)	(87,118)	(21)	(102,139)
Maturities	(15,415)	(134,870)	—	—	—	(150,285)
Securitizations	(10,950)	—	—	—	—	(10,950)
Sale of commitments and loans to MCAP	(12,405)	—	—	—	—	(12,405)
Capitalization and amortization of fees	656	652	132	2,906	(1,274)	3,072
Balance, end of the period	**$ 187,218**	**$ 848,342**	**$ 38,060**	**$ 856,165**	**$ 106,959**	**$ 2,036,744**

[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)

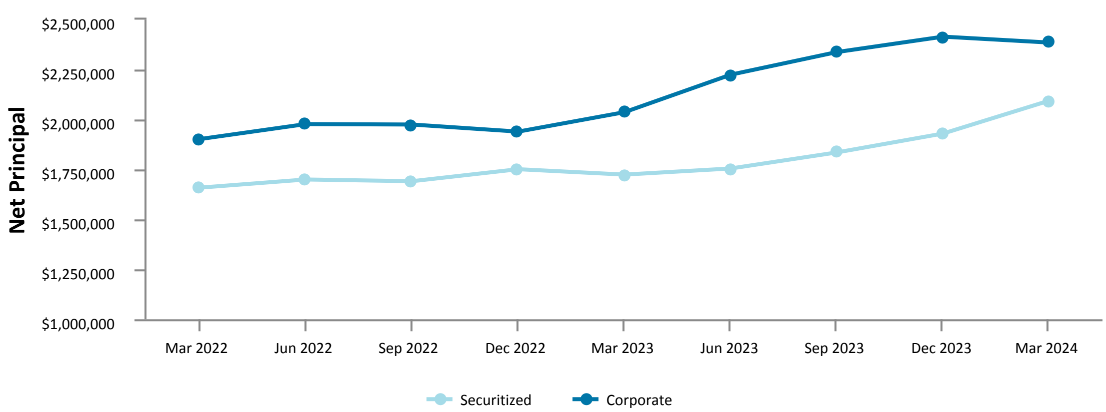
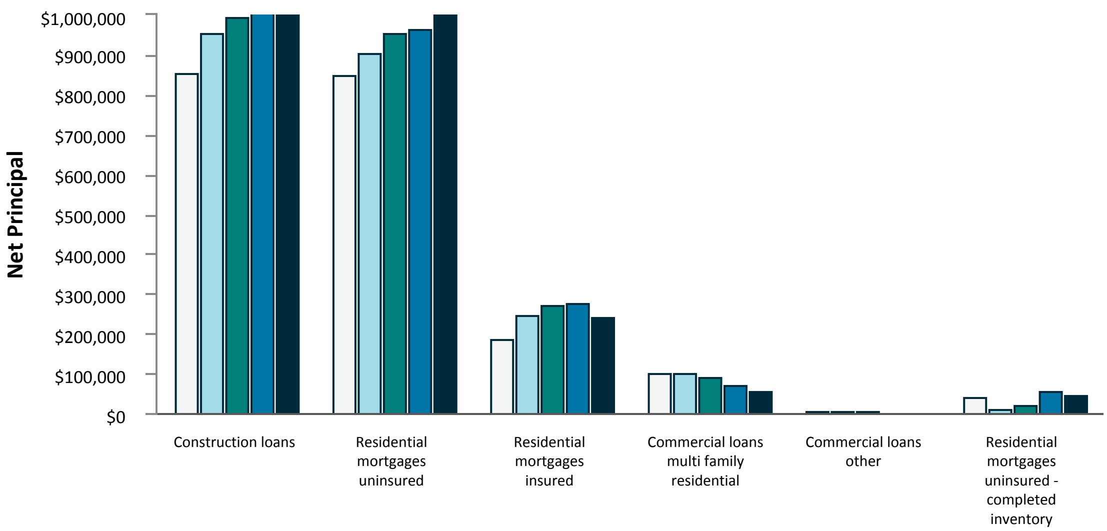


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Residential mortgages uninsured	Residential mortgages insured	Commercial loans multi family residential	Commercial loans other	Residential mortgages uninsured - completed inventory
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%)
Dec 31, 2023	$1,045,768 (44%)	$966,726 (40%)	$276,685 (11%)	$70,103 (3%)	$1,206 (0%)	$54,367 (2%)
Mar 31, 2024	$1,034,004 (44%)	$1,007,946 (42%)	$239,680 (10%)	$55,734 (2%)	$1,196 (0%)	$46,707 (2%)

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

Table 14: Mortgage Portfolio Geographic Distribution

	March 31, 2024		December 31, 2023	
	Corporate	Securitized	Corporate	Securitized
Ontario	61.8 %	84.7 %	60.4 %	85.7 %
British Columbia	29.3 %	3.3 %	30.3 %	3.3 %
Alberta	7.8 %	9.3 %	8.2 %	8.5 %
Atlantic Provinces	0.3 %	1.6 %	0.4 %	1.4 %
Quebec	0.2 %	0.3 %	0.1 %	0.4 %
Other	0.6 %	0.8 %	0.6 %	0.7 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 15: Arrears and Impaired Mortgages

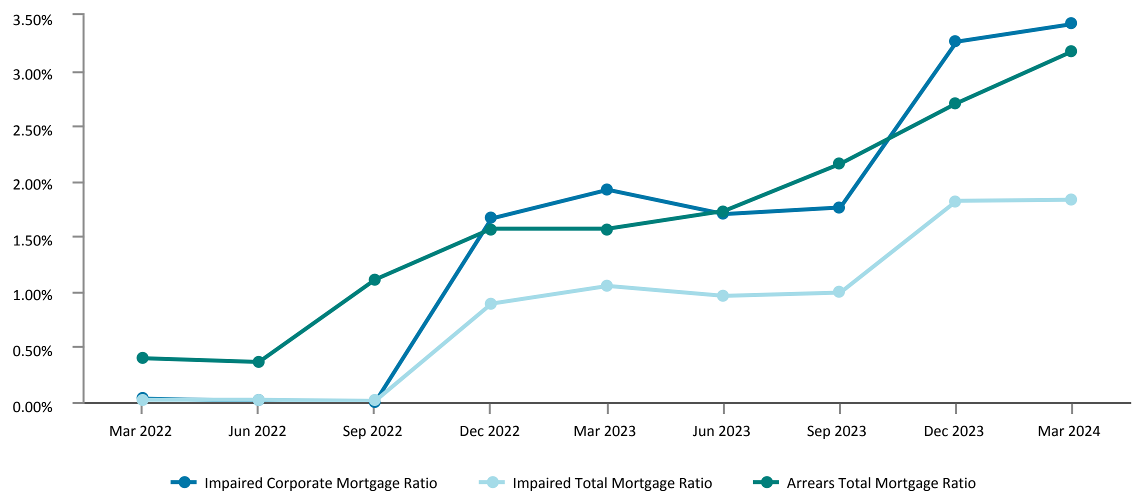
(in thousands except %)	March 31 2024	December 31 2023	Change (%)	March 31 2023	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ 152	$ 599	(75%)	$ 473	(68%)
Residential mortgages - uninsured	9,832	5,971	65%	499	1,870%
Residential mortgages - uninsured - completed inventory	—	—	n/a	2,577	(100%)
Construction loans	71,552	72,206	(1%)	32,088	123%
Commercial loans - other	—	—	n/a	3,482	(100%)
	81,536	78,776	4%	39,119	108%
Securitized	343	343	—%	195	76%
Total impaired mortgages	$ 81,879	$ 79,119	3%	$ 39,314	108%
Impaired corporate mortgage ratio [1]	3.42 %	3.26 %	0.16%	1.92 %	1.50%
Impaired total mortgage ratio [1]	1.83 %	1.82 %	0.01%	1.05 %	0.78%
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 735	$ 813	(10%)	$ 870	(16%)
Residential mortgages - uninsured	47,215	39,770	19%	15,856	198%
Residential mortgages - uninsured - completed inventory	2,224	—	n/a	2,577	(14%)
Construction loans	86,001	72,206	19%	32,088	168%
Commercial loans - other	—	—	n/a	3,482	(100%)
Total corporate mortgage arrears	136,175	112,789	21%	54,873	148%
Total securitized mortgage arrears	6,085	4,661	31%	4,096	49%
Total mortgage arrears	$ 142,260	$ 117,450	21%	$ 58,969	141%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 8,497	$ 11,572	(27%)	$ 8,119	5%
Residential mortgages - uninsured	185,882	184,514	1%	154,584	20%
Residential mortgages - uninsured - completed inventory	2,224	2,221	—%	—	n/a
Construction loans	22,287	5,967	274%	9,780	128%
Commercial loans - multi-family residential	39,819	39,798	—%	39,721	—%
	258,709	244,072	6%	212,204	22%
Stage 3					
Residential mortgages - insured	152	599	(75%)	473	(68%)
Residential mortgages - uninsured	9,832	5,971	65%	499	1,870%
Residential mortgages - uninsured - completed inventory	—	—	n/a	2,577	(100%)
Construction loans	71,552	72,206	(1%)	32,088	123%
Commercial loans - other	—	—	n/a	3,482	(100%)
	81,536	78,776	4%	39,119	108%
Total stage 2 and 3 corporate mortgages	$ 340,245	$ 322,848	5%	$ 251,323	35%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,204	$ 7,953	(22%)	$ 5,127	21%
Allowance on impaired mortgages	3,102	1,972	57%	1,658	87%
	9,306	9,925	(6%)	6,785	37%
Securitized - allowance on performing mortgages	—	—	n/a	—	n/a
Total allowance for credit losses	$ 9,306	$ 9,925	(6%)	$ 6,785	37%

[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.*

Arrears and Impaired Mortgage Summary

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

Figure 3: Arrears and Impaired Mortgage Ratios[1]



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 has increased in our uninsured residential mortgages, we believe overall that we have a quality uninsured residential mortgage loan portfolio with an average LTV of 65.5% at March 31, 2024 compared to 63.4% at December 31, 2023 based on an industry index of current real estate values. We have also seen our arrears stabilize since Q1 2024. With respect to our construction and commercial loan portfolio, we have a strong track record with our default management processes and asset recovery programs as the need arises. The impaired ratios, as presented above, reflect impaired (stage 3) mortgages under IFRS 9 as a percentage of the corporate or total mortgage portfolios, as applicable. At March 31, 2024, impaired mortgages are mainly five construction mortgages where we have initiated asset recovery programs. 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 16: Residential Mortgages by Province at March 31, 2024

(in thousands except %)	Corporate						Securitized			
	Insured	**%**	**Uninsured**	**%**	**HELOCs**	**%**	**Insured**	**%**	**Total**	**%**
Ontario	$ 177,874	74.3 %	$ 928,176	88.0 %	$ 50	59.5 %	$1,775,579	84.7 %	$ 2,881,679	85.0 %
Alberta	43,135	18.0 %	27,581	2.6 %	14	16.7 %	194,186	9.3 %	264,916	7.8 %
British Columbia	6,307	2.6 %	90,350	8.6 %	20	23.8 %	68,311	3.3 %	164,988	4.9 %
Quebec	2,410	1.0 %	1,208	0.1 %	—	— %	6,726	0.3 %	10,344	0.3 %
Atlantic Provinces	5,254	2.2 %	2,279	0.2 %	—	— %	32,488	1.6 %	40,021	1.2 %
Other	4,616	1.9 %	5,059	0.5 %	—	— %	17,347	0.8 %	27,022	0.8 %
Total	**$ 239,596**	**100.0 %**	**$1,054,653**	**100.0 %**	**$ 84**	**100.0 %**	**$2,094,637**	**100.0 %**	**$ 3,388,970**	**100.0 %**

Table 17: Residential Mortgages by Province at December 31, 2023

(in thousands except %)	Corporate						Securitized			
	Insured	**%**	**Uninsured**	**%**	**HELOCs**	**%**	**Insured**	**%**	**Total**	**%**
Ontario	$ 202,183	73.0 %	$ 888,284	87.1 %	$ 59	79.7 %	$1,655,249	85.7 %	$ 2,745,775	85.1 %
Alberta	52,071	18.9 %	27,844	2.7 %	15	20.3 %	164,398	8.5 %	244,328	7.6 %
British Columbia	8,516	3.1 %	96,305	9.4 %	—	— %	62,971	3.3 %	167,792	5.2 %
Quebec	2,090	0.8 %	1,221	0.1 %	—	— %	7,298	0.4 %	10,609	0.3 %
Atlantic Provinces	6,405	2.3 %	2,307	0.2 %	—	— %	26,521	1.4 %	35,233	1.1 %
Other	5,346	1.9 %	5,132	0.5 %	—	— %	13,511	0.7 %	23,989	0.7 %
Total	**$ 276,611**	**100.0 %**	**$1,021,093**	**100.0 %**	**$ 74**	**100.0 %**	**$1,929,948**	**100.0 %**	**$ 3,227,726**	**100.0 %**

Table 18: Residential Mortgages by Amortization Period at March 31, 2024

(in thousands except %)	**Up to 20 Years**	**>20 to 25 Years**	**>25 to 30 Years**	**>30 to 35 Years**	**Total**
Corporate	$ 163,838	$ 270,902	$ 458,403	$ 401,190	$ 1,294,333
	12.7 %	20.9 %	35.4 %	31.0 %	100.0 %
Securitized	$ 655,713	$ 1,438,688	$ 236	$ —	$ 2,094,637
	31.3 %	68.7 %	— %	— %	100.0 %
Total	**$ 819,551**	**$ 1,709,590**	**$ 458,639**	**$ 401,190**	**$ 3,388,970**
	24.2 %	**50.5 %**	**13.5 %**	**11.8 %**	**100.0 %**

Table 19: Residential Mortgages by Amortization Period at December 31, 2023

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 182,403	$ 292,137	$ 450,377	$ 372,861	$ 1,297,778
	14.1 %	22.4 %	34.7 %	28.8 %	100.0 %
Securitized	$ 585,539	$ 1,343,070	$ 1,339	$ —	$ 1,929,948
	30.3 %	69.6 %	0.1 %	— %	100.0 %
Total	**$ 767,942**	**$ 1,635,207**	**$ 451,716**	**$ 372,861**	**$ 3,227,726**
	23.8 %	**50.6 %**	**14.0 %**	**11.6 %**	**100.0 %**

Table 20: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) **For the Quarters Ended**	**Q1 2024**	**Average LTV**	**Q1 2023**	**Average LTV**
Ontario	$ 77,651	69.6%	$ 53,994	70.8%
Alberta	1,780	78.2%	2,324	67.7%
British Columbia	5,623	66.3%	15,934	67.8%
Other	480	62.3%	—	—%
	$ 85,534	**69.5%**	**$ 72,252**	**70.0%**

Table 21: Average LTV Ratios at Origination by Mortgage Portfolio

	March 31 2024	**December 31 2023**
Corporate portfolio		
Residential mortgages		
Insured	71.5 %	69.6 %
Uninsured[1]	66.3 %	66.0 %
Uninsured - completed inventory	63.4 %	63.4 %
Construction loans		
Residential	63.8 %	63.7 %
Commercial loans		
Multi family residential	76.1 %	75.9 %
Other commercial	57.6 %	63.0 %
	65.9 %	65.7 %
Securitized portfolio	79.7 %	79.9 %
	72.4 %	**72.0 %**

[1] MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 66.2% at March 31, 2024 (December 31, 2023 - 65.9%). Based on an industry index that incorporates current real estate values, the ratio would be 65.5% at March 31, 2024 (December 31, 2023 - 63.4%).

Other Corporate Assets

Cash and Cash Equivalents

At March 31, 2024, our cash balance was $78 million (December 31, 2023 - $60 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 March 31, 2024, the portfolio balance was $50 million (December 31, 2023 - $50 million). 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 March 31, 2024, our non-marketable securities balance was $113 million (December 31, 2023 - $110 million). The movement to our security balance from prior periods mainly relates to funding of capital advances and a $0.3 million net unrealized fair value gain mainly relating to an updated property valuation as well as actual execution on leasing activities on another underlying property. Our non-marketable securities are either held for long-term capital appreciation or distribution income and they tend to improve the diversification and risk and reward characteristics of our overall investment portfolio; however, the real estate development funds tend to have less predictable cash flows that are predicated on the completion of the development projects within the funds. We have $76 million in remaining commitments for non-marketable securities expected to fund mainly over the next five years. Some of the real estate funds that we are invested in, have been slower to deploy committed capital then initially expected as finding the right opportunities in the current market environment takes more time. Our non-marketable securities consist of the following:

KSHYF: We invest in KSHYF in which we have a 5.9% equity interest (December 31, 2023 - 5.9%). At March 31, 2024, the carrying value of our investment was $55 million (December 31, 2023 - $55 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At March 31, 2024, our total remaining commitment to the KSHYF was $33 million, consisting of an additional $4 million of capital advances for the KSHYF and $29 million to support credit facilities throughout the life of the KSHYF.

KSSMF: We invest in KSSMF in which we have a 2.1% partnership interest (December 31, 2023 - 2.1%). At March 31, 2024, the carrying value of our investment was $16 million (December 31, 2023 - $16 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 (December 31, 2023 - 9.7%). At March 31, 2024, the carrying value of our investment was $8 million (December 31, 2023 - $8 million). At March 31, 2024, the Company has a $3 million revolving promissory note commitment that matures on June 30, 2025 with $2 million remaining available to be drawn. 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 (December 31, 2023 - 34.8%). At March 31, 2024, the carrying value of our investment was $4 million (December 31, 2023 - $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 (December 31, 2023 - 6.9%). At March 31, 2024, the carrying value of our investment was $2 million (December 31, 2023 - $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 (December 31, 2023 - 7.7%). At March 31, 2024, the carrying value of our investment was $9 million (December 31, 2023 - $8 million), with an additional $9 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 (December 31, 2023 - 12.1%). At March 31, 2024, the carrying value of our investment was $3 million (December 31, 2023 - $3 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 16.2% partnership interest (December 31, 2023 - 16.2%). At March 31, 2024, the carrying value of our investment was $2 million (December 31, 2023 - $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 (December 31, 2023 - 5.7%). At March 31, 2024, the carrying value of our investment was $5 million (December 31, 2023 - $5 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 (December 31, 2023 - 6.5%). At March 31, 2024, the carrying value of our investment was $7 million (December 31, 2023 - $6 million) with an additional $8 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 13.74% equity interest in MCAP (December 31, 2023 - 13.73%), which represents 4.0 million units held by MCAN at March 31, 2024 (December 31, 2023 - 4.0 million) of the 29.1 million total outstanding MCAP partnership units (December 31, 2023 - 29.1 million). The investment had a net book value of $115 million at March 31, 2024 (December 31, 2023 - $111 million). The net book value is not indicative of the fair market value of our equity interest in MCAP.

During Q1 2024, we received $3.4 million of unitholder distributions from MCAP (Q1 2023 - $5.0 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 22: Liabilities and Shareholders' Equity

(in thousands except %)	March 31 2024	December 31 2023	Change (%)	March 31 2023	Change (%)
Corporate Liabilities					
Term deposits	$ 2,197,805	$ 2,200,102	—%	$ 1,897,534	16%
Loans payable	25,786	64,683	(60%)	31,816	(19%)
Derivative financial instruments	836	—	n/a	—	n/a
Other liabilities	8,432	25,575	(67%)	7,577	11%
	2,232,859	**2,290,360**	**(3%)**	**1,936,927**	**15%**
Securitization Liabilities					
Financial liabilities from securitization	2,085,160	1,916,883	9%	1,707,751	22%
	2,085,160	**1,916,883**	**9%**	**1,707,751**	**22%**
	4,318,019	**4,207,243**	**3%**	**3,644,678**	**18%**
Shareholders’ Equity					
Share capital	441,840	406,528	9%	396,931	11%
Contributed surplus	510	510	—%	510	—%
Retained earnings	134,006	124,708	7%	109,833	22%
Accumulated other comprehensive income	61	98	(38%)	(15)	(507%)
	576,417	**531,844**	**8%**	**507,259**	**14%**
	$ 4,894,436	**$ 4,739,087**	**3%**	**$ 4,151,937**	**18%**

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, as well as a newly launched direct-to-consumer channel through our MCAN Wealth GIC platform. 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.

Derivatives Financial Instruments

At March 31, 2024, the Company had $0.8 million of unrealized losses on derivative liabilities outstanding relating to term deposit fair value hedges (December 31, 2023 - $0.2 million derivative assets). Refer to the “Derivatives and Hedging” sub-section of this MD&A and Note 11 to the interim consolidated financial statements.

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 Q1 2024 consists of net income of $23.2 million (Q1 2023 - $23.3 million) less dividends of $13.9 million (Q1 2023 - $12.4 million).

Accumulated Other Comprehensive Income

We may 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 Q1 2024, we had net realized fair value gains of $31,000 (Q4 2023 - $1.9 million fair value losses; Q1 2023 - $0.1 million fair value losses) and net unrealized fair value gains of $nil (Q4 2023 - $0.2 million fair value losses; Q1 2023 - $0.2 million fair value gains) 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 23: Income Tax Capital

(in thousands except ratios)

	March 31 2024	December 31 2023
Income tax assets		
Consolidated assets	$ 4,894,436	$ 4,739,087
Adjustment for assets in subsidiaries	16,764	(27,520)
Non-consolidated assets in MIC entity	4,911,200	4,711,567
Add: corporate mortgage allowances	6,513	8,149
Less: securitization assets [1]	(2,117,153)	(1,953,086)
Adjustments to equity investments in MCAP and subsidiaries	(62,541)	(59,274)
Other adjustments	5,173	5,501
	$ 2,743,192	$ 2,712,857
Income tax liabilities		
Consolidated liabilities	$ 4,318,019	$ 4,207,243
Adjustment for liabilities in subsidiaries	(26,160)	(71,761)
Non-consolidated liabilities in MIC entity	4,291,859	4,135,482
Less: securitization liabilities [1]	(2,082,630)	(1,913,719)
	$ 2,209,229	$ 2,221,763
Income tax capital	$ 533,963	$ 491,094
Income tax capital ratios		
Income tax assets to capital ratio	5.14	5.52
Income tax liabilities to capital ratio	4.14	4.52

[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 March 31, 2024, 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 24: Regulatory Capital [3]

(in thousands except %)

	March 31 2024	December 31 2023
OSFI Regulatory Ratios		
Share capital	$ 441,840	$ 406,528
Contributed surplus	510	510
Retained earnings	134,006	124,708
Accumulated other comprehensive income	61	98
Deduction from equity investment in MCAP [1]	(57,547)	(58,183)
Common Equity Tier 1 and Tier 1 Capital (A)	518,870	473,661
Tier 2 Capital	6,204	7,953
Total Capital (D)	$ 525,074	$ 481,614
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,894,436	$ 4,739,087
Less: deduction for equity investment in MCAP [1]	(57,547)	(58,183)
Other adjustments [2]	3,000	1,900
Total On-Balance Sheet Exposures	4,839,889	4,682,804
Mortgages and non-marketable securities funding commitments	270,554	286,655
Letters of credit	23,699	24,318
Total Off-Balance Sheet Items	294,253	310,973
Total Exposure/Regulatory Assets (B)	$ 5,134,142	$ 4,993,777
Leverage ratio (A / B)	10.11 %	9.49 %
Risk-weighted assets (C)	$ 2,730,634	$ 2,689,764
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	19.00 %	17.61 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	19.00 %	17.61 %
Total capital to risk-weighted assets ratio **(D / C)**	19.23 %	17.91 %

[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.*

Table 25: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	March 31, 2024			December 31, 2023		
	Amounts	Average Rate	Risk-Weighted Assets	Amounts	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 78,275	21 %	$ 16,255	$ 60,345	21 %	$ 12,449
Cash held in trust	29,886	20 %	5,977	30,909	20 %	6,182
Marketable securities	50,227	100 %	50,227	50,320	100 %	50,320
Mortgages - corporate	2,385,267	69 %	1,634,227	2,414,855	67 %	1,626,403
Mortgages - securitized	2,094,637	5 %	114,344	1,929,948	5 %	104,989
Non-marketable securities	112,574	183 %	206,182	109,943	172 %	188,885
Equity investment in MCAP Commercial LP	115,189	125 %	144,104	111,367	119 %	132,961
Deferred tax asset	697	100 %	697	336	100 %	336
Other assets	27,684	100 %	27,684	30,866	100 %	30,867
Derivative Financial Instruments	—	— %	—	198	— %	—
	4,894,436		2,199,697	4,739,087		2,153,392
Off-Balance Sheet Items						
Letters of credit	47,398	50 %	23,699	48,637	50 %	24,319
Commitments	676,385	43 %	290,552	716,638	43 %	306,764
Derivative Financial Instruments	471,914	1 %	4,873	314,197	— %	276
			319,124			331,359
Charge for operational risk [2]			211,813			205,013
Risk-Weighted Assets			**$ 2,730,634**			**$ 2,689,764**

[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 2023 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 2023 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 March 31, 2024, 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 March 31, 2024, 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 26: Liquidity Analysis

At March 31, 2024						
(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	$ 78,275	$ —	$ —	$ —	$ —	$ 78,275
Marketable securities	50,227	—	—	—	—	50,227
Mortgages - corporate	638,799	906,047	710,426	102,030	27,965	2,385,267
Non-marketable securities	—	—	—	—	112,574	112,574
Other loans	1,975	—	—	—	—	1,975
	769,276	906,047	710,426	102,030	140,539	2,628,318
Uses of liquidity						
Term deposits	332,668	731,764	793,277	340,096	—	2,197,805
Loans payable	25,786	—	—	—	—	25,786
Derivative Financial Instruments	836	—	—	—	—	836
Other liabilities	5,249	681	1,979	523	—	8,432
	364,539	732,445	795,256	340,619	—	2,232,859
Net liquidity surplus (deficit)	**$ 404,737**	**$ 173,602**	**$ (84,830)**	**$ (238,589)**	**$ 140,539**	**$ 395,459**

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 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 LTV ratios and project liquidity, at March 31, 2024, 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 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 March 31, 2024 would have an estimated positive effect of $3.9 million (December 31, 2023 - positive effect of $5.0 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at March 31, 2024 would have an estimated adverse effect of $2.4 million (December 31, 2023 - adverse effect of $3.8 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 March 31, 2024 and December 31, 2023 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 27: Interest Rate Sensitivity at March 31, 2024

At March 31, 2024								
(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	$1,243,101	$180,514	$429,416	$513,678	$ 77,902	$ 19,780	$ 286,859	$ 2,751,250
Securitization	169,522	29,125	182,785	1,320,607	392,598	—	48,549	2,143,186
	1,412,623	209,639	612,201	1,834,285	470,500	19,780	335,408	4,894,436
Liabilities								
Corporate	25,786	332,668	732,201	793,676	340,095	—	8,433	2,232,859
Securitization	168,668	20,483	154,239	1,323,405	418,365	—	—	2,085,160
	194,454	353,151	886,440	2,117,081	758,460	—	8,433	4,318,019
Shareholders' Equity	—	—	—	—	—	—	576,417	576,417
GAP	**$1,218,169**	**$(143,512)**	**$(274,239)**	**$(282,796)**	**$(287,960)**	**$ 19,780**	**$ (249,442)**	**$ —**
YIELD SPREAD	**5.36 %**	**2.08 %**	**1.34 %**	**0.76 %**	**0.12 %**	**4.91 %**		

Table 28: Interest Rate Sensitivity at December 31, 2023

At December 31, 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	$1,265,585	$162,442	$433,336	$504,327	$101,094	$ 8,614	$ 280,931	$ 2,756,329
Securitization	126,874	16,427	145,074	1,262,090	379,482	—	52,811	1,982,758
	1,392,459	178,869	578,410	1,766,417	480,576	8,614	333,742	4,739,087
Liabilities								
Corporate	64,682	282,827	803,952	790,157	323,237	—	25,505	2,290,360
Securitization	126,103	7,420	137,127	1,199,547	446,686	—	—	1,916,883
	190,785	290,247	941,079	1,989,704	769,923	—	25,505	4,207,243
Shareholders' Equity	—	—	—	—	—	—	531,844	531,844
GAP	**$1,201,674**	**$(111,378)**	**$(362,669)**	**$(223,287)**	**$(289,347)**	**$ 8,614**	**$ (223,607)**	**$ —**
YIELD SPREAD	**4.36 %**	**2.07 %**	**1.56 %**	**0.74 %**	**(0.03)%**	**5.39 %**		

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. At March 31, 2024, there were 37,830,915 common shares outstanding (December 31, 2023 - 35,431,938). At May 6, 2024, there were 37,871,716 common shares outstanding.

We have a Base Shelf prospectus allowing us to make certain public offerings of debt or equity securities during the period that it is effective, through Prospectus Supplements.

- On March 28, 2024, we closed an overnight marketed offering, established pursuant to a Prospectus Supplement to our Base Shelf prospectus, at a price of $15.40 per common share for gross proceeds of $28.8 million and net proceeds of $27.2 million including share issuance costs.
- We have an 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 at the market prices prevailing at the time of sale. In Q1 2024, we issued no common shares through our ATM Program. At March 31, 2024, we have $28.4 million remaining available to be issued through our ATM Program. The volume and timing of distributions under the ATM Program are determined at MCAN's sole discretion.

We issued $8.2 million in new common shares in Q1 2024 (Q1 2023 - $6.9 million) 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.

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 29: Contractual Commitments

At March 31, 2024						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 372,033	$ 166,013	$ 33,454	$ —	$ —	$ 571,500
Commitment - TAS 3	—	2,151	—	—	—	2,151
Commitment - TAS Co	—	326	750	—	—	1,076
Commitment - TAS 4	—	7,040	7,040	3,520	—	17,600
Commitment - Harbour	1,000	2,500	2,500	1,000	—	7,000
Commitment - KSSMF	—	2,975	5,825	—	—	8,800
Commitment - Pearl	138	583	—	—	—	721
Commitment - Crown	—	6,169	3,224	—	—	9,393
Commitment - Fiera	2,272	2,012	1,396	670	1,500	7,850
Commitment - Broccolini	—	4,300	10,300	2,000	1,000	17,600
Commitment - KSHYF	—	3,000	850	—	28,844	32,694
	$ 375,443	**$ 197,069**	**$ 65,339**	**$ 7,190**	**$ 31,344**	**$ 676,385**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At March 31, 2024, these derecognized securitized insured multi family mortgages totalled $217 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 May 6, 2024, the Board declared a regular quarterly cash dividend of $0.39 per share to be paid on June 28, 2024 to shareholders of record as at June 14, 2024.

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.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended March 31, 2024 and March 31, 2023 and related party balances at March 31, 2024 and December 31, 2023 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 March 31, 2024, we had 152 team members (December 31, 2023 - 142). Team members include full-time, part-time, contract and students, as applicable.

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 2023 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At March 31, 2024, the CEO and Interim 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 Interim 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 March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our control framework. On January 1, 2024, we implemented a new enterprise resource planning ("ERP") system. This ERP implementation did not result in any significant changes in internal controls. We had appropriate testing on the new ERP system to ensure a proper transition as well as appropriate procedures to ensure internal controls over financial reporting were in place during and after the 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.

SUBSEQUENT EVENTS

On April 24, 2024, we announced (i) the departure of Floriana Cipollone, MCAN's CFO; and (ii) the appointment of Peter Ryan, MCAN's Vice President, Controller, as Interim CFO.

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 30: Net Corporate Mortgage Spread Income

(in thousands) **For the Periods Ended March 31**	**2024**	**2023**	**Change ($)**
Mortgage interest - corporate assets	$ 48,008	$ 35,756	
Term deposit interest and expenses	26,070	14,741	
Net Corporate Mortgage Spread Income	**$ 21,938**	**$ 21,015**	**$ 923**

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 6 of this MD&A.

Table 31: Net Securitized Mortgage Spread Income

(in thousands) **For the Periods Ended March 31**	**2024**	**2023**	**Change ($)**
Mortgage interest - securitized assets	$ 13,340	$ 9,068	
Interest on financial liabilities from securitization	11,187	7,501	
Net Securitized Mortgage Spread Income	**$ 2,153**	**$ 1,567**	**$ 586**

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 the related total mortgage principal for uninsured residential mortgage, residential mortgage (corporate and securitized), corporate mortgage (residential, construction and commercial) and total mortgage (all 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.

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