ANNUAL REPORT 2021





Our vision is to be the **preferred mortgage lender and investor** within our chosen real estate markets **in Canada.**

Our mission every day is to provide **sustainable growth and returns** for all our stakeholders

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

The MCAN Values That Drive Us

D **iversity and inclusion** powering our ONE team mindset

R **isk managers** are in all of us

I **nnovate, "lean" in to optimize, and grow** our business together

V **alueing a respectful, collaborative, and a relationship-focused** team

E **mpowered** to act like an owner, think like a customer

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MESSAGE TO SHAREHOLDERS

2021 marks the 30th anniversary of MCAN's organization as a public company and listing on the TSX. Since then, we have achieved long term sustainable growth and high quality earnings driven by our strategies. Our business continues to be conducted based on our prudent lending and investing principles and funding strategy to provide attractive returns to our shareholders. We will continue to be focused on our long term strategy in the face of tremendous changes in the country, consumer trends, the mortgage market and digital opportunities. Let's look at 2021.

I'm very pleased with our solid 2021 results and team performance as our business continues to grow. Year over year, we were positively impacted by growth in our mortgage portfolios as well as unrealized mark-to-market gains on our real estate investment trust ("REIT") portfolio compared to unrealized losses and higher provisions recorded for credit losses in 2020, both as a result of the pandemic and uncertain economic environment. We reported net income of $64 million ($2.40 per share) for the year ended December 31, 2021 compared to $43 million ($1.75 per share) earned in 2020. Return on average shareholders' equity[1] was 17%, compared to 13% in the prior year.

Following the lifting of the moratorium on dividends by OSFI, we are pleased to announce that on February 22, 2022, the Board of Directors declared a quarterly cash dividend of $0.36 per share, an increase of nearly 6% from last quarter, and a special stock dividend of $0.97 per share, both to be paid March 31, 2022 to shareholders of record as of March 15, 2022. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income so that we eliminate income taxes at the company level. Our taxable income is higher in 2021 primarily due to higher taxable income from MCAP and growth in our business. The special stock dividend represents the true up of our regular dividends to taxable income for 2021.

2021 Year in Review

The Company's business activities continued to remain strong in 2021 fueled by the housing market and the low interest rate environment which we saw after the pandemic started early in 2020. To respond to the surge in demand in the residential mortgage and construction lending markets, the Company proactively expanded its operations and raised capital to enable it to capitalize on this growth opportunity. Overall, this is the third consecutive year of above target growth. We achieved this growth in both our single family and construction and commercial businesses by being opportunistic and ensuring we provide outstanding service to our brokers, originators and customers. During this time, we have increased our market share in the residential mortgage market and will continue to focus on this growth.

Corporate assets (which excludes our securitization portfolios) totalled $2.2 billion and increased 39% in the year and 77% over the last three years. Our corporate mortgages component increased 44% to $1.8 billion at year end and 96% over the last three years.

Single family originations and acquisitions totalled $1.4 billion, which includes $801 million of insured mortgages, a 30% increase over 2020, and $575 million of uninsured mortgages, a 103% increase over 2020. During the year, we securitized $724 million of insured single family mortgages through the National Housing Act Mortgage-Backed Securities program, a 6% increase from 2020. We achieved all of our growth objectives for our single family business in 2021 and we will continue to advance our capabilities and customer service to support continued growth. Our efforts in this area of our business have not gone unnoticed. In 2021, our team was recognized in 4 Canadian Mortgage Professionals Brokers on Lenders survey categories and won 2 5-Star Mortgage Products Awards for product development and excellence in service. These directly reflect the quality service provided to our partners by the Residential Lending team.

Our construction and commercial portfolio grew 42% for the year. We proactively manage investments in our construction and commercial portfolio in terms of product composition, geographic mix and exposure. Originations were up 46% compared to last year. Our lending criteria for investing capital continues to generate a strong loan book. We have strong strategic partnerships with originators for investing in loans and expect to maintain the quality of our investments in this growing portfolio. During the year, we increased our

portfolio in and around the urban markets of the Greater Vancouver area, the Greater Toronto area and to a lesser degree, Calgary and Edmonton. These markets have strong demand for more entry level homes due to household formation driven by population dynamics and immigration.

We continue to proactively manage all of our income-earning corporate assets resulting in capital recycling, growth, increased balance sheet optimization and better return on equity. Our marketable securities, comprised of REITs, saw a recovery in 2021 amid an improved economic outlook after experiencing the pandemic shock in 2020. Consistent with our strategy, we sold $17 million in marketable securities, realizing a capital gain of $4 million. We reinvested $15 million in additional marketable securities in the year and we had a year to date distribution yield[1] of 5.49% on this portfolio. We continue to hold these investments for current return and capital appreciation.

In our non-marketable securities portfolio, we newly committed to $33 million in four new investment funds that are expected to fund over five years. In 2021, $14 million in non-marketable securities investments were funded. We have invested in, and are committed to, increasing our investments in various funds that provide either a current above-average yield or a longer term return greater than 15% over the life of the funds. Our strategy of laddering our investments in these longer term funds should provide above average returns as the funds mature and their strategies are executed. All of the funds we invest in are secured by real estate in Canada and provide debt and equity capital to experienced and successful originators and developers. Certain of these funds focus on the development of affordable housing and connected neighbourhoods and reducing the impact of climate change. We will look to continue incrementally increasing our investment in these types of funds as our corporate mortgages grow, to optimize our balance sheet returns.

Our equity investment in MCAP increased to $96 million as a result of its earnings and growth less distributions during 2021. MCAP is Canada's largest independent mortgage finance company with assets under management of $146 billion, serving many institutional investors and over 400,000 homeowners. With the growth in its assets under management and its market leadership position, we expect that MCAP will continue to provide solid returns for MCAN.

The Company's assets collectively provide our shareholders with a comprehensive investment platform across the Canadian real estate landscape. We invest in single family residential mortgages, provide financing for residential construction in urban markets, hold and manage a REIT portfolio, participate in high yield mortgage funds, participate in equity funds focused on asset value creation and the development of commercial and residential assets in our chosen markets, and we hold our MCAP ownership interest of approximately 14%. Collectively, these quality investments are not available to typical shareholders and provide a curated portfolio for participation in the real estate market in Canada. We look to optimize this mix of our assets within our risk appetite staying focused on real estate secured lending and investments for long term sustainable returns to shareholders.

To support our continued growth and maintain our targeted capital requirements, we initiated two capital raises by way of rights offerings in June and December 2021, both of which were oversubscribed. These two offerings raised $53 million of capital. One particular strategic focus of ours this year was to expand and evolve our capital markets and other funding strategies. To that end, in the second half of 2021, we filed a $400 million Base Shelf prospectus and established a supplemental $30 million at-the-market equity program. This expansion of our funding sources and capital will help us to continue on our journey of sustainable growth in 2022 and beyond. In the future, the Company will look to issue equity through investment banks to establish a wider cohort of shareholders to fund our continued growth objectives. We also added a new $50 million senior secured mortgage warehouse facility that we access to fund insured single family mortgages prior to securitization activities. We will continue to add further facilities and debt instruments to diversify our liability funding as we grow.

During the year, we selectively enhanced systems and processes in our infrastructure. Our 2021 activities were only the beginning of a multi-year strategic focus on our internal operations to deliver enhanced customer service and drive sustainable, profitable growth in a quality working environment for our team.

We conduct our business activities based on our views of the economy, interest rates, housing market dynamics and the overall real estate cycle in Canada. We will continue to be vigilant and adjust our business activities in the context of the current and expected market environment. Our targeted annual growth in corporate assets over the long term continues to be 10%.

While our strategic partnerships with brokers, originators and service providers are foundational to our business model, equally important are our team members. I'm proud of the investments we've made in, and support we've given to, our most important asset – our team! As one measure of the success of our journey, in 2021, we became certified as a Great Place to Work®. We believe in an inclusive, diverse and equal environment for our team and we believe in strong support of our community.

Looking forward, we are focused on continued growth and maturity of our business to drive value for all our stakeholders. I am optimistic about achieving our business objectives as we have strong business partnerships, a talented and committed team and excellent leadership from our Executive team and the Board of Directors.

We believe that our business culture anchored by customer service and driven by an engaged and committed team has contributed to our growth. While we are pleased with our accomplishments in the year and over the past three years, we have more to do. We will continue to execute on our strategic plan and follow our vision. I look forward to reporting on our achievements in the future.



Karen Weaver
President and CEO

[1] *Considered to be a non-GAAP and other financial measure and incorporated by reference and defined in the "Non-GAAP and Other Financial Measures" section of our 2021 MD&A available below or on SEDAR at www.sedar.com. 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.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the consolidated balance sheets and accompanying notes at December 31, 2021 and December 31, 2020 and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which are the Generally Accepted Accounting Principles ("GAAP") in Canada, and presented in Canadian currency. This MD&A has been presented as of February 22, 2022.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

The COVID-19 pandemic has 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, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. The duration, extent and severity of the impact the COVID-19 pandemic or any further variants or outbreaks, including measures to prevent their spread and related government actions adopted in response thereto, will have on our business continues to be 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 risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2021, 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

Figure 1: MCAN-at-a-Glance (at and for the year ended December 31, 2021)

$3.8 billion
TOTAL ASSETS

$510 million
MARKET CAPITALIZATION

31%
MARKET CAPITALIZATION INCREASE YEAR-OVER-YEAR

Residential Single-Family Lending
$783 million total uninsured portfolio
$1.6 billion total insured securitized portfolio
$575 million total uninsured originations
$801 million total insured originations

Commercial and Construction Lending
$777 million total portfolio
$728 million total originations

2021 HIGHLIGHTS



$64.4 million
NET INCOME (50% GROWTH FROM 2020)

$2.40
EARNINGS PER SHARE

16.86%
RETURN ON AVERAGE SHAREHOLDERS' EQUITY[1]

39%
CORPORATE ASSET GROWTH

$2.21
DIVIDENDS PER SHARE

- *29 year track record of dividend distribution*
- *Cash dividends of $1.36 per share in 2021 and a special stock dividend of $0.85 per share paid in Q1 2021*

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

Table 1: Financial Statement Highlights - Annual

(in thousands except per share amounts, % and where indicated)	2021	2020	Change (%)	2019	Change (%)
Income Statement Highlights					
Net investment income - corporate assets	$ 85,446	$ 60,294	42%	$ 64,943	32%
Net investment income - securitization assets	$ 5,966	$ 4,033	48%	$ 3,994	49%
Net income	$ 64,362	$ 42,893	50%	$ 48,294	33%
Basic and diluted earnings per share	$ 2.40	$ 1.75	37%	$ 2.01	19%
Dividends per share - cash	$ 1.36	$ 1.36	—%	$ 1.28	6%
Dividends per share - stock	$ 0.85	$ —	n/a	$ —	n/a
Next quarter's dividend per share - cash	$ 0.36				
Next quarter's dividend per share - stock	$ 0.97				
Return on average shareholders' equity [1]	16.86 %	13.13 %	3.73%	15.11 %	1.75%
Taxable income per share[2]	$ 2.63	$ 2.45	7%	$ 1.36	93%
Yields					
Spread of corporate mortgages over term deposit interest and expenses [1]	2.80 %	2.62 %	0.18%	2.62 %	0.18%
Spread of securitized mortgages over liabilities [1]	0.70 %	0.71 %	(0.01%)	0.71 %	(0.01%)
Average term to maturity (in months)					
Mortgages - corporate	13.0	14.2	(8%)	10.7	21%
Term deposits	18.5	18.3	1%	18.4	1%
Balance Sheet Highlights					
Total assets	$ 3,808,070	$ 2,728,715	40%	$ 2,179,341	75%
Mortgages - corporate	$ 1,806,146	$ 1,252,762	44%	$ 1,089,401	66%
Mortgages - securitized	$ 1,583,697	$ 1,135,745	39%	$ 784,296	102%
Total liabilities	$ 3,374,812	$ 2,382,203	42%	$ 1,849,029	83%
Shareholders' equity	$ 433,258	$ 346,512	25%	$ 330,312	31%
Capital Ratios					
Income tax assets to capital ratio[2]	5.29	5.09	4%	4.93	7%
CET 1 & Tier 1 capital ratio [4]	20.26 %	21.67 %	(1.41%)	22.52 %	(2.26%)
Total capital ratio [4]	20.54 %	22.02 %	(1.48%)	22.52 %	(1.98%)
Leverage ratio [3]	9.41 %	10.17 %	(0.76%)	12.58 %	(3.17%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	0.05 %	0.30 %	(0.25%)	0.32 %	(0.27%)
Impaired mortgage ratio (total) [1]	0.03 %	0.18 %	(0.15%)	0.23 %	(0.20%)
Mortgage Arrears					
Corporate	$ 10,826	$ 24,288	(55%)	$ 12,161	(11%)
Securitized	4,865	5,660	(14%)	3,750	30%
Total	$ 15,691	$ 29,948	(48%)	$ 15,911	(1%)
Common Share Information (end of period)					
Number of common shares outstanding	29,621	24,727	20%	24,215	22%
Book value per common share [1]	$ 14.63	$ 14.01	4%	$ 13.64	7%
Common share price - close	$ 17.23	$ 15.77	9%	$ 17.10	1%
Market capitalization ($ million)	$ 510	$ 390	31%	$ 414	23%

[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 ratio reflects the inclusion of stage 1 and stage 2 allowances on the Company's mortgage portfolio in Tier 2 capital. In accordance with OSFI's transitional arrangements for capital treatment of ECL issued March 27, 2020, a portion of stage 1 and stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase, if any, in stage 1 and stage 2 allowances compared to the corresponding allowances at December 31, 2019. The increase, if any, is subject to a scaling factor that will decrease over time and was 70% in fiscal 2020, 50% in fiscal 2021 and is set at 25% in fiscal 2022. Prior period ratios have not been restated.

Table 2: Financial Statement Highlights - Quarter

(in thousands except per share amounts, % and where indicated)	Q4/21	Q3/21	Q2/21	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20
Income Statement Highlights								
Net investment income (loss) - corporate assets	$21,875	$18,976	$24,390	$20,205	$25,704	$26,963	$12,649	$(5,022)
Net investment income - securitization assets	$ 1,408	$ 1,443	$ 1,570	$ 1,545	$ 1,694	$ 1,149	$ 389	$ 801
Net income (loss)	$16,070	$12,990	$19,378	$15,924	$22,086	$22,741	$ 7,796	$(9,730)
Basic and diluted earnings (loss) per share	$ 0.57	$ 0.47	$ 0.73	$ 0.64	$ 0.89	$ 0.92	$ 0.32	$ (0.40)
Dividends per share - cash	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Dividends per share - stock	$ —	$ —	$ —	$ 0.85	$ —	$ —	$ —	$ —
Return on average shareholders' equity [1]	15.39 %	13.22 %	21.28 %	18.15 %	25.92 %	28.04 %	9.96 %	(11.84)%
Taxable income per share [2]	$ 0.32	$ 0.57	$ 0.89	$ 0.85	$ 1.05	$ 0.48	$ 0.21	$ 0.71
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	2.70 %	2.77 %	2.89 %	2.76 %	2.76 %	2.63 %	2.48 %	2.62 %
Spread of securitized mortgages over liabilities [1]	0.62 %	0.65 %	0.72 %	0.81 %	0.89 %	0.81 %	0.44 %	0.63 %
Average term to maturity (in months)								
Mortgages - corporate	13.0	13.9	12.8	13.7	14.2	13.5	12.3	12.2
Term deposits	18.5	19.9	19.6	17.7	18.3	19.2	18.7	17.0
Balance Sheet Highlights ($ million)								
Total assets	$ 3,808	$ 3,604	$ 3,305	$ 2,977	$ 2,729	$ 2,566	$ 2,248	$ 2,212
Mortgages - corporate	$ 1,806	$ 1,657	$ 1,401	$ 1,287	$ 1,253	$ 1,310	$ 1,119	$ 1,188
Mortgages - securitized	$ 1,584	$ 1,531	$ 1,435	$ 1,327	$ 1,136	$ 961	$ 812	$ 752
Total liabilities	$ 3,375	$ 3,210	$ 2,916	$ 2,620	$ 2,382	$ 2,233	$ 1,931	$ 1,897
Shareholders' equity	$ 433	$ 394	$ 389	$ 357	$ 347	$ 333	$ 317	$ 315
Capital Ratios								
Income tax assets to capital ratio [2]	5.29	5.50	5.05	5.05	5.09	5.44	4.95	5.03
CET 1 & Tier 1 capital ratios [4]	20.26 %	19.45 %	21.91 %	21.65 %	21.67 %	20.45 %	23.01 %	21.80 %
Total capital ratio [4]	20.54 %	19.73 %	22.24 %	22.02 %	22.02 %	20.80 %	23.40 %	22.17 %
Leverage ratio [3]	9.41 %	8.86 %	9.59 %	9.69 %	10.17 %	10.26 %	11.46 %	11.70 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	0.05 %	0.06 %	0.11 %	1.10 %	0.30 %	0.27 %	1.26 %	0.39 %
Impaired mortgage ratio (total) [1]	0.03 %	0.04 %	0.07 %	0.55 %	0.18 %	0.17 %	0.77 %	0.28 %
Mortgage Arrears								
Corporate	$10,826	$ 8,794	$ 8,968	$26,514	$24,288	$10,229	$36,083	$31,289
Securitized	4,865	3,818	7,359	4,710	5,660	3,522	4,005	5,016
Total	$15,691	$12,612	$16,327	$31,224	$29,948	$13,751	$40,088	$36,305
Common Share Information (end of period)								
Number of common shares outstanding	29,621	27,646	27,560	26,135	24,727	24,727	24,621	24,420
Book value of common share [1]	$ 14.63	$ 14.26	$ 14.13	$ 13.65	$ 14.01	$ 13.46	$ 12.88	$ 12.90
Common share price - close	$ 17.23	$ 18.00	$ 17.29	$ 16.46	$ 15.77	$ 13.41	$ 12.65	$ 12.18
Market capitalization ($ million)	$ 510	$ 498	$ 477	$ 430	$ 390	$ 332	$ 311	$ 297

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

Financial Statement Highlights - Annual Trends

For 2021 compared to 2020, our net income was positively impacted by growth in our mortgage portfolios as well as mark-to-market unrealized gains on our REIT portfolio compared to unrealized losses during 2020 and higher provisions recorded for credit losses in 2020, both as a result of the pandemic and uncertain economic environment. Our corporate and securitized assets continued to grow in 2021 compared to 2020 due to high origination volumes in all our portfolios and increases in our capital base due to two successful rights offerings.

For 2020 compared to 2019, our net income was negatively impacted by a large mark-to-market adjustment to our REIT portfolio in March 2020 and higher provisions recorded for credit losses as a result of the pandemic and uncertain economic environment. Our investment in MCAP partially offset these impacts to our 2020 income results. Our corporate and securitized assets were higher in 2020 compared to 2019 due to high origination volumes in all our portfolios.

Taxable income was much higher in 2021 and 2020 compared to 2019, mainly due to higher taxable income from MCAP. 2021 was also impacted by higher core business income. As a result of this increase in taxable income in 2021, the Board declared a $0.97 per share special stock dividend on February 22, 2022, to be paid March 31, 2022 to shareholders of record as of March 15, 2022, in order to distribute all of MCAN's taxable income, net of loss carryforwards used. In 2021, as a result of the higher 2020 taxable income, an $0.85 per share special stock dividend was paid on March 31, 2021.

Financial Statement Highlights - Quarterly Trends

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

The corporate portfolio mix during the past 8 quarters shifted towards single family mortgages amidst COVID-19 and a competitive market. Term deposit funding and related costs also increased through this period to support corporate asset growth. In Q2 2020, the combination of these factors as well as market disruption experienced in the term deposit market due to COVID-19 contributed to the decrease in the spread of corporate mortgages over term deposit interest and expenses. In late 2020, term deposit funding and related costs began to decrease through this period and we have seen an increase in the spread of corporate mortgages over term deposit interest and expenses since then. In Q4 2021, continued market competition has kept mortgage rates compressed in our single family portfolio.

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

Capital ratios have remained relatively steady across the previous quarters as our tax-adjusted and risk-weighted assets have generally aligned with our capital base. The downward trend in our leverage ratio is driven by our growing assets, including securitization assets, and commitments compared to a slower moving capital base. The Company successfully initiated two capital raises by way of rights offerings in June and December 2021. These two offerings raised $53.1 million of capital.

Total arrears and impaired ratios have varied on a quarterly basis given the nature of the 1-30 day arrears. Higher balances in Q2 2020 were due to an impaired construction mortgage where an asset recovery program was initiated and subsequently completed in Q3 2020, recovering fully all past due interest and principal. The increase in arrears in Q4 2020 and into Q1 2021 is mainly due to one construction mortgage where an asset recovery program was initiated. We recovered all past due interest and principal in Q2 2021. The circumstances of both construction mortgages were unrelated to COVID-19. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

BUSINESS OVERVIEW AND STRATEGY

MCAN's (TSX: MKP) purpose is to provide sustainable growth and returns for all our shareholders. We do this by leveraging our real estate expertise and providing our shareholders with unique access to investments in the Canadian real estate market and the returns that they generate. Our business includes real estate lending and investing, including single family residential lending, residential construction lending, non-residential construction and commercial lending, real estate investments trusts ("REITs") investing, as well as strategic private investments in (i) MCAP Commercial LP ("MCAP") (Canada's largest independent mortgage finance company) and (ii) non-marketable equity-based real estate development funds and mortgage funds. We provide a breadth of expertise in all facets of the real estate cycle that our shareholders benefit from. Our unique structure as a flow-through Mortgage Investment Corporation ("MIC") means that we are not taxed at the corporate level and we distribute all of our taxable earnings annually. It also means that 67% of our non-consolidated tax assets are to be held in residential mortgages and cash.

MCAN's wholly-owned subsidiary, XMC Mortgage Corporation ("XMC"), is the originator of our single family residential mortgage products across Canada.

MCAN's business model provides focused investing in products and markets where we have extensive expertise and that aren't generally accessible to our shareholders, to generate attractive financial returns. We employ leverage by issuing term deposits that are eligible for Canada Deposit Insurance Corporation ("CDIC") deposit insurance and are sourced through a network of independent financial agents.

Figure 2: Business Model



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

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

We have made significant strides over the last several years to grow our business and achieve our long-term objectives. Comparing the fiscal year ending December 31, 2021 to December 31, 2018, we have:

- Increased our corporate mortgage portfolio by 96% to $1.8 billion from $922.4 million;
- Increased our corporate assets by 77% to $2.2 billion from $1.2 billion;
- Increased our net income by 77% to $64.4 million from $36.3 million;
- Increased our total dividend distributions (both cash and stock) by 55% to $2.21 per share from $1.43 per share; and
- Increased our ROE[1] to 16.86% from 11.90%.

Our 2021 Strategic Priorities

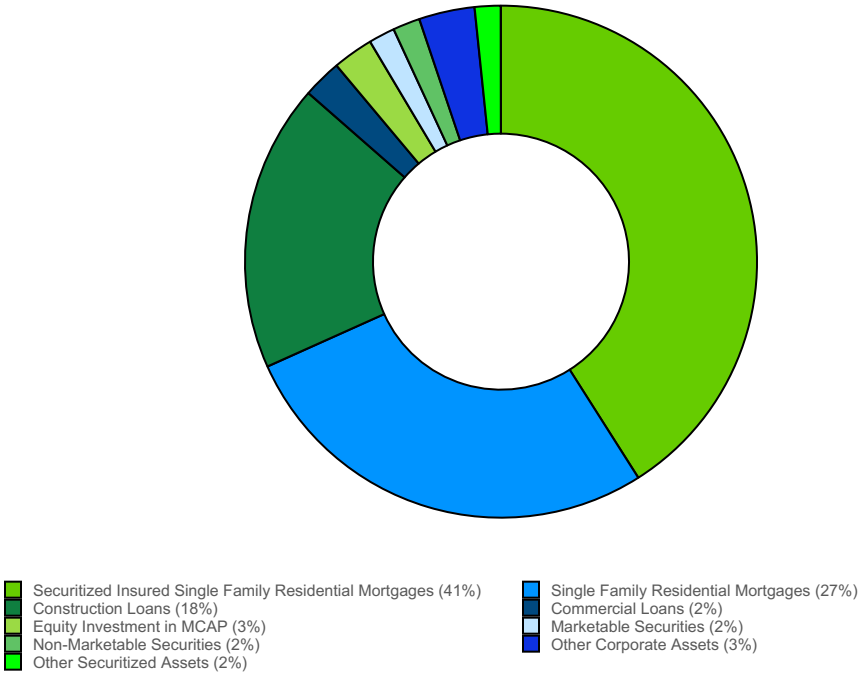
In 2021, our strategic priorities included:

Strategic Priorities	Results
Grow and diversify our portfolio of investments	• We have grown our corporate assets 39% since last year, particularly within higher yielding uninsured single family mortgages and residential construction loans. • We have added 4 new private partnership investments in our non-marketable securities portfolio and invested $14.1 million during the year to this portfolio with $19.4 million of future commitments.
Expand our funding sources and capital	• In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a $50 million senior secured mortgage warehouse facility. The facility is used to fund insured single family mortgages prior to securitization activities and it provides improved funding in response to our continued growth. • We completed two successful rights offering in June and December 2021, which raised $53.1 million of capital to fund the growth of our business. Both offerings were oversubscribed. • In August 2021, we filed a Base Shelf prospectus that will allow us to make public offerings of debt or equity securities of up to $400 million during a 25 month period. • In October 2021, the Company filed a Prospectus Supplement to the Base Shelf prospectus establishing an at-the-market equity program ("ATM Program") to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale.
Investments in technology	• All applications and infrastructure have been migrated to the cloud. • Invested in new technology applications to enhance efficiency, service and cybersecurity capabilities.
Improve customer and partner relations	• Won 2 Canadian Mortgage Professionals 5-Star Mortgage Products Awards: ◦ 5-Star Excellence in Service category winner; and ◦ Uninsured Mortgage Products category winner. • Recognized in 4 Canadian Mortgage Professionals Brokers on Lenders survey categories: ◦ Gold – Business development manager support; ◦ Silver – Broker support; ◦ Bronze – Overall top alternative lender; and ◦ Bronze - Satisfaction with credit policy.
Enhance people management and capabilities	• We became certified as a Great Place to Work®. • We were an honoree for Women Lead Here by the Report on Business Magazine for the second year in a row.

Our Investment Portfolio

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

Figure 3: Total Assets at December 31, 2021 of $3.8 billion



Single Family Residential Mortgage Lending ($2.6 billion at December 31, 2021)

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

Construction Lending ($684 million at December 31, 2021)

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

Commercial Lending ($93 million at December 31, 2021)

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

Investment in MCAP ($96 million at December 31, 2021)

We have a 13.94% equity interest in MCAP. MCAP is Canada's largest independent mortgage finance company with assets under management of $146 billion, serving many institutional investors and over 400,000 homeowners. This investment allows us to participate in the growth of MCAP and typically provides quarterly distributions on our investment which can be reinvested into other areas of our business.

Non-Marketable Securities ($65 million at December 31, 2021)

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

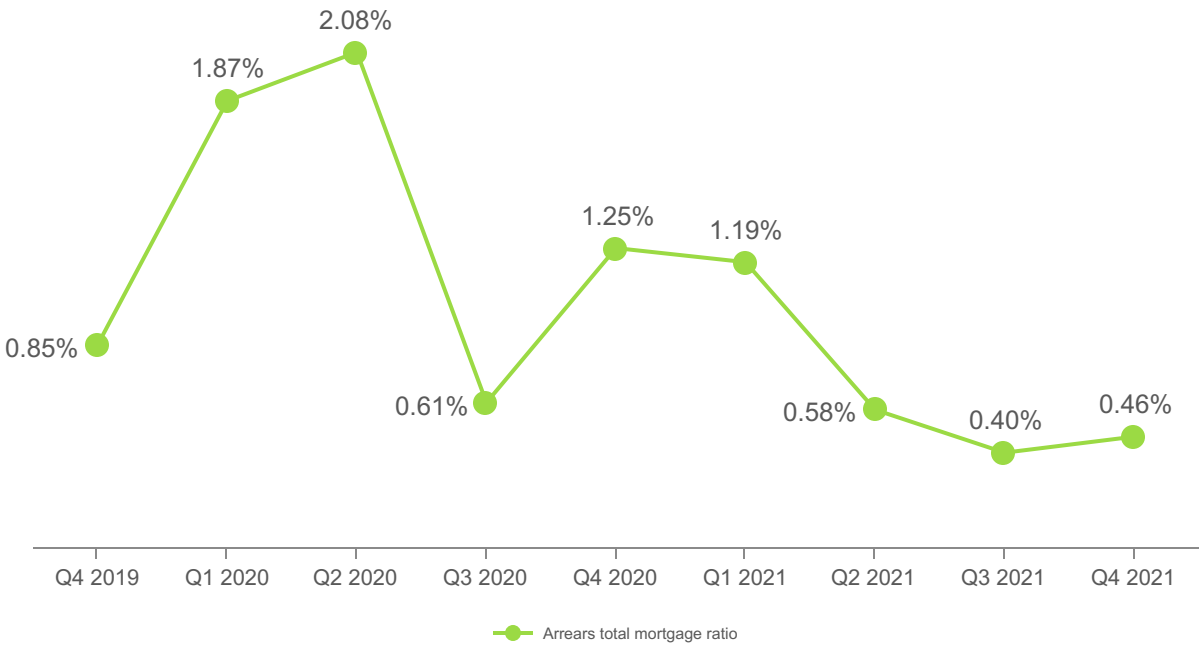
Marketable Securities ($63 million at December 31, 2021)

We have a diversified REIT portfolio held for investment income and capital appreciation. We leverage our real estate investment expertise to actively manage this portfolio, with periodic recycling of capital. This portfolio provides additional liquidity and diversification to our overall investment portfolio.

Our Loan Portfolio Quality

We have a quality loan portfolio, with minimal mortgages in arrears. The majority of single family arrears activity occurs in the 1-30 day category, in which the bulk of arrears are resolved and do not migrate to arrears categories over 30 days. We closely monitor and actively manage these arrears. We have historically had low arrears related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types.

Figure 4: Arrears Total Mortgage Ratio[1]

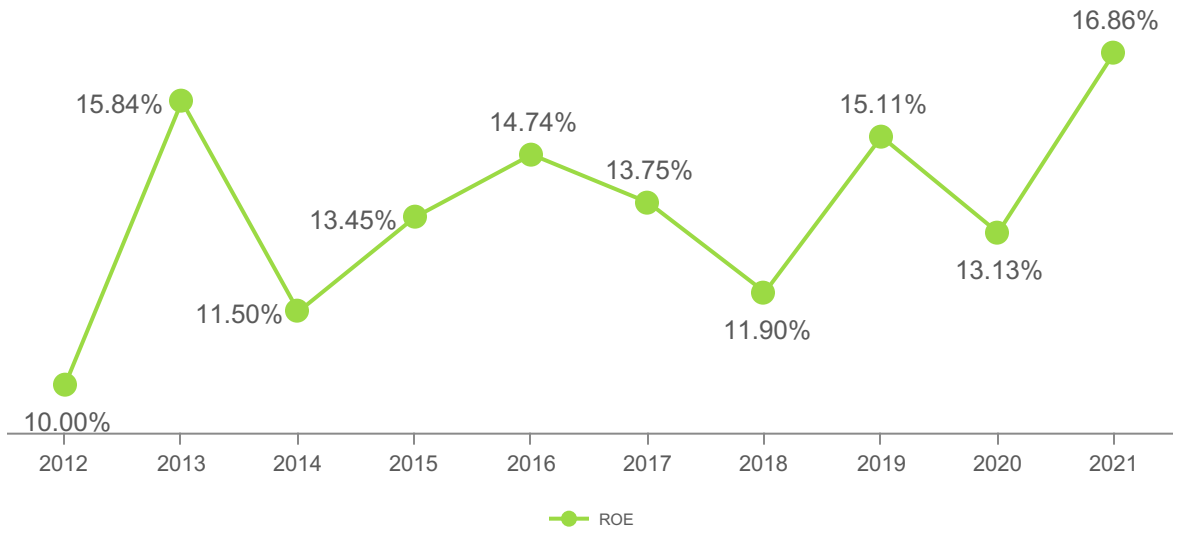


The two spikes relate to two construction loans, where asset recovery programs were initiated and successfully resulted in full recovery of past due amounts. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

Our Shareholder Returns

Return on average shareholders' equity is a key performance metric for MCAN. With our diversified investment base, we believe that we are able to generate strong returns for shareholders through various cycles of the real estate market. Total shareholder return[1] CAGR (Compound Annual Growth Rate) for 2021 (dividends plus share price appreciation) was almost 24% and for the last 5 years was 14%.

Figure 5: Historical ROE[1]

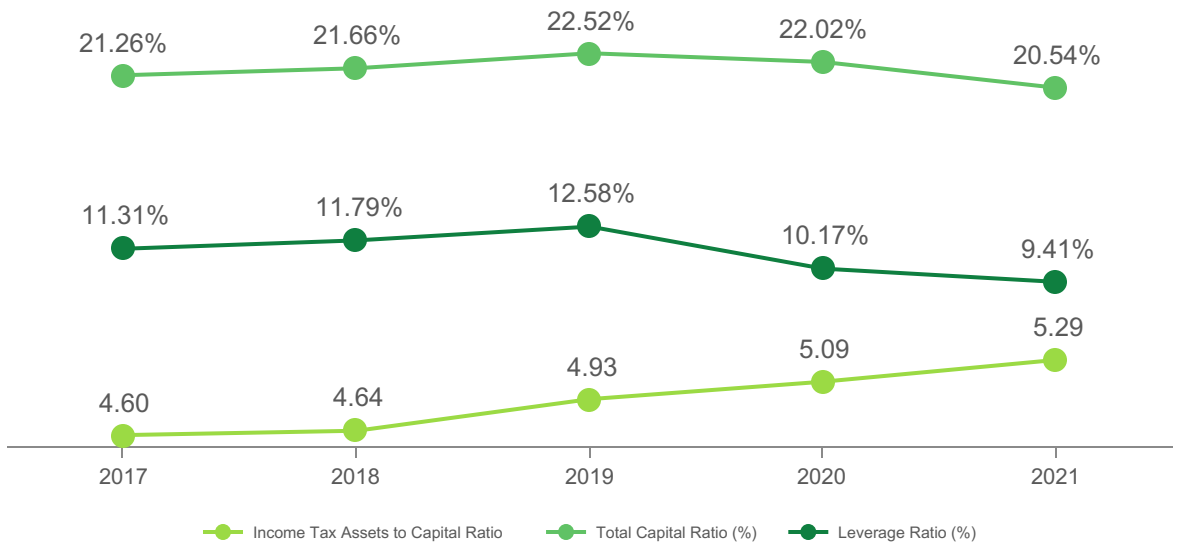


Our long-term objective is sustained 13-15% ROE. The nature of our investing activities may result in fluctuations in our ROE year to year. In the last 10 years, we have delivered an average ROE[1] of almost 14%.

Our Capital Strength

We manage our capital and asset balances based on the regulations and limits of the *Trust and Loan Companies Act* Trust and Loan Companies Act (the "Trust Act"), *Income Tax Act* (Canada) (the "Tax Act") and the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Our strong capital base over the years has allowed us to pursue our growth strategy while achieving our long-term objectives.

Figure 6: Historical Capital Ratios

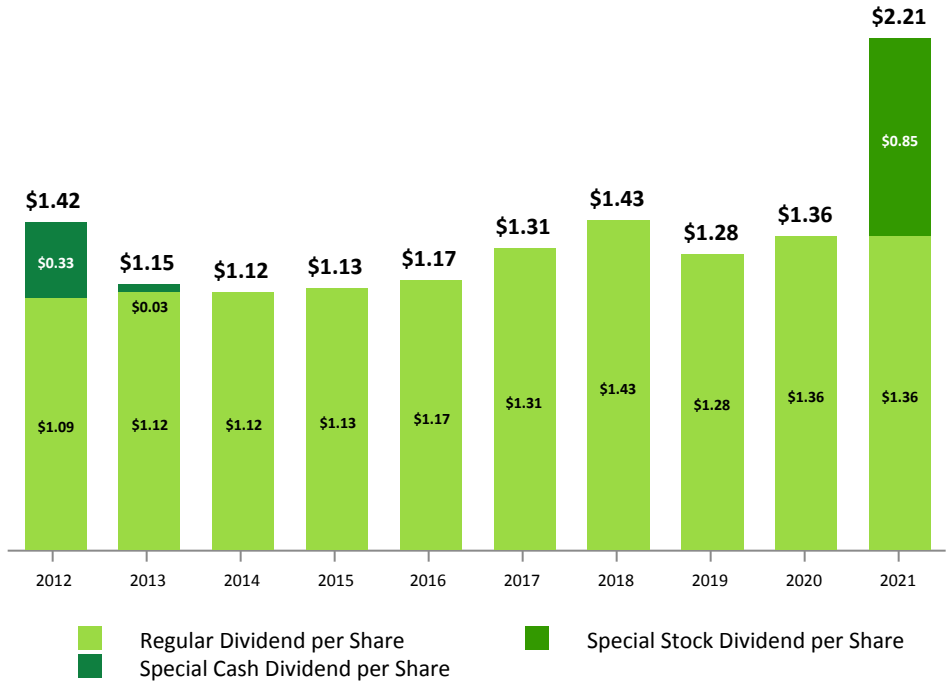


[1] Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to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

Our Dividends

Uniquely structured as a MIC, our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. Should taxable income per share exceed our regular cash dividends per share, we expect to distribute special cash or stock dividends per our dividend policy. We have been paying regular dividends for the past 29 years.

Figure 7: Dividend History



In keeping with OSFI's announced lifting of the moratorium on increasing dividends, the Board declared a first quarter regular cash dividend of $0.36 per share (an increase of nearly 6% from quarterly levels since 2020). The Board also announced a first quarter special stock dividend of $0.97 per share reflecting the true up of our regular dividends to our taxable income for 2021.

Our ESG Highlights

MCAN's values and culture are rooted in our people, and we have been committed for many years to responsible environmental, social and governance practices with a focus on:

E	Providing single family residential loans using responsible underwriting and risk management practices that deal with climate risk on our portfolio and providing capital and loans to real estate developers and investment funds who are committed to **community and climate-based responsible development**, primarily for **residential density development in urban communities close to mass transit**
S	Cultivating a **highly capable, inclusive and diverse team**, whose foundation is backed by a set of comprehensive policies and programs to support team culture, career development, and community programs
G	**Strong governance and risk culture** aligned with being a public company and a regulated financial institution focused on our stakeholders, including our shareholders, customers, business partners and team members

At the core of our ESG program is our management team and the Board, who navigate the risks and opportunities in our business within our established sustainability infrastructure framework. Our management team, along with our Board, have built a strong risk and governance framework by which we do business. We believe these practices are essential for the Company's success. Information about our risk governance structure is included in the "Risk Management" section of this MD&A.

During 2021, we continued to build on our existing ESG foundation. The capital we provide for construction lending opportunities primarily focuses on residential development projects committed to reducing our environmental footprint and working with partners who are committed to responsible corporate citizenship. We continued to invest in learning and development opportunities for our team members and our support of various local charitable organizations. We also continued to support our team members as we navigated through the challenges of the COVID-19 pandemic, including sustaining a supportive work environment, allowing for a flexible working structure, and enhancing our wellness and benefits plans.

We are proud of our ESG journey to date. Some of our key achievements in 2021 are highlighted below:

Figure 8: 2021 ESG Achievements

E	S	G
>90% Percentage of total capital committed in our construction and commercial businesses that is focused on density development	**>90%** Employee engagement score in our 2021 annual team member survey	**87%** Percentage of Board members who are independent
$15 million Amount committed for investments in funds focused on affordable housing, connected neighbourhoods, and tackling climate change, and a commitment to increasing such future investments	**$35,000** Total monetary donations to our community and monetary support to employees through the pandemic	**100%** Fully independent Audit Committee, Conduct Review, Governance and HR Committee and Enterprise Risk Management and Compliance Committee
Commitment to reduce the environmental footprint of our operations, including supporting a hybrid working model and reducing energy use in our offices	**>70%** Percentage of employees who self-identify as a visible minority	**100%** Percentage of active employees who have attested to the Code of Conduct
Focus on working with partners that are committed to responsible corporate citizenship	Recognized by the Globe and Mail's 2021 Report on Business Women Lead Here list for gender diversity for the second straight year	**100%** Director attendance at Board meetings

OUTLOOK

We have positioned ourselves with a focus on growing our business and shareholder returns. We believe that our strategy will continue to serve us well through 2022. We believe that we are a prudent and disciplined real estate lender and investor and that we have strong relationships with our brokers and strategic partners. This outlook is based on assumptions from sources we consider reliable including the big Canadian banks and industry regulators.

Economic Outlook

The end of 2021 brought the introduction of another new variant – Omicron - and the reintroduction of public health restrictions that have created some uncertainty and temporary setbacks on the road to recovery from the pandemic. That said, improved macro-economic conditions were already evident. For example, the Canadian unemployment rate fell to 5.9% in December, in line with what is considered a healthy labour market, and Canada's GDP growth grew in the last quarter of 2021. The Bank of Canada recently kept its overnight rate at 0.25%; however, inflation continues to be a concern, with the Bank of Canada forecasting inflation to average 4.2% in 2022. The Bank of Canada expects the economy to reach full capacity in the middle quarters of 2022, signaling the possibility of a rate hike as early as March or April. With macro-economic conditions improving and persisting inflation, we expect multiple forthcoming rate increases throughout 2022. We also believe that the continued easing of restrictions in 2022 will allow Canadians to spend more from the savings they have accumulated during the pandemic to help further stimulate the economy.

Housing Market Outlook

2021 was a record year for Canada's housing market, with housing resale activity surpassing the annual all-time high set in 2020, up 21%. Home prices also continued to increase significantly, underpinned by a chronic lack of supply particularly in urban markets. By the end of 2021, Canada's MLS Home Price Index was up a record 26.6% compared to the prior year. We believe that the supply-demand imbalance will continue to create an extremely tight market in 2022, which will continue providing upward pressure on home prices, particularly in and around certain markets like the Greater Toronto area, the Capital region and the Greater Vancouver area, three of our core markets. The lack of supply of housing is not easily resolved in the short-term, as there are multiple factors to consider in increasing supply (i.e. local/municipal government processes, skilled labour shortages, increased construction costs, supply chain challenges, etc.) that limit how many homes can be built in the short-term. Rising interest rates may be a catalyst for additional demand in the first half of 2022 as home buyers advance their home-buying activity and lock in current low interest rates, but may provide some relief to cool demand somewhat by the latter half of 2022. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business. It is still unclear what programs or policies may be announced or come into effect. That said, any housing affordability policies implemented will take time to have an impact on the housing market and may in the short term stoke demand further depending on whether the measures are demand focused or supply focused. Higher interest rates will add additional pressure to housing affordability in Canada's major markets.

Business Outlook

We continue to be focused on managing all our business activities in the context of the current economic, business and daily living environment in Canada and our risk appetite. Since we are a real estate lender and investor, we have a focus on the real estate market and the state of the housing market in particular. With current economic forecasts and a housing market that remains tight, we believe that our business is well structured with its focus on Canadian real estate and well positioned as we enter a rising interest rate environment. Our business will remain nimble in dealing with any market changes or opportunities that may arise in the short-term, particularly as and if we see new housing policies implemented by any levels of government. One key theme in our business over the coming year is that we will look to rebalance our portfolios and pivot to using our capital for higher-yielding products, like construction and commercial lending and in non-marketable securities including investments in real estate based development or higher yielding mortgage funds.

Single Family Business

Our risk management, credit monitoring and assessment activities continue to remain critical in operating our business. We have a portfolio with a strong credit profile and minimal levels of arrears. Originations in 2021 were 50% higher than the same period last year, hitting a new record of $1.4 billion. Based on the housing market outlook, we expect to see increased origination volumes in our single family business in 2022, although the first quarter may be somewhat muted compared to the highs of 2021. Product preferences continue to shift, and we continue to pivot by adding new products. We recently launched a variable rate mortgage product that we expect will meet the current demands of our customers. Through all of the growth that we have achieved in our single family business, we have remained dedicated to continuously improving our service for our borrowers and the broker community. Our strength in service is indicated by our 2 Canadian Mortgage Professionals 5-Star Mortgage Products awards and being recognized in 4 categories in the Canadian Mortgage Professionals Brokers on Lenders survey. We plan to continue investing in our current and new systems and business infrastructure and look to add new lending products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers. Although gross rates have come up somewhat in the last few months, we continue to believe that competitive market conditions in the single family lending space will remain, thereby causing our overall spreads to remain tight. We will continue to keep abreast of the many changes in the market and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

Construction and Commercial Business

While there continues to be some construction site delays, our construction project finance loans are progressing forward to completion and without credit issues. Certain municipal staff inspections and approvals, supply chain and building material challenges, social distancing protocols, COVID-19 illnesses and workplace safety rules have been the cause of these delays, but with further easing of restrictions, not only in Canada but globally, we expect that some of these will become less of a constraint. The cost of construction has increased due to recent volatility in the cost of building materials. All of 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 outcome of project successes or loan performance.

As previously indicated, the Canadian housing market remains strong. We increased our year to date residential construction originations by 46% compared to last year, and currently our pipeline remains active. With our expectation of continued high demand for housing and a lack of supply, we expect to continue to see strong pipelines for our construction and commercial business, which we intend to focus on. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential product, near transit corridors, with experienced borrowers where we have existing relationships.

We will continue to focus on expanding and maturing our capital markets and other funding strategies in 2022 as we grow, an area that we made several strides in during 2021. We will also continue to invest in technology for efficient and effective operations. We saw tremendous growth in 2021 in all areas of our business and we are encouraged by the strength of our portfolio and the recovery in our marketable securities. We continue to invest in real estate based development and mortgage funds, that are expected to solidly perform and set MCAN up for future growth. MCAN's management and Board are committed to proactively and effectively managing and evolving the Company's strategy, business activities and team into the future. We will always invest in our greatest asset – our people. Our targeted annual growth in corporate assets over the long term is 10%. With the growth that we see in all of our lines of business and continued review of new funding sources, we think we are well positioned to support our targeted growth within our risk appetite in 2022.

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

HIGHLIGHTS

Q4 2021

- Net income totalled $16.1 million in Q4 2021, a decrease of $6 million (27%) from $22.1 million in Q4 2020. Results for the fourth quarter of 2021 were impacted by an expected decrease in equity income from MCAP related to non-recurring new contracts in the prior year, and lower unrealized gains on our REIT portfolio, partially offset by growth in our core business compared to the fourth quarter of 2020.

- Earnings per share totalled $0.57 in Q4 2021, a decrease of $0.32 (36%) from $0.89 earnings per share in Q4 2020.

- Return on average shareholders' equity[1] was 15.39% for Q4 2021 compared to 25.92% in Q4 2020.

- Net corporate mortgage spread income[1] increased by $2.9 million from Q4 2020. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from significantly higher mortgage originations partially 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 due to a larger reduction in mortgage rates compared to term deposit rates. The decline in our mortgage rate is primarily due to continued market competition which has kept rates compressed in our single family portfolio, as well as our portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans.

- Net securitized mortgage spread income[1] increased by $0.1 million from Q4 2020. The net securitized mortgage spread income increased due to a higher average securitized mortgage portfolio balance from significantly higher originations of insured single family mortgages partially offset by a decrease in the spread of securitized mortgages over liabilities. In 2021, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly in 2021.

- Provision for credit losses on our corporate mortgage portfolio of $0.8 million in Q4 2021 was mainly due to growth in our portfolio.

- Equity income from MCAP totalled $6.2 million in Q4 2021, a decrease of $3.2 million (33%) from $9.4 million in Q4 2020, which was primarily due to (i) decreased mortgage origination and processing income as a result of lower net fees from lower mortgage spreads; and (ii) non-recurring new contracts in the prior year. This was partly offset by income from higher assets under management from growth in MCAP's portfolio.

- In Q4 2021, we recorded a $3.4 million net gain on securities compared to a $5.7 million net gain on securities in Q4 2020 as we continued to see a rebound in REIT prices amid optimism around the impending economic outlook in both periods, after an oversold market at the beginning of the pandemic. During Q4 2021, we took the opportunity to recycle capital by selling $16.6 million (Q4 2020 - $1.2 million) of REITs and realizing gains of $3.8 million (Q4 2020 - $0.3 million).

Year to Date 2021

- Net income totalled $64.4 million for 2021 year to date, an increase of $21.5 million (50%) from $42.9 million net income in 2020. Year to date 2021 results were impacted by unrealized fair value gains on our REIT portfolio compared to fair value losses at the onset of the pandemic, and growth in our core business partially offset by an expected decrease in equity income from MCAP.

- Earnings per share totalled $2.40 for 2021 year to date, an increase of $0.65 (37%) from $1.75 earnings per share in 2020.

- Return on average shareholders' equity[1] was 16.86% for 2021 compared to 13.13% in 2020.

- Net corporate mortgage spread income[1] increased by $8.3 million from 2020. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from higher mortgage originations and an increase in the spread of corporate mortgages over term deposit interest and expenses . The increase in the spread of corporate mortgages over term deposit interest and expenses is mainly due to a larger decrease in term deposit rates compared to mortgage rates during the year. At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs in 2020. The reason for the decrease in mortgage rates is the same as described above for Q4 2021.

- Net securitized mortgage spread income[1] increased by $3.5 million from 2020. The net securitized mortgage spread income increased due to a higher average securitized mortgage portfolio balance from significantly higher originations

of insured single family mortgages partly offset by a decrease in the spread of securitized mortgages over liabilities due to the same reason as described above for Q4 2021.

- Provision for credit losses on our corporate mortgage portfolio of $0.5 million year to date 2021 was due to growth in our portfolio, partly offset by improved economic forecasts as we start to make our way out of the pandemic. For year to date 2020, provision for credit losses of $2.1 million was due to the onset of COVID-19 and continued uncertainty.

- Equity income from MCAP totalled $25.5 million for 2021 year to date, a decrease of $8.5 million (25%) from $33.9 million in 2020. For 2021 year to date, the decrease is due to the same factors as for Q4 2021 mentioned above, except with partial offsets of higher interest income on securitized mortgages as a result of an increase in that portfolio and higher spreads being earned on that portfolio.

- Year to date net gain on securities was $14.8 million for 2021 compared to a year to date net loss on securities of $9.1 million for 2020. We saw a rebound in REIT prices in 2021 amid optimism around the impending economic outlook compared to an oversold market throughout most of 2020. Year to date sales and realized gains were the same as described above for Q4 2021.

Business Activity and Balance Sheet

- Corporate assets totalled $2.16 billion at December 31, 2021, a net increase of $143 million (7%) from September 30, 2021 and a net increase of $606 million (39%) from December 31, 2020.

- Corporate mortgage portfolio totalled $1.8 billion at December 31, 2021, a net increase of $149 million (9%) from September 30, 2021 and a net increase of $553 million (44%) from December 31, 2020.

- Uninsured single family portfolio totalled $783 million at December 31, 2021, a net increase of $70 million (10%) from September 30, 2021 and a net increase of $300 million (62%) from December 31, 2020.

- Uninsured single family originations totalled $575 million in 2021, an increase of $292 million (103%) from 2020. Uninsured single family originations were $159 million in the fourth quarter of 2021, an increase of $45 million (40%) from the fourth quarter of 2020.

- Insured single family originations totalled $801 million in 2021, which includes $76 million of commitments sold, an increase of $185 million (30%) from 2020. Insured single family originations were $166 million in the fourth quarter of 2021, which includes $11 million of commitments sold, a decrease of $51 million (24%) from the fourth quarter of 2020. Customer appetite for insured variable rate products increased during Q4 2021 which impacted our origination volumes; however, we introduced and we are originating an insured adjustable rate product in Q1 2022.

- Securitization volumes totalled $724 million in 2021, a decrease of $13 million (2%) from $736 million in 2020. Securitization volumes in 2021 consisted of $724 million of insured single family mortgages (2020 - $685 million) and $nil of insured multi family mortgages (2020 - $52 million). Securitization volumes were partially offset by mortgage maturities for a net increase in our securitized portfolio of 40% from 2020.

- Our construction and commercial portfolio totalled $777 million at December 31, 2021, a net increase of $37 million (5%) from September 30, 2021 and a net increase of $230 million (42%) from December 31, 2020. Our construction portfolio totalled $684 million at December 31, 2021, a net increase of $40 million (6%) from September 30, 2021 and a net increase of $198 million (41%) from December 31, 2020. In 2021, the movement in the portfolio is attributed to originations of $728 million in new construction and commercial mortgages, an increase of 46% from December 31, 2020, offset by maturities and repayments.

Dividend

- The Board declared a first quarter regular cash dividend of $0.36 per share (an increase of nearly 6% from last quarter) and a special stock dividend of $0.97 per share both to be paid March 31, 2022 to shareholders of record as of March 15, 2022. This increase to our regular dividend is reflective of OSFI's updated instruction on November 4, 2021, that all federally regulated institutions may again increase dividends. The first quarter special stock dividend represents the true up of our regular dividends to taxable income for 2021, net of loss carryforwards used. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income so that we pay no income taxes at the corporate level. At this time, the Company does not expect to have taxable income per share greater than its regular cash dividends per share for 2022.

Credit Quality

- Impaired corporate mortgage ratio[1] was 0.05% at December 31, 2021 compared to 0.06% at September 30, 2021 and 0.30% at December 31, 2020.

- Impaired total mortgage ratio[1] was 0.03% at December 31, 2021 compared to 0.04% at September 30, 2021 and 0.18% at December 31, 2020.

- Arrears total mortgage ratio[1] was 0.46% at December 31, 2021 compared to 0.40% at September 30, 2021 and 1.25% at December 31, 2020. The increase in the arrears total mortgage ratio at December 31, 2020 was primarily due to one construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal. The arrears of this construction mortgage was not related to COVID-19. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

- Net write-offs were $nil (0.0 basis point of the average corporate portfolio) in Q4 2021 compared to $32,000 (1.0 basis points) in Q4 2020; annual write-offs were $37,000 (0.3 basis points) in 2021 compared to $184,000 (1.5 basis point) in 2020. All write-offs relate to the uninsured single family mortgage portfolio.

- Average loan to value ratio ("LTV") of our uninsured single family portfolio based on an industry index of current real estate values was 60.3% at December 31, 2021 compared to 59.3% at September 30, 2021 and 60.6% at December 31, 2020.

Capital

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

- To support our continued growth and maintain our targeted capital requirements, we initiated two capital raises by way of rights offerings in June and December 2021, both of which were oversubscribed. These two offerings raised $53.1 million of capital.

- We issued $6.0 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in 2021 compared to $5.4 million in 2020. The DRIP participation rate was 16% for the 2021 fourth quarter dividend (2020 fourth quarter dividend - 17%). The DRIP participation rate for 2021 dividends was 17% (2020 - 17%).

- We issued $21.1 million in new common shares on March 31, 2021 for our 2021 first quarter special stock dividend to shareholders.

- The income tax assets to capital ratio[3] was 5.29 at December 31, 2021 compared to 5.50 at September 30, 2021 and 5.09 at December 31, 2020.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[2] were 20.26% at December 31, 2021 compared to 19.45% at September 30, 2021 and 21.67% at December 31, 2020. Total Capital to risk-weighted assets ratio[2] was 20.54% at December 31, 2021 compared to 19.73% at September 30, 2021 and 22.02% at December 31, 2020.

- The leverage ratio[2] was 9.41% at December 31, 2021 compared to 8.86% at September 30, 2021 and 10.17% at December 31, 2020.

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

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

[3] *For further information refer to the "Income Tax Capital" section of this MD&A. Tax balances are calculated in accordance with the Tax Act.*

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %)								
	Q4	Q3	Change	Q4	Change	Annual	Annual	Change
For the Periods Ended	**2021**	**2021**	**(%)**	**2020**	**(%)**	**2021**	**2020**	**(%)**
Net Investment Income - Corporate Assets								
Mortgage interest	$ 20,436	$ 19,072	7%	$ 17,115	19%	$ 71,823	$ 64,070	12%
Equity income from MCAP Commercial LP	6,246	5,606	11%	9,378	(33%)	25,453	33,918	(25%)
Non-marketable securities	1,519	1,549	(2%)	1,483	2%	5,828	5,908	(1%)
Marketable securities	837	938	(11%)	668	25%	3,502	2,430	44%
Fees	453	506	(10%)	691	(34%)	1,807	1,767	2%
Interest on cash and other income	186	93	100%	104	79%	472	611	(23%)
Net gain (loss) on securities	3,374	1,016	232%	5,702	(41%)	14,763	(9,091)	262%
Gain on dilution of investment in MCAP Commercial LP	—	—	n/a	—	n/a	326	33	888%
	33,051	**28,780**	**15%**	**35,141**	**(6%)**	**123,974**	**99,646**	**24%**
Term deposit interest and expenses	8,389	8,013	5%	7,918	6%	31,430	32,006	(2%)
Mortgage expenses	1,586	1,401	13%	1,300	22%	5,269	4,588	15%
Interest on loans payable	428	512	(16%)	199	115%	1,219	683	78%
Other financial expenses	5	—	n/a	—	n/a	130	—	n/a
Provision for (recovery of) credit losses	768	(122)	(730%)	20	3,740%	480	2,075	(77%)
	11,176	**9,804**	**14%**	**9,437**	**18%**	**38,528**	**39,352**	**(2%)**
	21,875	**18,976**	**15%**	**25,704**	**(15%)**	**85,446**	**60,294**	**42%**
Net Investment Income - Securitization Assets								
Mortgage interest	7,295	7,478	(2%)	6,461	13%	28,671	21,534	33%
Other securitization income	60	77	(22%)	112	(46%)	225	595	(62%)
	7,355	**7,555**	**(3%)**	**6,573**	**12%**	**28,896**	**22,129**	**31%**
Interest on financial liabilities from securitization	4,993	5,222	(4%)	4,232	18%	19,554	15,898	23%
Mortgage expenses	954	890	7%	637	50%	3,396	2,177	56%
Provision for (recovery of) credit losses	—	—	n/a	10	(100%)	(20)	21	(195%)
	5,947	**6,112**	**(3%)**	**4,879**	**22%**	**22,930**	**18,096**	**27%**
	1,408	**1,443**	**(2%)**	**1,694**	**(17%)**	**5,966**	**4,033**	**48%**
Operating Expenses								
Salaries and benefits	4,627	4,542	2%	4,509	3%	18,364	15,047	22%
General and administrative	2,416	1,946	24%	1,601	51%	9,083	6,631	37%
	7,043	**6,488**	**9%**	**6,110**	**15%**	**27,447**	**21,678**	**27%**
Net income before income taxes	16,240	13,931	17%	21,288	(24%)	63,965	42,649	50%
Provision for (recovery of) income taxes	170	941	(82%)	(798)	121%	(397)	(244)	(63%)
Net Income	**$ 16,070**	**$ 12,990**	**24%**	**$ 22,086**	**(27%)**	**$ 64,362**	**$ 42,893**	**50%**
Basic and diluted earnings per share	$ 0.57	$ 0.47	21%	$ 0.89	(36%)	$ 2.40	$ 1.75	37%
Dividends per share - cash	$ 0.34	$ 0.34	—%	$ 0.34	—%	$ 1.36	$ 1.36	—%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ 0.85	$ —	n/a

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	December 31, 2021			September 30, 2021			December 31, 2020		
(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]
Single family mortgages									
Insured	$ 174,793	$ 957	2.18 %	$ 175,746	$ 951	2.20 %	$ 199,861	$ 1,266	2.50 %
Uninsured	755,511	7,219	3.81 %	660,951	6,576	3.96 %	460,027	5,552	4.81 %
Uninsured - completed inventory	37,738	592	6.22 %	35,878	602	6.66 %	52,175	805	6.14 %
Construction loans									
Residential	647,685	10,351	6.17 %	616,756	9,679	6.22 %	543,869	8,682	6.35 %
Non residential	4,938	96	7.74 %	4,810	91	7.48 %	2,486	51	8.15 %
Commercial loans									
Multi family residential	74,855	965	5.11 %	59,299	740	4.94 %	24,425	327	5.32 %
Other	18,736	256	5.42 %	30,094	433	5.70 %	31,882	432	5.38 %
Mortgages - corporate portfolio	$1,714,256	$ 20,436	4.67 %	$1,583,534	$ 19,072	4.78 %	$1,314,725	$ 17,115	5.18 %
Term deposit interest and expenses	1,622,400	8,389	1.97 %	1,514,721	8,013	2.01 %	1,217,436	7,918	2.42 %
Net corporate mortgage spread income[1]		$ 12,047			$ 11,059			$ 9,197	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.70 %			2.77 %			2.76 %
Average term to maturity (months)									
Mortgages - corporate	13.0			13.9			14.2		
Term deposits	18.5			19.9			18.3		

Table 5: Net Mortgage Interest Income and Average Rate by Mortgage Portfolio - Annual

For the Years Ended December 31	2021			2020		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Single family mortgages						
Insured	$ 168,526	$ 3,757	2.24 %	$ 178,782	$ 4,975	2.78 %
Uninsured	625,517	25,376	4.08 %	418,656	20,151	4.81 %
Uninsured - completed inventory	39,824	2,581	6.48 %	42,826	2,689	6.27 %
Construction loans						
Residential	552,805	35,478	6.42 %	528,477	33,524	6.35 %
Non residential	4,570	345	7.53 %	1,235	121	9.76 %
Commercial loans						
Multi family residential	54,699	2,766	5.05 %	14,459	873	5.71 %
Other commercial	27,456	1,520	5.53 %	32,230	1,737	5.05 %
Mortgages - corporate portfolio	$ 1,473,397	$ 71,823	4.89 %	$ 1,216,665	$ 64,070	5.25 %
Term deposit interest and expenses	1,421,566	31,430	2.09 %	1,117,299	32,006	2.63 %
Net corporate mortgage spread income[1]		$ 40,393			$ 32,064	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.80 %			2.62 %

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

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2021	Q3 2021	Change (%)	Q4 2020	Change (%)	Annual 2021	Annual 2020	Change (%)
Originations								
Single family - insured [3]	$ 166,470	$ 258,150	(36%)	$ 217,780	(24%)	$ 800,502	$ 615,664	30%
Single family - uninsured	158,626	164,500	(4%)	113,358	40%	575,210	283,045	103%
Single family - uninsured completed inventory [1]	27,531	6,247	341%	8,920	209%	54,759	55,249	(1%)
Residential construction [1]	149,539	186,275	(20%)	121,676	23%	680,914	474,475	44%
Non-residential construction [1]	79	205	(61%)	1,283	(94%)	1,625	3,340	(51%)
Commercial [1]	9,000	16,200	(44%)	20,000	(55%)	45,310	20,075	126%
	$ 511,245	**$ 631,577**	**(19%)**	**$ 483,017**	**6%**	**$2,158,320**	**$1,451,848**	**49%**
Renewals of securitized mortgages [2]								
Single family - insured	$ 14,878	$ 13,876	7%	$ 25,063	(41%)	$ 36,033	$ 135,285	(73%)

[1] Construction, commercial and completed inventory originations represent all advances on loans.
[2] Represents mortgages previously derecognized or held in the securitized portfolio that have been renewed into the corporate mortgage portfolio.
[3] Includes insured single family mortgage commitments sold to MSLP that the Company originated.

Overview

The lower interest rate environment impacted both mortgages and term deposits. For Q4 2021, the decrease in the spread of corporate mortgages over term deposit interest and expenses from Q3 2021 and Q4 2020 was due to a larger decrease in mortgage rates compared to term deposit rates from our current portfolio mix of a greater proportion of lower-yield single family to higher-yield construction and commercial loans and continued market competition which kept rates compressed in the single family space. For year to date 2021, the increase in the spread of corporate mortgages over term deposit interest and expenses from year to date 2020 was due to a larger reduction in term deposit rates compared to mortgage rates. At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs in 2020.

Single Family

We continue to focus on growing our single family originations in our corporate and securitized mortgage portfolio and accordingly our total volumes in Q4 2021, Q3 2021 and year to date 2021 increased significantly from the prior year. This increase was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and an increased underwriting capacity. We will continue to invest in new technology and look to add new products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers.

In Q2 2021, we entered into an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured single family mortgage commitments. We originated and sold $11 million in commitments in Q4 2021 and $76 million year to date 2021 under this agreement.

We continue to grow our insured single family originations to allow us to securitize opportunistically through the CMHC *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program. The continued increase in insured single family originations in 2021 supported year to date single family securitization volumes of $724 million compared to $685 million year to date 2020. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Single family mortgages provide comparatively lower yields given their risk profile. For the quarter and year to date, higher average balances in the uninsured single family portfolio contributed to a higher corporate mortgage interest compared to the prior year and Q3 2021. We continue to take a prudent underwriting approach. We opportunistically invest in our single family uninsured completed inventory portfolio which often migrate from our own construction book.

Construction and Commercial

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

Some projects have experienced construction delays and cost overruns due to certain restrictions and supply chain issues as a result of COVID-19, which has led to some loan extension requests. To date, sites with the appropriate permits in place continue to progress toward completion. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets that can help mitigate these impacts.

Construction and commercial loans provide comparatively higher yields given their risk profile. Higher average balances for the quarter and year and higher average rates for the year contributed to a higher corporate mortgage interest compared to prior periods. Over the course of 2021, we have seen a higher mix of land development versus other residential construction loans contributing to the higher average rate for the year.

Mortgage Renewal Rights

Through our origination platform, we retain the renewal rights to internally originated single family mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income. At December 31, 2021, we had the renewal rights to $2.4 billion of single family mortgages (September 30, 2021 - $2.3 billion; December 31, 2020 - $1.7 billion).

Equity Income from MCAP

The $8.5 million decrease in equity income from MCAP in 2021 from 2020 was due to (i) decreased mortgage origination and processing income as a result of lower net fees from lower mortgage spreads; and (ii) non-recurring new contracts in the prior year. This was partly offset by (i) income from higher assets under management from growth in MCAP's portfolio; and (ii) higher interest income on securitized mortgages as a result of an increase in that portfolio and higher spreads being earned on that portfolio.

In Q4 2021, MCAP's origination volumes were $8.1 billion, an increase from $6.5 billion in Q4 2020. For 2021, MCAP's origination volumes were $30.9 billion, an increase from $19.3 billion in 2020. At November 30, 2021, MCAP had $146.2 billion of assets under management compared to $143.6 billion at August 31, 2021 and $111.4 billion at November 30, 2020. The increase in assets under management since last year is mainly due to the acquisition of Paradigm Quest Inc. which closed in Q3 2021.

We recognize equity income from MCAP on a one-month lag such that our 2021 equity income from MCAP is based on MCAP's net income for the year ended November 30, 2021. 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 $1.3 million in Q4 2021 (Q4 2020 - $1.2 million) and $4.9 million year to date 2021 (year to date 2020 - $4.6 million). The distribution yield[1] on this portfolio was 11.84% in Q4 2021 compared to 11.20% in Q4 2020. During 2021, the distribution yield[1] on this investment was 11.33% compared to 10.66% during 2020.

KingSett Senior Mortgage Fund LP ("KSSMF"): In Q2 2021, we invested in KSSMF and we received distribution income of $0.1 million in Q4 2021 and $0.1 million year to date 2021. The distribution yield[1] on this investment was 6.81% in Q4 2021 and 6.96% during 2021.

MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"): We received principal and interest of $2.2 million in Q4 2021 (Q4 2020 - $1.4 million) and $6.9 million year to date 2021 (year to date 2020 - $6.3 million), representing a distribution yield[1] of 8%.

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

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 5.28% in Q4 2021 compared to 5.46% in Q4 2020. During 2021, the distribution yield[1] was 5.49% compared to 6.14% during 2020. The net unrealized gain on the REIT portfolio discussed below contributed to the lower 2021 distribution yield by increasing the average portfolio balance.

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 Q4 2021, we recorded a $3.4 million net gain on securities compared to a $5.7 million net gain in Q4 2020 as we continued to see a rebound in REIT prices amid optimism around the impending economic outlook in both periods, after an oversold market at the beginning of the pandemic. During 2021, we recorded a $14.8 million net gain related to fair value gains on our REIT portfolio compared to a $9.1 million net loss in 2020. As mentioned previously, 2021 posted a significant rebound amid optimism around the impending economic recovery compared to 2020 which saw the onset of the pandemic.

During 2021, we took the opportunity to recycle capital by selling $16.6 million (2020 - $1.2 million) of REITs and realizing gains of $3.8 million (2020 - $0.3 million). We reinvested $15 million in REITs during the year.

Gain on Dilution of Investment in MCAP

In 2021, MCAP issued additional class B units to employees of MCAP which decreased our equity interest. As a result of the issuance of new units at prices in excess of the per-unit carrying value of the investment, we recorded a dilution gain of $326,000 (2020 - $33,000).

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarter compared to prior periods was due to a higher average term deposit balance partially offset by a lower average term deposit rate. The reduction in term deposit interest and expenses for year to date compared to the prior year was due to a decrease in the average term deposit rate partially offset by a higher average term deposit balance. At the start of the pandemic, term deposit rates were impacted by a temporarily higher demand for liquidity by financial institutions resulting in higher term deposit funding costs for both Q4 2020 and year to date 2020. Term deposit rates have continued to decline since then and as the higher rate term deposits mature, the average term deposit rate of the outstanding average term deposit balance has declined. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

[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 $141 million in Q4 2021 (Q4 2020 - $266 million) and $724 million year to date 2021 (year to date 2020 - $736 million), of which $nil were insured multi family loans in Q4 2021 (Q4 2020 - $17 million) and $nil year to date 2021 (year to date 2020 - $52 million) that were derecognized from the consolidated balance sheet at the time of securitization. The low interest rate environment and higher insured single family originations have generated a high volume of securitizations since the start of the pandemic. The decrease compared to the prior year was due to sales of insured single family commitments, another funding source for our insured single family business. For further information on the market MBS and CMB programs, refer to the "Financial Position" section of this MD&A.

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

For the Quarters Ended	December 31, 2021			September 30, 2021			December 31, 2020		
(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	$1,534,500	$ 7,295	1.90 %	$1,447,718	$ 7,478	2.07 %	$1,019,780	$ 6,461	2.54 %
Financial liabilities from securitization	1,554,282	4,993	1.28 %	1,468,811	5,222	1.42 %	1,030,716	4,232	1.65 %
Net securitized mortgage spread income [1]		$ 2,302			$ 2,256			$ 2,229	
Spread of securitized mortgages over liabilities [1]			0.62 %			0.65 %			0.89 %

Table 8: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Annual

For the Years Ended December 31	2021			2020		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 1,390,287	$ 28,671	2.08 %	$ 840,151	$ 21,534	2.58 %
Financial liabilities from securitization	1,406,351	19,554	1.38 %	856,413	15,898	1.87 %
Net securitized mortgage spread income [1]		$ 9,117			$ 5,636	
Spread of securitized mortgages over liabilities [1]			0.70 %			0.71 %

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

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

Provision for (Recovery of) Credit Losses

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

(in thousands except basis points and %) For the Periods Ended	Q4 2021	Q3 2021	Change (%)	Q4 2020	Change (%)	Annual 2021	Annual 2020	Change (%)
Provision for (recovery of) impaired corporate mortgages								
Single family mortgages uninsured	$ (35)	$ 22	(259%)	$ (3)	(1,067%)	$ (108)	$ 46	(335%)
	(35)	22	(259%)	(3)	(1,067%)	(108)	46	(335%)
Provision for (recovery of) performing corporate mortgages								
Single family mortgages insured	—	—	n/a	(5)	100%	(3)	(3)	—%
Single family mortgages uninsured	182	(343)	153%	776	(77%)	(57)	1,653	(103%)
Single family mortgages uninsured - completed inventory	34	(149)	123%	(25)	236%	(360)	452	(180%)
Construction loans	611	351	74%	(812)	175%	1,015	(323)	414%
Commercial loans								
Multi family residential	(18)	13	(238%)	105	(117%)	119	103	16%
Other commercial	(5)	(17)	71%	(17)	71%	(126)	142	(189%)
	804	(145)	654%	22	3,555%	588	2,024	(71%)
Other provisions (recoveries)	(1)	1	(200%)	1	(200%)	—	5	(100%)
Total corporate provision for (recovery of) credit losses	768	(122)	730%	20	3,740%	480	2,075	(77%)
Provision for (recovery of) performing securitized mortgages	—	—	n/a	10	(100%)	(20)	21	(195%)
Total provision for (recovery of) credit losses	$ 768	$ (122)	730%	$ 30	2,460%	$ 460	$ 2,096	(78%)
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 769	$ (123)	725%	$ 19	3,947%	$ 480	$ 2,070	(77%)
Net write offs	$ —	$ 36	(100%)	$ 32	(100%)	$ 37	$ 184	(80%)
Net write offs (basis points)	—	0.9	(100%)	1.0	(100%)	0.3	1.5	(80%)

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

We had a provision for credit losses on our corporate mortgage portfolio of $768,000 in Q4 2021 compared to a provision for credit losses of $20,000 in Q4 2020 and a provision for credit losses on our corporate mortgage portfolio of $480,000 year to date 2021 compared to a provision for credit losses of $2.1 million year to date 2020. The provisions are mainly due to growth in our portfolio partially offset by improved economic forecasts stemming from higher vaccination rates and reopenings compared to the onset of the pandemic in 2020. Key judgments and uncertainties include the speed and shape of economic recovery, the impact of government stimulus and the uncertainties around further variants and public health restrictions. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at December 31, 2021. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since December 31, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve given new variants and resulting public health restrictions. Any new forward-looking information subsequent to December 31, 2021, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis to detect specific significant stress or deterioration and note that certain government support programs are still in effect.

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

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) For the Periods Ended	Q4 2021	Q3 2021	Change (%)	Q4 2020	Change (%)	Annual 2021	Annual 2020	Change (%)
Salaries and benefits	$ 4,627	$ 4,542	2%	$ 4,509	3%	$ 18,364	$ 15,047	22%
General and administrative	2,416	1,946	24%	1,601	51%	9,083	6,631	37%
	$ 7,043	**$ 6,488**	**9%**	**$ 6,110**	**15%**	**$ 27,447**	**$ 21,678**	**27%**

The increase in salaries and benefits in 2021 is primarily due to additional resources to support our increased growth in single family originations, internal infrastructure and systems initiatives.

The increase in general and administrative expenses in 2021 is primarily due to higher professional fees relating to a number of initiatives including our $50 million senior secured mortgage warehouse facility and preparing and filing our Base Shelf prospectus and ATM Program.

Taxable Income

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

Table 11: Taxable Income Reconciliation

(in thousands) For the Periods Ended	Q4 2021	Q4 2020	Annual 2021	Annual 2020
Consolidated net income for accounting purposes	$ 16,070	$ 22,086	$ 64,362	$ 42,893
Adjustments to calculate taxable income:				
Reverse: Equity income from MCAP - accounting purposes	(6,246)	(9,378)	(25,453)	(33,918)
Add: MCAP taxable income	3,430	18,519	49,635	38,616
Reverse: Provision for (recovery of) credit losses [2]	799	32	596	2,047
Add: Amortization of upfront securitization program costs [3]	1,970	1,295	6,922	4,989
Deduct: Securitization program mortgage origination costs [3]	(1,047)	(5,558)	(8,870)	(16,546)
Add: Securitization program premium (discount)	(2,344)	1,334	(5,847)	5,110
Reverse: Net unrealized loss (gain) on securities [4]	(3,374)	(5,702)	(14,763)	9,091
Add: Capital gains	2,381	274	2,381	274
Reverse: Loss (Income) earned in subsidiaries [5]	(2,062)	3,596	1,986	7,982
Deduct: Gain on dilution of MCAP [6]	—	—	(326)	(33)
Other items	(81)	(723)	(294)	(411)
Taxable Income	**$ 9,496**	**$ 25,775**	**$ 70,329**	**$ 60,094**

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

The increase in taxable income in 2021 from 2020 is primarily due to higher taxable income allocation from MCAP as well as our core operations.

During 2021, we incurred $8.9 million of origination costs on securitized mortgages (including market MBS held by MCAN) (2020 - $16.5 million). These costs are deductible for income tax purposes in the period that the mortgages are securitized; however, for accounting purposes they are capitalized and amortized over the term of the mortgages. At December 31, 2021, the unamortized origination fee balance was $23.0 million (December 31, 2020 - $21.4 million), which represents costs that are still to be expensed for accounting purposes but will be added back in the calculation of taxable income in the MIC in future periods.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	December 31 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 122,269	$ 123,219	(1%)	$ 88,929	37%
Marketable securities	62,693	70,938	(12%)	49,613	26%
Mortgages	1,806,146	1,657,168	9%	1,252,762	44%
Non-marketable securities	64,946	60,201	8%	56,117	16%
Equity investment in MCAP Commercial LP	96,186	94,801	1%	88,263	9%
Deferred tax asset	891	1,061	(16%)	407	119%
Other assets	9,323	11,931	(22%)	20,218	(54%)
	2,162,454	**2,019,319**	**7%**	**1,556,309**	**39%**
Securitization Assets					
Cash held in trust	53,148	45,687	16%	29,610	79%
Mortgages	1,583,697	1,530,565	3%	1,135,745	39%
Other assets	8,771	8,690	1%	7,051	24%
	1,645,616	**1,584,942**	**4%**	**1,172,406**	**40%**
	$ 3,808,070	**$ 3,604,261**	**6%**	**$ 2,728,715**	**40%**

Our corporate asset portfolio increased year over year primarily due to strong origination volumes in both the insured and uninsured single family portfolios as well as the commercial and construction portfolio. Our securitized mortgage portfolio has also increased year over year due to the impact of new securitization issuances as a result of higher insured single family originations.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time or first move up buyers, characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas with a preference for proximity to transit. At December 31, 2021, the average outstanding construction loan balance was $8 million (September 30, 2021 - $8 million; December 31, 2020 - $7 million) with a maximum individual loan commitment of $40 million (September 30, 2021 - $40 million; December 31, 2020 - $30 million).

Securitized Mortgages

We are an NHA MBS issuer, which involves the securitization of insured mortgages to create MBS. Securitization assets consist primarily of single family insured mortgages that have been securitized through our internal market MBS program and the CHT CMB program. For further information, refer to Note 11 to the consolidated financial statements.

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

We securitized $141 million in Q4 2021 (Q4 2020 - $249 million) and $724 million year to date (year to date 2020 - $685 million) of insured single family mortgages through the market MBS program and CMB program.

We securitized $nil in Q4 2021 (Q4 2020 - $17 million) and $nil year to date 2021 (year to date 2020 - $52 million) of insured multi family mortgages through the CMB program. At the time of the insured multi family securitization, the Company derecognized the mortgages from its balance sheet and recorded a gain on the sale of the mortgages of $nil in Q4 2021 (Q4 2020 - $0.1 million) and $nil year to date 2021 (year to date 2020 - $0.2 million).

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At December 31, 2021, we held $51 million of retained MBS on our balance sheet (December 31, 2020 - $48 million), which is included in the insured single family portfolio in corporate mortgages.

Table 13: Mortgage Summary

(in thousands except %)	December 31 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Corporate portfolio					
Single family mortgages					
Insured	$ 196,595	$ 170,959	15%	$ 173,373	13%
Uninsured	783,061	713,513	10%	483,432	62%
Uninsured - completed inventory	49,431	32,475	52%	48,949	1%
Construction loans	684,298	644,519	6%	486,632	41%
Commercial loans					
Multi family residential	74,696	65,581	14%	29,839	150%
Other commercial	18,065	30,121	(40%)	30,537	(41%)
	1,806,146	**1,657,168**	**9%**	**1,252,762**	**44%**
Securitized portfolio	**1,583,697**	**1,530,565**	**3%**	**1,135,745**	**39%**
	$ 3,389,843	**$ 3,187,733**	**6%**	**$ 2,388,507**	**42%**

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. The increase in single family mortgages was a result of a buoyant housing market propelled by a very low interest rate environment and remote working, our enhanced internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and an increased underwriting capacity. We continued to focus on originations in our construction and commercial portfolio in selected markets, with our preferred borrowers and risk profile. We have seen an increase in originations in 2021 compared to 2020. Our securitized mortgage portfolio has increased due to the impact of new securitization issuances fuelled by higher insured single family originations.

Figure 9: Total Corporate and Securitized Mortgage Portfolio (in thousands)

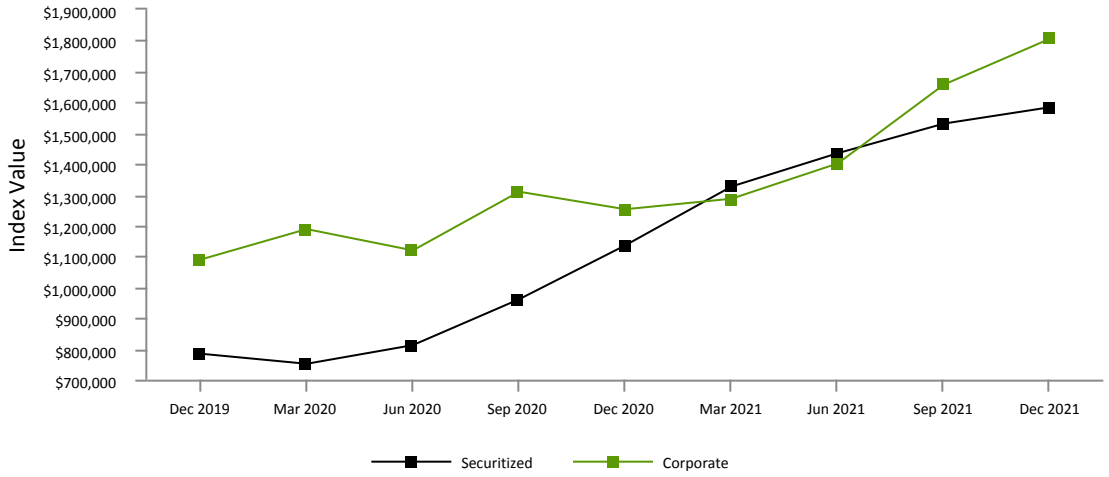
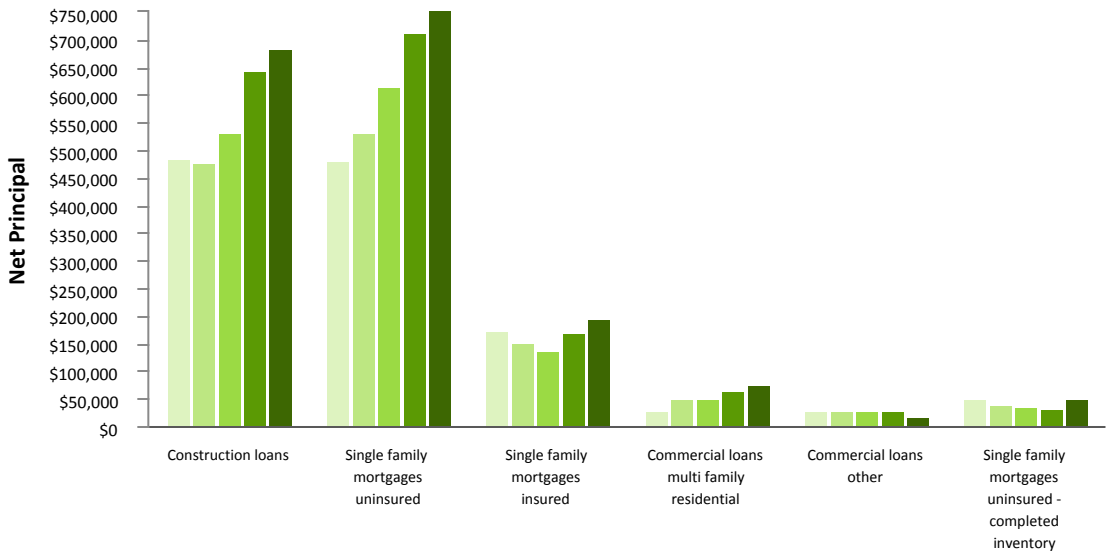


Figure 10: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
Dec 31, 2020	$486,632 (39%)	$483,432 (39%)	$173,373 (14%)	$29,839 (2%)	$30,537 (2%)	$48,949 (4%)
Mar 31, 2021	$479,545 (37%)	$533,148 (42%)	$152,858 (12%)	$49,116 (4%)	$30,594 (2%)	$41,629 (3%)
Jun 30, 2021	$532,476 (38%)	$616,838 (44%)	$138,026 (10%)	$49,303 (4%)	$30,115 (2%)	$34,532 (2%)
Sep 30, 2021	$644,519 (39%)	$713,513 (43%)	$170,959 (10%)	$65,581 (4%)	$30,121 (2%)	$32,475 (2%)
Dec 31, 2021	$684,298 (38%)	$783,061 (43%)	$196,595 (11%)	$74,696 (4%)	$18,065 (1%)	$49,431 (3%)

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

Table 14: Mortgage Portfolio Geographic Distribution

	December 31, 2021		September 30, 2021		December 31, 2020	
	Corporate	Securitized	Corporate	Securitized	Corporate	Securitized
Ontario	62.2 %	86.6 %	62.1 %	86.6 %	67.5 %	84.3 %
British Columbia	27.8 %	3.4 %	28.2 %	3.5 %	23.2 %	3.2 %
Alberta	7.6 %	7.1 %	8.1 %	7.0 %	7.5 %	8.4 %
Atlantic Provinces	0.4 %	1.5 %	0.5 %	1.6 %	0.7 %	2.2 %
Quebec	1.7 %	0.7 %	0.7 %	0.7 %	0.6 %	1.0 %
Other	0.3 %	0.7 %	0.4 %	0.6 %	0.5 %	0.9 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 15: Arrears and Impaired Mortgages

(in thousands except %)	December 31 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 790	$ 600	32%	$ 1,266	(38%)
Single family mortgages - uninsured	163	391	(58%)	2,505	(93%)
	953	991	(4%)	3,771	(75%)
Securitized	—	365	(100%)	472	(100%)
Total impaired mortgages	$ 953	$ 1,356	(30%)	$ 4,243	(78%)
Impaired corporate mortgage ratio [1]	0.05 %	0.06 %	(0.01%)	0.30 %	(0.25%)
Impaired total mortgage ratio [1]	0.03 %	0.04 %	(0.01%)	0.18 %	(0.15%)
Mortgage arrears					
Corporate					
Single family mortgages - insured	$ 849	$ 689	23%	$ 1,948	(56%)
Single family mortgages - uninsured	9,977	8,105	23%	10,540	(5%)
Construction loans	—	—	n/a	11,800	(100%)
Total corporate mortgage arrears	10,826	8,794	23%	24,288	(55%)
Total securitized mortgage arrears	4,865	3,818	27%	5,660	(14%)
Total mortgage arrears	$ 15,691	$ 12,612	24%	$ 29,948	(48%)
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 7,680	$ 5,003	54%	$ 8,054	(5%)
Single family mortgages - uninsured	99,090	79,614	24%	68,517	45%
Single family mortgages - uninsured - completed inventory	3,449	—	n/a	13,290	(74%)
Construction loans	17,570	7,840	124%	20,235	(13%)
Commercial loans - multi-family residential	27,346	27,303	—%	—	n/a
Commercial - other	16,794	16,809	—%	17,200	(2%)
	171,929	136,569	26%	127,296	35%
Stage 3					
Single family mortgages - insured	790	600	32%	1,266	(38%)
Single family mortgages - uninsured	163	391	(58%)	2,505	(93%)
	953	991	(4%)	3,771	(75%)
Total stage 2 and 3 corporate mortgages	$ 172,882	$ 137,560	26%	$ 131,067	32%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,634	$ 5,830	14%	$ 6,047	10%
Allowance on impaired mortgages	13	48	(73%)	157	(92%)
	6,647	5,878	13%	6,204	7%
Securitized - allowance on performing mortgages	5	4	25%	25	(80%)
Total allowance for credit losses	$ 6,652	$ 5,882	13%	$ 6,229	7%

[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.*

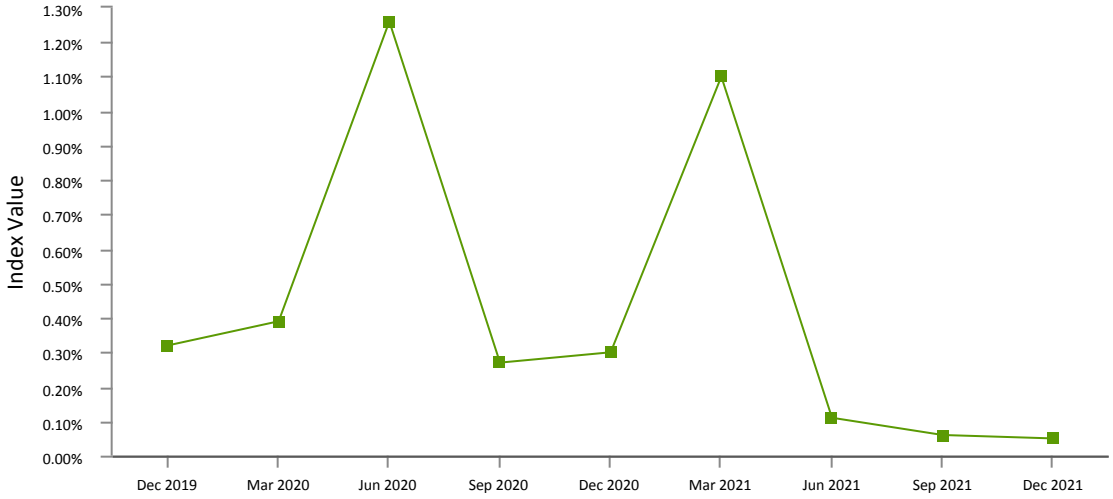
Arrears and Impaired Mortgage Summary

During the year, we had one impaired construction loan where an asset recovery program was initiated. We collected all past due interest and principal in Q2 2021.

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

In the event of a protracted economic downturn due to COVID-19, 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. This could also result in an increase in our allowance for credit losses. An economic downturn could include, for example, changes to unemployment rates, income levels and consumer confidence and spending not fully compensated for by government stimulus measures which we would expect would increase single family defaults and arrears. MCAN utilizes a number of risk assessment and mitigation strategies to lessen the potential impact for loss on single family mortgages; however, traditional actions may not be available or effective.

Figure 11: Impaired Corporate Mortgage Ratio[1]



The impaired corporate mortgage ratio, as presented above, reflects impaired (stage 3) mortgages under IFRS 9 as a percentage of the total corporate portfolio. At June 30, 2020, we had one impaired construction mortgage where an asset recovery program was initiated and we received full recovery of past due interest and principal in Q3 2020. At March 31, 2021, we also had one impaired construction mortgage where an asset recovery program was initiated and we recovered all past due interest and principal in Q2 2021. The impairment of both construction mortgages was not related to COVID-19. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

For further information regarding corporate mortgages by risk rating, refer to Note 7 to the 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 single family mortgage portfolio by insurance status and province, as well as amortization periods and LTV by province. LTV is calculated as the ratio of the outstanding loan balance on an amortized cost basis to the value of the underlying collateral at the time of origination.

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

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

Table 16: Single Family Mortgages by Province at December 31, 2021

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 149,190	75.9 %	$ 709,435	85.2 %	$ 104	83.2 %	$1,372,801	86.6 %	$ 2,231,530	85.4 %
Alberta	31,394	16.0 %	41,663	5.0 %	21	16.8 %	112,500	7.1 %	185,578	7.1 %
British Columbia	6,331	3.2 %	50,919	6.1 %	—	— %	54,371	3.4 %	111,621	4.3 %
Quebec	3,638	1.9 %	22,445	2.7 %	—	— %	10,347	0.7 %	36,430	1.4 %
Atlantic Provinces	5,060	2.6 %	3,047	0.4 %	—	— %	23,244	1.5 %	31,351	1.2 %
Other	857	0.4 %	4,983	0.6 %	—	— %	10,434	0.7 %	16,274	0.6 %
Total	**$ 196,470**	**100.0 %**	**$ 832,492**	**100.0 %**	**$ 125**	**100.0 %**	**$1,583,697**	**100.0 %**	**$ 2,612,784**	**100.0 %**

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

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

Table 18: Single Family Mortgages by Amortization Period at December 31, 2021

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 137,700	$ 211,080	$ 475,910	$ 204,397	$ 1,029,087
	13.4 %	20.5 %	46.2 %	19.9 %	100.0 %
Securitized	$ 302,388	$ 1,268,238	$ 13,071	$ —	$ 1,583,697
	19.1 %	80.1 %	0.8 %	— %	100.0 %
Total	**$ 440,088**	**$ 1,479,318**	**$ 488,981**	**$ 204,397**	**$ 2,612,784**
	16.8 %	**56.7 %**	**18.7 %**	**7.8 %**	**100.0 %**

Table 19: Single Family Mortgages by Amortization Period at December 31, 2020

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

Table 20: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) For the Periods Ended	Q4 2021	Average LTV	Q4 2020	Average LTV	Annual 2021	Average LTV	Annual 2020	Average LTV
Ontario	$147,256	66.9%	$105,758	72.1%	$545,934	69.3%	$276,340	70.8%
Alberta	8,499	70.0%	9,120	63.4%	34,447	70.2%	29,708	60.7%
British Columbia	9,765	67.9%	7,400	72.8%	28,297	68.9%	32,136	74.5%
Quebec	20,377	52.8%	—	—%	20,377	52.8%	—	—%
Other	260	73.2%	—	—%	914	75.2%	110	61.8%
	$186,157	**65.6%**	**$122,278**	**71.5%**	**$629,969**	**68.8%**	**$338,294**	**70.7%**

Table 21: Average Mortgage Loan to Value (LTV) Ratios at Origination

	December 31 2021	December 31 2020
Corporate portfolio		
Single family mortgages		
Insured	72.4 %	78.5 %
Uninsured[1]	66.8 %	68.6 %
Uninsured - completed inventory	57.1 %	62.3 %
Construction loans		
Residential	64.2 %	59.0 %
Non-residential	64.7 %	64.7 %
Commercial loans		
Multi family residential	72.3 %	74.0 %
Other commercial	63.6 %	53.7 %
	66.3 %	65.7 %
Securitized portfolio	81.9 %	82.1 %
	73.5 %	73.5 %

[1] *MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 66.2% at December 31, 2021 (December 31, 2020 - 68.0%). Based on an industry index that incorporates current real estate values, the ratios would be 60.3% at December 31, 2021 (December 31, 2020 - 60.6%).*

Other Corporate Assets

Cash and Cash Equivalents

At December 31, 2021, our cash balance was $122 million (September 30, 2021 - $123 million; December 31, 2020 - $89 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. In times of

uncertainty, we ensure that we take a prudent approach to liquidity management which may result in holding additional liquidity. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term 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.

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 December 31, 2021, the portfolio balance was $63 million (September 30, 2021 - $71 million; December 31, 2020 - $50 million). During 2021, we purchased $15 million and sold $17 million of REITs realizing $4 million of fair value gains and we had $15 million of unrealized fair value gains.

Non-Marketable Securities

At December 31, 2021, our non-marketable securities balance was $65 million (September 30, 2021 - $60 million; December 31, 2020 - $56 million). We are seeking further investments and expect to grow this component of our balance sheet over the mid to long term. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF, in which we have a 6.2% equity interest at December 31, 2021 (September 30, 2021 - 6.5%; December 31, 2020 - 6.8%). At December 31, 2021, the carrying value of our investment was $45 million (September 30, 2021 - $44 million; December 31, 2020 - $44 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At December 31, 2021, our total remaining commitment to the KSHYF was $22 million, consisting of $0.3 million of capital advances for the KSHYF and $22 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested $18 million in Class A Securitization Notes. At December 31, 2021, the carrying value of the Securitization Notes was $6 million (September 30, 2021 - $9 million; December 31, 2020 - $13 million) which reflects scheduled principal repayments. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022.

KSSMF: During 2021, we invested $4 million in KSSMF representing a 0.9% partnership interest, with an additional $11 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 (“TAS”): During 2021, we invested $5 million in TAS representing a 9.7% partnership interest, with an additional $5 million remaining commitment. TAS invests in, and develops, residential and mixed use properties.

TAS LP 3 Co-Invest LP (“TAS Co”): During 2021, we invested $3 million in TAS Co representing a 34.8% partnership interest, with an additional $2 million remaining commitment. TAS Co has a 24% interest in its underlying investments of urban residential and mixed use properties that are being developed under repositioning plans.

Pearl Group Growth Fund LP (“Pearl”): During 2021, the Company invested $2 million in Pearl representing a 6.9% partnership interest, with an additional $1 million remaining commitment. Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial properties in the Greater Toronto area.

Equity Investment in MCAP

MCAP is Canada’s largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.94% equity interest in MCAP (September 30, 2021 - 13.94%; December 31, 2020 - 14.03%), which represents 4.0 million units held by MCAN at December 31, 2021 (September 30, 2021 - 4.0 million; December 31, 2020 - 4.0 million) of the 28.7 million total outstanding MCAP partnership units (September 30, 2021 - 28.7 million; December 31, 2020 - 28.5 million).

The investment had a net book value of $96 million at December 31, 2021 (September 30, 2021 - $95 million; December 31, 2020 - $88 million). The Limited Partner’s At-Risk Amount (“LP ARA”), which represents the cost base of the equity investment in MCAP for income tax purposes in accordance with the Tax Act, was estimated to be $89 million at December 31, 2021 (September 30, 2021 - $91 million; December 31, 2020 - $60 million). The difference between the net book value and the LP ARA reflects an unrealized gain that, if realized, would be recognized as a capital gain.

During Q4 2021, we received $4.9 million of unitholder distributions from MCAP (Q4 2020 - $10.3 million). For year to date 2021, we have received $17.9 million of unitholder distributions from MCAP (year to date 2020 - $15.5 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.

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 %)	December 31 2021	September 30 2021	Change (%)	December 31 2020	Change (%)
Corporate Liabilities					
Term deposits	$ 1,660,992	$ 1,606,785	3%	$ 1,234,769	35%
Loans payable	57,340	52,800	9%	—	n/a
Other loan payable to MSLP	41,205	—	n/a	—	n/a
Other liabilities	21,134	10,914	94%	4,825	338%
	1,780,671	**1,670,499**	**7%**	**1,239,594**	**44%**
Securitization Liabilities					
Financial liabilities from securitization	1,594,141	1,539,443	4%	1,142,609	40%
	1,594,141	**1,539,443**	**4%**	**1,142,609**	**40%**
	3,374,812	**3,209,942**	**5%**	**2,382,203**	**42%**
Shareholders' Equity					
Share capital	315,339	282,396	12%	234,635	34%
Contributed surplus	510	510	—%	510	—%
Retained earnings	117,409	111,413	5%	111,367	5%
	433,258	**394,319**	**10%**	**346,512**	**25%**
	$ 3,808,070	**$ 3,604,261**	**6%**	**$ 2,728,715**	**40%**

Term Deposits

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

Other loan payable to MSLP

On November 3, 2021, we obtained a loan with reference to the fair value of a pool of insured single family mortgages from MSLP. At December 31, 2021, $41.2 million represents the carrying value of the loan payable. On January 27, 2022, the Company settled the loan with MSLP at the same referenced fair value price of the same pool of insured single family mortgages and paid interest of $0.1 million on the loan.

Financial Liabilities from Securitization

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

Share Capital

Share capital activity for 2021 reflects new common shares issued through the DRIP, Executive Share Purchase Plan, special stock dividend and two rights offerings net of their related costs. For further information, refer to the "Description of Capital Structure" section of this MD&A and Note 17 to the consolidated financial statements.

Retained Earnings

Retained earnings activity for 2021 consists of net income of $64.4 million (2020 - $42.9 million) less dividends of $58.3 million (2020 - $33.3 million).

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)

	December 31 2021	December 31 2020
Income tax assets		
Consolidated assets	$ 3,808,070	$ 2,728,715
Adjustment for assets in subsidiaries	(69,227)	16,117
Non-consolidated assets in MIC entity	3,738,843	2,744,832
Add: corporate mortgage allowances	6,626	6,061
Less: securitization assets [1]	(1,618,866)	(1,160,073)
Adjustments to equity investments in MCAP and subsidiaries	(32,278)	(55,581)
Other adjustments	(9,452)	2,013
	$ 2,084,873	$ 1,537,252
Income tax liabilities		
Consolidated liabilities	$ 3,374,812	$ 2,382,203
Adjustment for liabilities in subsidiaries	(91,799)	(6,183)
Non-consolidated liabilities in MIC entity	3,283,013	2,376,020
Less: securitization liabilities [1]	(1,592,457)	(1,140,991)
	$ 1,690,556	$ 1,235,029
Income tax capital	$ 394,317	$ 302,223
Income tax capital ratios		
Income tax assets to capital ratio	5.29	5.09
Income tax liabilities to capital ratio	4.29	4.09

[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, a portion of which is allowed to be included in CET 1 under OSFI transitional arrangements issued March 27, 2020. Total Capital equals CET 1 or Tier 1 capital plus Tier 2 capital. OSFI expects all federally regulated financial institutions to meet the minimum capital to risk-weighted asset ratios of 7% CET 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital.

At December 31, 2021, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 24: Regulatory Capital [3]

(in thousands except %)

	December 31 2021	December 31 2020
OSFI Regulatory Ratios		
Share capital	$ 315,339	$ 234,635
Contributed surplus	510	510
Retained earnings	117,409	111,367
Deduction from equity investment in MCAP [1]	(52,734)	(53,475)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	1,258	1,364
Common Equity Tier 1 and Tier 1 Capital (A)	381,782	294,401
Tier 2 Capital	5,381	4,707
Total Capital (D)	$ 387,163	$ 299,108
Total Exposure/Regulatory Assets		
Consolidated assets	$ 3,808,070	$ 2,728,715
Less: deduction for equity investment in MCAP [1]	(52,734)	(53,475)
Other adjustments [2]	1,760	3,018
Total On-Balance Sheet Exposures	3,757,096	2,678,258
Mortgage and investment funding commitments (50%)	279,255	197,069
Letters of credit (50%)	22,782	19,552
Total Off-Balance Sheet Items	302,037	216,621
Total Exposure/Regulatory Assets (B)	$ 4,059,133	$ 2,894,879
Leverage ratio (A / B)	9.41 %	10.17 %
Risk-weighted assets (C)	$ 1,884,523	$ 1,358,261
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	20.26 %	21.67 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	20.26 %	21.67 %
Total capital to risk-weighted assets ratio **(D / C)**	20.54 %	22.02 %

[1] The deduction for the equity investment in MCAP is equal to the equity investment balance less 10% of shareholders' equity and eligible stage 1 and stage 2 mortgage allowances.

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

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

Table 25: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	December 31, 2021			December 31, 2020		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 122,269	20 %	$ 24,806	$ 88,929	21 %	$ 18,389
Cash held in trust	53,148	20 %	10,629	29,610	20 %	5,922
Marketable securities	62,693	100 %	62,693	49,613	100 %	49,613
Mortgages - corporate	1,806,146	62 %	1,111,356	1,252,762	62 %	775,093
Mortgages - securitized	1,583,697	6 %	89,723	1,135,745	5 %	59,146
Non-marketable securities	64,946	188 %	122,002	56,117	173 %	97,020
Equity investment in MCAP Commercial LP	96,186	45 %	43,452	88,263	39 %	34,788
Deferred tax asset	891	100 %	891	407	100 %	407
Other assets	18,094	100 %	18,096	27,269	100 %	27,269
			1,483,648			1,067,647
Off-Balance Sheet Items						
Letters of credit	45,564	50 %	22,782	39,105	50 %	19,553
Commitments	558,511	44 %	244,168	394,139	38 %	151,598
			266,950			171,151
Charge for operational risk [2]			133,925			119,463
Risk-Weighted Assets			**$ 1,884,523**			**$ 1,358,261**

[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.

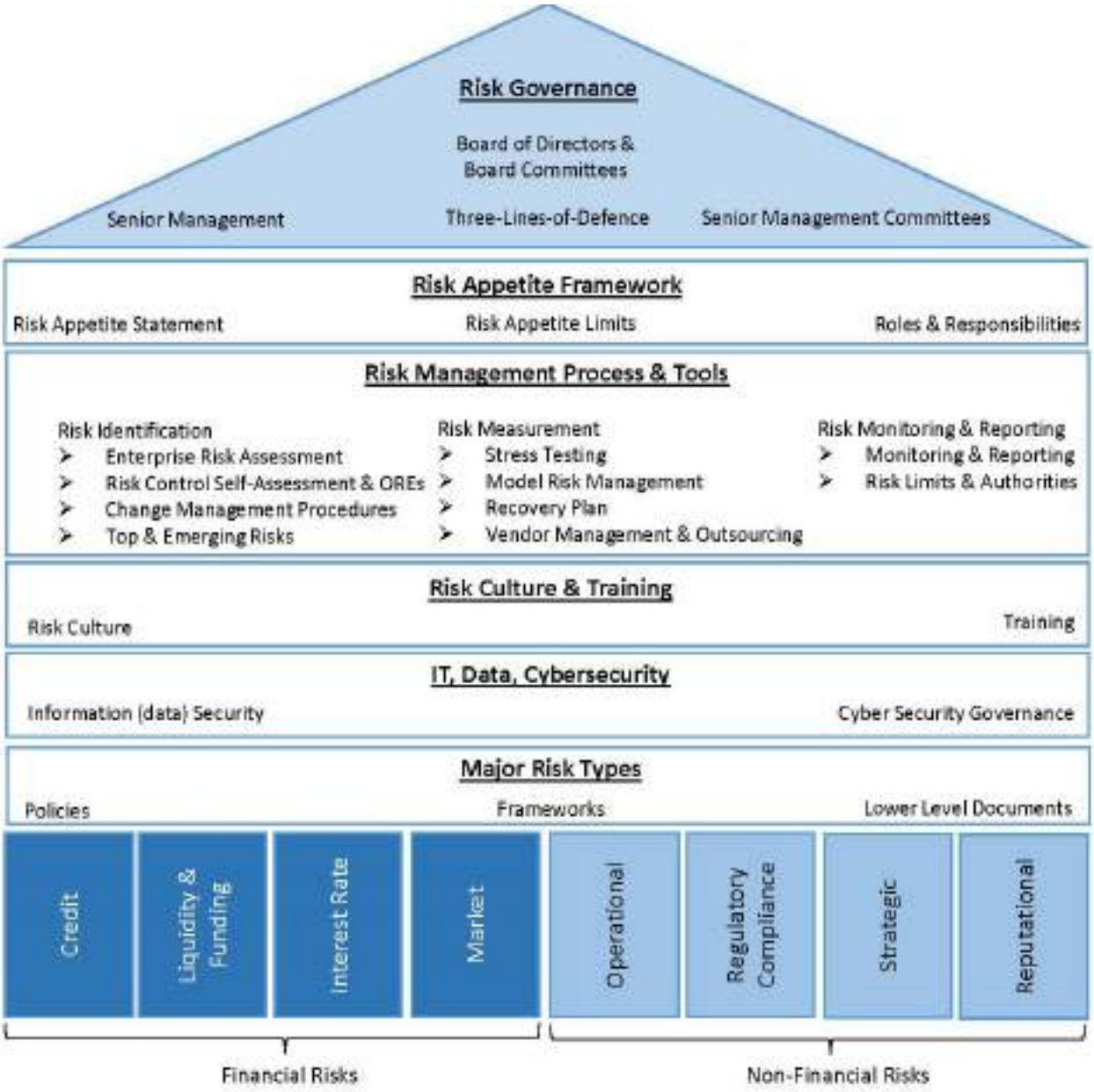
Other Capital Management Activity

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

Figure 12: Roles and Accountabilities

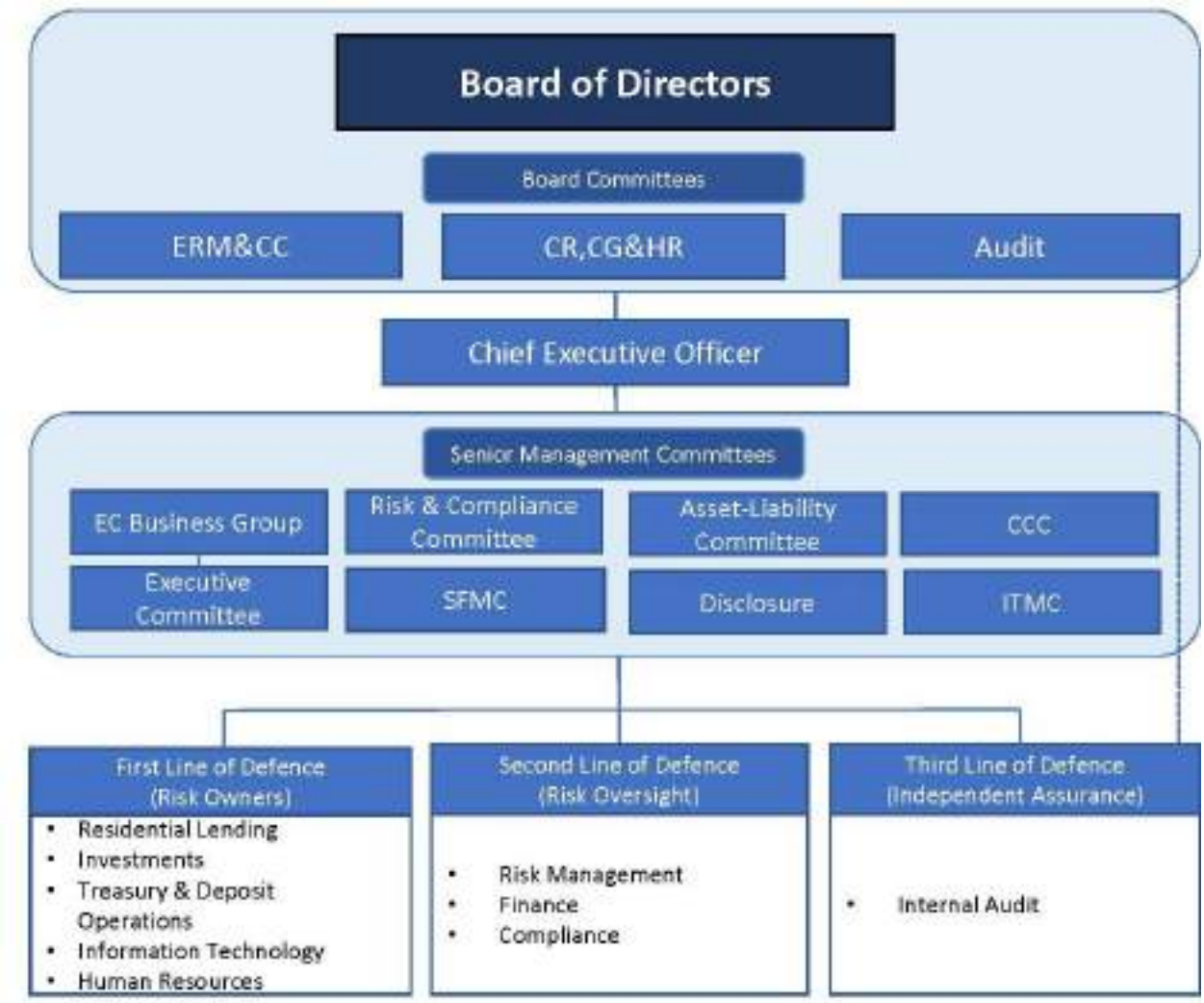


Risk Governance

The Board oversees the design and implementation of our ERMF, while employees at all levels of the organization are accountable for managing day-to-day risks. The Board is supported by Board committees, senior management committees and an experienced senior management team.

MCAN's Risk Governance structure is illustrated in the following diagram:

Figure 13: Risk Governance Structure



SFMC: Single-Family Management Committee; CCC: Capital Commitments Committee; ITMC: IT Management Committee

The Board oversees the Company's strategic direction, the implementation of an effective risk management culture and the internal control framework across the Company, both directly and indirectly, through its committees pursuant to a written mandate. The Board is responsible for overseeing the identification, measurement, monitoring and reporting of the major risks types affecting the business, and satisfying itself that management has implemented appropriate policies, procedures and practices to manage risks adequately and effectively.

The Enterprise Risk Management and Compliance Committee ("ERM&CC") is accountable for overseeing the management of the risk profile and the implementation of an effective risk management culture throughout the organization. The ERM&CC is accountable for reviewing and recommending the risk appetite framework ("RAF") for approval by the Board annually, regularly reviewing the risk profile against the Board-approved risk appetite, satisfying itself that policies are in place and operating effectively to manage the major risk types to which the Company is exposed, providing a forum for analysis of an enterprise view of risk including trends and emerging risks, regularly assessing the Company's capacity to withstand potential adverse events and ensuring management allocates appropriate resources to risk management.

The Audit Committee is accountable for the oversight of financial reporting and the information technology function, the adequacy and effectiveness of internal controls and the performance of the finance, internal audit and information technology functions.

The Conduct Review, Corporate Governance and Human Resources Committee ("CR,CG&HR") is accountable for the oversight of corporate governance and conduct, including potential conflicts of interest, policies, practices and processes, Board and management succession, development and compensation, and the effectiveness of the Board and its committees.

The Board is supported by management level committees, including but not limited to:

- The Executive Committee: ensures the orderly flow of business, provides governance over business activities, and oversees strategic, emerging and reputational risk.
- Executive Committee Business Group: provides oversight of key strategic activities with the primary focus on the market, business development and alignment with the strategy and annual plan.
- Risk and Compliance Committee ("RCC"): provides a forum for enterprise-wide risk management and compliance oversight and facilitates objective and independent challenge over risk taking activities. The Committee provides oversight of the Company's risk profile, risk mitigation strategies, and reviews business activities in relation to the established risk appetite framework.
- Asset-Liability Committee ("ALCO"): provides a forum for oversight and management of assets and liabilities of the Company in the context of balance sheet structure and size. The Committee serves as an important component of liquidity and interest rate risk management by providing strategic direction of these risk types.
- Capital Commitments Committee ("CCC"): mandated to govern, evaluate and approve the construction & commercial lending activities and investments in marketable & non-marketable securities.

Three-Lines-of-Defence

The Three-Lines-of-Defence model is employed to provide clarity with respect to the risk management structure and assigns roles and accountabilities to enhance effective risk management and control.

First Line (Business Units):
- Accountable for known and emerging risks and is accountable for planning, directing and controlling the day-to-day operations of their respective business unit and establishing appropriate internal controls for managing risk.
- Accountable for identifying, measuring, monitoring, and reporting risks within established risk appetite, regulatory guidelines and relevant policies and frameworks.
- Accountable for escalating risk issues and promoting a strong risk culture within their respective business unit.

Second Line (Oversight Functions):
- Provides independent objective oversight of the First Line of Defence through monitoring and challenge.
- Accountable for objectively identifying, measuring, monitoring and reporting known and emerging risks on an enterprise-wide basis and escalating risk issues in a timely manner to the Board and/or senior management.
- Identifies and assesses relevant regulatory changes and develops and implements risk measurement tools.
- Promotes a strong risk culture and establishes effective training material.
- Monitors and reports on compliance with the RAF and ensures compliance with the ERMF and related policies and procedures.

  These activities are overseen by:

  - The Risk function, under the leadership of the Chief Risk Officer ("CRO"), provides independent oversight, governance and objective challenge with respect to identifying, measuring, monitoring and reporting on enterprise-wide risks. The CRO has accountability for maintaining and managing the RAF, which includes reporting on significant business risks and for fostering a strong risk culture throughout the Company.

  - The Chief Compliance Officer, Chief Anti Money Laundering Officer & Privacy Officer is accountable for identifying, measuring, monitoring and reporting on the Company's compliance with applicable laws and regulations as well as identifying and ensuring controls are adequately designed to mitigate risks, including compliance and regulatory risk.

  - The Finance function, under the leadership of the Chief Financial Officer ("CFO"), is accountable for the accuracy and integrity of the Company's accounting and financial reporting systems, including financial internal controls, financial statements, planning and budgeting systems and all other financial matters. The CFO is accountable for developing and monitoring performance and compliance against the Company's capital management strategy.

Third Line (Internal Audit):
- Independent from both the First and Second Lines of Defence and headed by the Chief Audit Officer who reports to the Chair of the Audit Committee.
- Provides reasonable assurance to senior management and the Board that the First and Second Lines of Defence are effectively managing and controlling risks.
- Reviews the design and use of risk management tools, programs and systems in both the First and Second Lines of Defence to ensure compliance with the ERMF, related policies and procedures, and applicable laws and regulations, including the appropriateness of independent challenge.

Risk Appetite

The RAF governs the risk activities undertaken by the Company on an enterprise-wide basis. The RAF articulates the aggregate level and types of risk MCAN is willing to accept, or to avoid, in order to achieve its business objectives.

Key inputs into the RAF include MCAN's strategy and risk capacity, while the foundational components include risk appetite statements, risk appetite limits, and roles and accountabilities for the Board and senior management in relation to overseeing the implementation and monitoring of the RAF.

MCAN's overarching risk appetite statement is as follows:

1. Focus on sustainable and stable growth of earnings.
2. Maintain a conservative liquidity profile and a strong capital base.
3. Maintain MIC status.
4. Maintain balance in our corporate mortgage portfolio for managed risk and returns.
5. Maintain access to adequate funding and capital markets at all times.
6. Ensure sound management of regulatory compliance and operational risk and maintain a strong risk culture.
7. Ensure financial and operational resiliency in a stressed scenario.

MCAN's RAF includes risk appetite metrics to measure and monitor whether MCAN is operating within its established risk appetite.

Risk Culture

Risk culture is the system of values and behaviors present in an organization that shapes risk decisions of management and employees. Within MCAN's Three-Lines-of-Defence risk governance structure, all employees at all levels of the organization are responsible for managing the day-to-day risks that arise in the context of their role. Senior management plays a critical role in shaping risk culture by communicating the importance of risk management and ensuring that employees are aware of how their behaviors may impact the organization.

Stress Testing

Stress testing is a key risk management tool that supplements risk management practices by (i) providing an assessment of our effectiveness and capacity to withstand potential adverse events, including an increase in unemployment rates, rising interest rates, and a decline in real estate prices; and (ii) aiding in refining our risk limits and chosen strategies to mitigate the impact of potential adverse events. At least quarterly, MCAN conducts enterprise-wide stress testing covering a wide range of risks and correlations among risks.

Results of stress testing are interpreted in the context of our risk appetite and our specific risk appetite metrics including metrics for capital ratios, liquidity ratios, earnings volatility and level of stress losses. Enterprise-wide stress testing, recovery, capital and financial planning processes are integrated within the Company.

Monitoring and Reporting

Risk monitoring and reporting are key components of MCAN's ERMF and allow both the Board and senior management to execute their oversight and challenge responsibilities with respect to business operations. Risk Management reports risk exposures to senior management and the ERM&CC on a quarterly basis, to ensure business operations are within established risk appetite limits, policy level limits and policy guidelines. Reports include an enterprise-wide view of risks, risk profile, trend analysis, emerging risks, stress testing, including scenarios and sensitivity analysis, and ad hoc reporting, as applicable.

Major Risk Types

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

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

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

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

Liquidity and Funding Risk

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

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

The Board is accountable for the approval of the Liquidity Risk Management Framework ("LRMF"). The LRMF establishes a framework to maintain sufficient liquidity, including holding a portfolio of high-quality liquid assets to meet commitments as they come due. The LRMF details the daily, monthly and quarterly analyses that are performed by management, and includes a framework for daily funding requirements, gap analysis between assets and liabilities, deposit concentration levels, liquidity risk limits, and stress testing requirements, in alignment with both the standards set under the Trust Act and regulations 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 liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the ERM&CC. At December 31, 2021, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

Stress testing is reviewed monthly by ALCO and quarterly by the Board. Liquidity stress testing is performed on singular and simultaneous scenarios. MCAN's stress testing is designed to ensure that exposures remain within the liquidity risk appetite and established Board-approved liquidity risk limits under the stress test scenarios. At December 31, 2021, the Company held sufficient liquidity and maintained the ability to fund obligations over the forecast period under the stress test scenarios.

We have access to liquidity through our ability to issue term deposits eligible for CDIC deposit insurance. These term deposits also provide us with the ability to fund asset growth as needed.

The Company maintains a demand loan revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is currently $120 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.

In May 2021, the Company signed a credit agreement with a Canadian Schedule I Chartered bank for a $50 million senior secured mortgage warehouse facility that bears interest at either prime plus 0.05% or bankers' acceptance rate plus 1.05%. The facility can be increased by another $50 million upon notice by the Company and with the lender's consent. On November 26, 2021, the facility limit was temporarily increased to $75 million until December 31, 2021. The facility is used to fund insured single family mortgages prior to securitization activities. This facility provides improved funding in response to our continued growth.

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

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

OSFI's Liquidity Adequacy Requirements guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics. At December 31, 2021, we were in compliance with the LCR and NCCF metrics.

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

Table 26: Liquidity Analysis

(in thousands)	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	December 31 2021
Sources of liquidity						
Cash and cash equivalents	$ 122,269	$ —	$ —	$ —	$ —	$ 122,269
Marketable securities	62,693	—	—	—	—	62,693
Mortgages - corporate	224,453	917,494	494,603	151,887	17,709	1,806,146
Non-marketable securities	—	—	6,449	—	58,497	64,946
Other loans	2,685	—	—	—	—	2,685
	412,100	917,494	501,052	151,887	76,206	2,058,739
Uses of liquidity						
Term deposits	115,016	717,288	556,155	272,533	—	1,660,992
Loans payable	57,340	—	—	—	—	57,340
Other liabilities	15,944	774	1,679	1,956	781	21,134
	188,300	718,062	557,834	274,489	781	1,739,466
Net liquidity surplus (deficit)	**$ 223,800**	**$ 199,432**	**$ (56,782)**	**$ (122,602)**	**$ 75,425**	**$ 319,273**

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

Credit Risk

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

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

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at December 31, 2021 and 2020 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 4 to the consolidated financial statements.

As a response to COVID-19, the Company has increased the frequency of monitoring and reporting of our credit risk profile, including enhanced arrears reporting and pipeline monitoring. Employment levels and real estate prices have, and may continue to be, impacted due to the national response to the pandemic or additional variants, which may adversely impact the ability of borrowers to make timely payments on mortgages.

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.

Credit Risk - Impairment Assessment Under IFRS 9

The analysis of MCAN's IFRS 9 impairment assessment and measurement approach discussed below should be read in conjunction with Note 4 to the consolidated financial statements.

Impairment calculations are based on a forward-looking ECL methodology. ECL is composed of 3 submodels; Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). Each of these submodels produce quarterly projections of the respective metric under various macroeconomic scenarios.

Probability of Default

PD is an estimate of the likelihood of default over a given time horizon. The PD model is comprised of 1) forward looking macroeconomic projections and 2) internal risk rating based segmentation. Forward looking macroeconomic projections are built utilizing statistical regression to determine relationships between default rates and macroeconomic variables. Internal risk rating based segmentation views the portfolio by internal risk rating and credit scores to provide PD differentiation at the borrower level.

Loss given default

LGD is an estimate of the loss arising in the case where a default occurs. LGD is built utilizing statistical regression to determine a relationship between LGD and macroeconomic variables, using external LGD data from comparable historical portfolios to forecast LGD under macroeconomic scenarios. Like the PD model, the construction and commercial LGD model also segments the portfolio by internal risk ratings to differentiate LGDs at the borrower level.

Exposure at default

EAD is the estimate of exposure at a future default date at the borrower level, taking into account expected changes in the exposure after the reporting date. EAD is the borrower level exposure in the event of default, determined by forecasting advances and repayments on the portfolio. The forecast is determined utilizing historical advance and repayment trends and segmented by product type. EAD is forecast up to the expected lifetime of each individual loan, capped at 12 months for IFRS 9 stage 1 loans.

Grouping financial assets measured on a collective basis

The Company calculates ECLs either on a collective or specific basis for the corporate mortgage portfolio based on the line of business (per Note 7 to the consolidated financial statements). ECLs are calculated on a specific basis for all mortgages in stage 3 and are calculated on a collective basis for all mortgages in stage 1 and stage 2.

Analysis of inputs into the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Notes 4 and 5 to the consolidated financial statements. As part of the model input process, macroeconomic data are obtained from third party sources (e.g. rating agencies, bank economic forecasts), and our Risk Management department assesses the quality of data and assumptions in the Company's ECL models including determining the weights attributable to the multiple scenarios.

Interest Rate Risk

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

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

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

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at December 31, 2021 would have an estimated positive effect of $4.8 million (September 30, 2021 - positive effect of $4.0 million; December 31, 2020 - positive effect of $4.1 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at December 31, 2021 would have an estimated adverse effect of $2.3 million (September 30, 2021 - adverse effect of $0.9 million; December 31, 2020 - positive affect of $0.1 million) to net income over the following twelve month period. The reason for the large differential between our downside risk and our upside risk is due to our construction portfolio, which mostly all have interest rate floors.

We have an integrated balance sheet approach to interest rate risk and our management of liquidity and funding risk. We expect that the impact of an immediate and sustained interest rate change would normally be partially mitigated by the effect of changes in interest rates on the value of other financial instruments, such as marketable securities, given our balance sheet composition.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at December 31, 2021 and December 31, 2020 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. 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 December 31, 2021

At December 31, 2021								
(in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$774,136	$185,507	$639,906	$172,639	$147,777	$ 76,081	$ 166,408	$ 2,162,454
Securitization	53,147	14,064	42,173	287,194	1,240,266	—	8,772	1,645,616
	827,283	199,571	682,079	459,833	1,388,043	76,081	175,180	3,808,070
Liabilities								
Corporate	57,340	156,221	717,288	556,155	272,533	—	21,134	1,780,671
Securitization	—	16,277	42,781	271,466	1,263,617	—	—	1,594,141
	57,340	172,498	760,069	827,621	1,536,150	—	21,134	3,374,812
Shareholders' Equity	—	—	—	—	—	—	433,258	433,258
GAP	**$769,943**	**$ 27,073**	**$(77,990)**	**$(367,788)**	**$(148,107)**	**$ 76,081**	**$ (279,212)**	**$ —**
YIELD SPREAD	**1.58 %**	**2.87 %**	**1.93 %**	**1.36 %**	**0.67 %**	**7.24 %**		

Table 28: Interest Rate Sensitivity at December 31, 2020

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

Regulatory Changes

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

On January 31, 2022, OSFI announced the latest and final round of the internationally agreed-upon Basel III reforms into OSFI's capital, leverage, liquidity, and related disclosure guidelines for deposit-taking institutions. The revised rules released include (i) new leverage requirements; and (ii) new capital, liquidity and Pillar 3 disclosure requirements specifically for small and medium-sized banks. The revised rules begin to take effect in the second quarter of 2023.

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. Any changes in these market risk factors may negatively affect the value of our financial assets, which may have an adverse effect on our financial condition and results of operations. We do not undertake trading activities as part of our regular operations, and therefore are not exposed to risks associated with activities such as market making, arbitrage or proprietary trading.

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

Our non-marketable securities portfolios are focused on equity investments in Canadian real estate focused funds. The portfolio is susceptible to the overall outlook of the real estate market, execution risk from respective fund managers, and other market conditions, such as spreads, housing prices, land prices, construction costs and adverse changes in interest rates or capitalization rates.

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices, including in the REIT sector. In 2021, there was a rebound in REIT prices amid optimism in economic forecasts, reopenings and vaccination rates.

Operational Risk

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

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

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

Outsourcing Risk

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

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

Information Technology and Cybersecurity Risk

Within operational risk, information technology ("IT") and cybersecurity risk is the risk of inadequate or misconfigured IT systems, tools and practices to support business and user needs. Such risks can compromise client confidentiality and lead to unauthorized access and disruption to business as usual practices.

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

Despite the Company's implementation of security measures, its systems could be vulnerable to damages from computer viruses, malware, cyber-attacks such as ransomware, natural disasters and other similar disruptions. Any such system failure, accident or security breach could disrupt the Company's delivery of services and make systems unavailable or cause disruptions to the Company's operations. If the Company's network security is penetrated or its sensitive data is misappropriated, we

could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on the Company's business, results of operations and financial condition.

Since the start of the pandemic, our business operations have been conducted remotely, which may impact the physical security of Company devices and an increased risk of unauthorized access to, or disclosure of, personal information. Cyber risk has increased since the onset of the COVID-19 pandemic through various forms of attacks such as phishing emails. The Company expects to continue with a hybrid work environment following the pandemic.

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

Digitization

Customer's heightened demands for quicker service and more timely updates, coupled with the pressure on lenders to compete profitably in a competitive marketplace, further accentuates the requirement for digital transformation. The pandemic has accelerated this trend, and has proved that manual processes can be digitized and will continue be utilized for the foreseeable future. If financial institutions do not adapt to the evolving digital environment, they may be less competitive or less profitable within this landscape. MCAN has strategically identified areas of short and long-term focus to build upon our business applications, IT infrastructure and data management program to support the digitization strategy.

Model Risk

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

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

Risk of Accuracy and Completeness of Borrower Information

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

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

To date, document falsification has not had a material impact on MCAN or its financial position or performance.

Regulatory Compliance Risk

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

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

Strategic Risk

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

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

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

Reputational Risk

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

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

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

Other Risk Factors

Reliance on Key Personnel

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

Mortgage Renewal and Prepayment Risk

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

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the obligation to fund 100% of any cash shortfall related to the Timely Payment obligation. For further information on the Timely Payment obligation, refer to Note 11 to the consolidated financial statements. Prepayment risk includes the acceleration of the amortization of mortgage premiums, as applicable, as a result of early payouts.

Economic Uncertainty

Factors that could impact the overall market and economic stability of the Company's operations include changes in short-term and long-term interest rates, inflation, commodity prices, international trade, consumer confidence, business and government spending, real estate market activity, real estate prices and adverse economic events.

The macroeconomic environment is complex stemming from the evolving COVID-19 pandemic, characterized with high headline inflation, supply chain pressures, social unrest, and uncertainty over the pace and timing of future central bank rate hikes. Additionally, home sales remain elevated relative to new listings, contributing to rising prices. Canadian households may be challenged, particularly those with lower incomes in an environment where there are rising consumer prices, increasing housing costs, and uncertainty related to economic conditions. Though the nature and extent of these risks may vary depending on the circumstances, monitoring the increased level of uncertainty relating to economic growth and market volatility remains an area

of focus. Management actively manages, monitors, and stress tests these risks on a regular basis; however, our inability to respond to changes effectively may have an adverse effect on our financial condition and results of operations.

Competition Risk

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

Qualification as a Mortgage Investment Corporation

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

Capital Adequacy Risk

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

Environmental and Climate Change Risk

Environmental and climate change risks have the potential to impact the Company in several ways, including regulatory changes that can impact the Company's compliance risks, or physical risks due to change in climate that increases the frequency and severity of wildfires, floods, wind events, rising sea levels and other potentially hazardous events that can impact our customers, employees and other key business partners. We recognize that environmental hazards are a potential liability. We aim to mitigate this risk by complying with all environmental laws and by applying an environmental policy and procedures to our commercial and development lending activities and working with real estate development partners, as part of our investment strategy, who are committed to responsible stewardship. We also conduct regular stress testing analyses to determine potential impacts on assets in certain geographic regions that are prone to climate events, which assists with decision making processes for geographic diversification and risk appetite.

General Litigation

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

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

Changes in Accounting Standards and Accounting Policies

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At December 31, 2021, there were 29,620,939 common shares outstanding (December 31, 2020 - 24,727,145). At February 22, 2022, there were 29,716,033 common shares outstanding.

During 2021, we issued $0.8 million in new common shares through the Executive Share Purchase Plan (2020 - $1.2 million), including $0.2 million new common shares through the Executive Share Purchase Plan as part of our rights offerings in June and December 2021.

We issued $6.0 million in new common shares in 2021 (2020 - $5.4 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. The DRIP participation rate for the 2021 fourth quarter dividend was 16% (2021 third quarter - 17%; 2020 fourth quarter - 17%).

To support our continued growth and maintain our targeted capital requirements, we initiated two capital raises by way of rights offerings in June and December 2021, both of which were oversubscribed. These two offerings raised $53.1 million of capital.

As a part of expanding and maturing our funding activities, we filed a Base Shelf prospectus in August 2021 and in October 2021 we announced the establishment of an ATM Program. The Base Shelf prospectus will allow us to make public offerings of debt or equity securities of up to $400 million during the 25 month period that the Base Shelf prospectus is effective. The ATM Program allows us to raise up to $30 million of equity from the public from time to time over a 2 year period at our discretion at the market prices prevailing at the time of sales - allowing us to raise capital incrementally. We view the ATM Program as adding to our capital raising capabilities and one element of our long term source of capital. Both the Base Shelf prospectus and the ATM Program will give us additional flexibility for diversification and expansion of our funding sources. To date, no shares have been issued under the ATM program.

For additional information related to share capital, refer to Note 17 to the 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 December 31, 2021						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 214,182	$ 164,256	$ 138,502	$ —	$ —	$ 516,940
Commitment - TAS	—	1,000	1,577	1,741	311	4,629
Commitment - TAS Co	875	250	1,000	—	—	2,125
Commitment - KSSMF	2,250	4,500	4,125	—	—	10,875
Commitment - Pearl	429	—	1,041	—	—	1,470
Commitment - KSHYF	278	—	—	—	22,194	22,472
	$ 218,014	**$ 170,006**	**$ 146,245**	**$ 1,741**	**$ 22,505**	**$ 558,511**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At December 31, 2021, these derecognized securitized insured multi family mortgages totalled $72 million. For further information on our securitization activities, refer to Note 11 to the consolidated financial statements.

We provide letters of credit, which are not reflected on the consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. 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 23 to the consolidated financial statements.

MCAP was actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff had claimed improvident sale and had claimed damages of approximately $6 million. On December 11, 2020, a trial on this matter resulted in a court judgment to dismiss the claim with $300,000 in costs to be paid by the plaintiff. On January 11, 2021, the plaintiff appealed. On March 24, 2021, the Court dismissed the appeal. Based on this, we do not have any material liability arising out of the indemnification obligation to MCAP and accordingly have not recorded a provision.

DIVIDEND POLICY AND RECORD

Our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. In addition, as a MIC, we can pay certain capital gains dividends which are taxed as capital gains to our shareholders. We intend to continue to declare and pay dividends on a quarterly basis. The Company has generally paid out dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of cash or 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.

On March 13, 2020, OSFI instructed all federally regulated financial institutions that dividend increases should be halted for the time being. An increase in dividends was defined as an increase in the total dollar amount of dividends paid after March 13, 2020 and non-cash dividends such as stock dividends were not included in the limitation. On November 4, 2021, OSFI instructed all federally regulated institutions that they may again increase dividends.

On February 22, 2022, the Board declared a quarterly regular cash dividend of $0.36 per share and a special stock dividend of $0.97 per share both to be paid on March 31, 2022 to shareholders of record as of March 15, 2022. The special stock dividend will be paid to shareholders in common shares (with fractional shares paid in cash) issued out of treasury at the weighted average trading price for the five days preceding the record date. The special stock dividend represents the true up of our regular dividends to taxable income for 2021, net of loss carryforwards used. At this time, the Company does not expect to have taxable income per share greater than its regular cash dividends per share for 2022.

Dividends per share over the past three years are indicated in the table below:

Table 30: Dividends Per Share

For the Years Ended December 31	2021	2020	2019
First Quarter [1]	$ 1.19	$ 0.34	$ 0.32
Second Quarter	0.34	0.34	0.32
Third Quarter	0.34	0.34	0.32
Fourth Quarter	0.34	0.34	0.32
	$ 2.21	**$ 1.36**	**$ 1.28**

[1] First quarter of 2021 includes $0.34 cash dividend and $0.85 special stock dividend.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the years ended December 31, 2021 and December 31, 2020 and related party balances at December 31, 2021 and December 31, 2020 are discussed in Notes 9 and 22 to the consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The majority of our consolidated balance sheet consists of financial instruments, and the majority of net income (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 December 31, 2021, we had 128 team members (September 30, 2021 - 124; December 31, 2020 - 112).

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Company’s 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 asset or liability affected in future periods.

Critical Accounting Estimates

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that may include the use of

mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, estimates are required to establish fair values. These estimates include considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions for certain investments.

Allowances for credit losses

The allowance for credit losses reduces the carrying value of mortgage assets by an estimate of the principal amounts that borrowers may not repay in the future. In assessing the estimated realizable value of assets, we must rely on estimates and exercise judgment regarding matters for which the ultimate outcome is unknown. A number of factors can affect the amount that we ultimately collect, including the quality of our own underwriting process and credit criteria, the diversification of the portfolio, the underlying security relating to the loans and the overall economic environment. Allowances on impaired mortgages include all of the accumulated provisions for losses to reduce the assets to their estimated realizable value. Allowances depend on asset class, as different classes have varying underlying risks. Future changes in circumstances could materially affect net realizable values and lead to an increase or decrease in the allowance for credit losses.

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

The Company's ECL calculations are model outputs with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Company's criteria for assessing if there has been a significant increase in credit risk which results in allowances being measured on a lifetime versus 12 month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Forward-looking information used as economic inputs.

We review our ECL models on a quarterly basis. We continue to monitor asset performance and economic conditions, including considering regionally specific issues to assess the adequacy of the current provisioning policies.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, we may make temporary qualitative adjustments or overlays using expert credit judgment when such differences are material.

Mortgage prepayment rates

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

Impairment of financial assets

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

Critical Accounting Judgments

Significant influence

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures ("DC&P")

A disclosure committee (the "Disclosure Committee"), comprised of members of our senior management is responsible for establishing and maintaining adequate DC&P. As of December 31, 2021, we have evaluated the effectiveness of the design and operation of our DC&P in accordance with requirements of National Instrument 52-109 of the Canadian Securities Administrators – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). Our CEO and CFO supervised and participated in this evaluation. Based on the evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure.

Internal Controls over Financial Reporting ("ICFR")

The Disclosure Committee is responsible for establishing and maintaining adequate ICFR. Under the supervision and with the participation of the Disclosure Committee, including our CEO and CFO, we evaluated the effectiveness of our ICFR in accordance with the Integrated (2013) Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, a recognized control model, and the requirements of NI 52-109. Based on the evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2021.

Ernst & Young LLP, our Independent Registered Chartered Professional Accountants, have audited our consolidated financial statements for the year ended December 31, 2021.

Changes in ICFR

There were no changes in our ICFR that occurred during the period beginning on January 1, 2021 and ending on December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our control framework.

Inherent Limitations of Controls and Procedures

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

NON-GAAP AND OTHER FINANCIAL MEASURES

We prepare our 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 consolidated statements of income. A detailed calculation can also be found in Table 4 and 5 of this MD&A.

Table 31: Net Corporate Mortgage Spread Income

(in thousands) **For the Periods Ended**	**Q4 2021**	**Q4 2020**	**Change ($)**	**Annual 2021**	**Annual 2020**	**Change ($)**
Mortgage interest - corporate assets	$ 20,436	$ 17,115		$ 71,823	$ 64,070	
Term deposit interest and expenses	8,389	7,918		31,430	32,006	
Net Corporate Mortgage Spread Income	**$ 12,047**	**$ 9,197**	**$ 2,850**	**$ 40,393**	**$ 32,064**	**$ 8,329**

Net 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 consolidated statements of income. A detailed calculation can also be found in Table 7 and 8 of this MD&A.

Table 32: Net Securitized Mortgage Spread Income

(in thousands) **For the Periods Ended**	**Q4 2021**	**Q4 2020**	**Change ($)**	**Annual 2021**	**Annual 2020**	**Change ($)**
Mortgage interest - securitized assets	$ 7,295	$ 6,461		$ 28,671	$ 21,534	
Interest on financial liabilities from securitization	4,993	4,232		19,554	15,898	
Net Securitized Mortgage Spread Income	**$ 2,302**	**$ 2,229**	**$ 73**	**$ 9,117**	**$ 5,636**	**$ 3,481**

Supplementary Financial Measures

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

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

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

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

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

Total Shareholder Return
Supplementary financial measure that is defined as the total return of one share to a shareholder including stock appreciation and dividends.

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

Common Equity Tier 1, Tier 1, Tier 2 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios
These measures are calculated in accordance with 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.

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of MCAN Mortgage Corporation ("MCAN" or the "Company") are the responsibility of management and have been approved by the Board of Directors. Management is responsible for the information and representations contained in these consolidated financial statements, the Management's Discussion and Analysis of Operations and all other sections of the annual report. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including the accounting requirements of our regulator, the Office of the Superintendent of Financial Institutions Canada.

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

The Office of the Superintendent of Financial Institutions Canada makes such examination and enquiry into the affairs of MCAN as deemed necessary to be satisfied that the provisions of the *Trust and Loan Companies Act* (Canada) are being duly observed for the benefit of depositors and that the Company is in sound financial condition.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors. The Chief Financial Officer reviews internal controls, control systems and compliance matters and reports thereon to the Audit Committee.

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.



Karen Weaver
President and Chief Executive Officer



Floriana Cipollone
Vice President and Chief Financial Officer

Toronto, Canada
February 22, 2022

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of MCAN Mortgage Corporation

Opinion

We have audited the consolidated financial statements of MCAN Mortgage Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for expected credit loss

Key audit matter

MCAN describes its significant accounting judgments and estimates in relation to the allowance for expected credit loss (ECL) in Note 5 of the 2021 consolidated financial statements. As disclosed in Note 7 and Note 12 to the 2021 consolidated financial statements, MCAN recognized $6.6 million in ECL on its consolidated balance sheet using an ECL model. ECLs represent an unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information (FLI), which involves significant judgment, is explicitly incorporated into the estimation of ECLs. ECLs are measured at amounts equal to either (i) 12 month ECL; or (ii) lifetime ECL for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment.

Auditing the ECLs was complex and required the application of significant judgment because of the forward-looking nature of the key assumptions, and the inherent interrelationship of the critical variables used in measuring the ECLs. Key areas of judgment include evaluating: (i) the models and methodologies used for measuring both the 12 month and lifetime expected credit losses; (ii) the assumptions used in the ECL scenarios including FLI and assigning probability weights; (iii) assessing SICR; and (iv) the qualitative adjustments applied to the modelled ECL based on management's expert credit judgment. Management has applied a significant level of judgment in the areas noted above in determining the impact of COVID-19 on the ECLs.

How our audit addressed the key audit matter

We obtained an understanding and evaluated the design of management's controls over the ECLs. We tested the controls over data completeness and accuracy of information used in determining the ECLs.

To test the ECLs, our audit procedures included, among others, involving our credit risk modelling specialists to assist in assessing the methodology and assumptions used in the models that estimate the ECLs across various portfolios and to assess management's SICR triggers. For a sample of key FLI variables, we compared the base forecasts produced by management against publicly available information, and also assessed the reasonability of the upside and downside scenarios within the current environment. We independently recalculated the ECLs and reperformed the staging to validate that the model methodology and staging triggers were correctly applied. We evaluated management's methodology over the qualitative adjustments contributing to the ECLs based on the application of expert credit judgment including management's assessment of the ongoing impact of COVID-19. Furthermore, we assessed the adequacy of the presentation and disclosures of the ECLs in the notes to the consolidated financial statements.

Other Information

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using

the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael Cox.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
February 22, 2022

CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

At December 31	Note	2021	2020
Assets			
Corporate Assets			
Cash and cash equivalents		$ 122,269	$ 88,929
Marketable securities	6	62,693	49,613
Mortgages	7	1,806,146	1,252,762
Non-marketable securities	8	64,946	56,117
Equity investment in MCAP Commercial LP	9	96,186	88,263
Deferred tax assets	14	891	407
Other assets	10	9,323	20,218
		2,162,454	**1,556,309**
Securitization Assets			
Cash held in trust		53,148	29,610
Mortgages	12	1,583,697	1,135,745
Other assets	12	8,771	7,051
		1,645,616	**1,172,406**
		$ 3,808,070	**$ 2,728,715**
Liabilities and Shareholders' Equity			
Liabilities			
Corporate Liabilities			
Term deposits	13	$ 1,660,992	$ 1,234,769
Demand loans payable	23	57,340	—
Other loan payable to MCAP Securities Limited Partnership	22	41,205	—
Other liabilities	15	21,134	4,825
		1,780,671	**1,239,594**
Securitization Liabilities			
Financial liabilities from securitization	16	1,594,141	1,142,609
		1,594,141	**1,142,609**
		3,374,812	**2,382,203**
Shareholders' Equity			
Share capital	17	315,339	234,635
Contributed surplus		510	510
Retained earnings		117,409	111,367
		433,258	**346,512**
		$ 3,808,070	**$ 2,728,715**

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

On behalf of the Board:



Karen Weaver
President and CEO



Gordon Herridge
Director, Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME

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

Years Ended December 31	Note	2021	2020
Net Investment Income - Corporate Assets			
Mortgage interest		$ 71,823	$ 64,070
Equity income from MCAP Commercial LP	9	25,453	33,918
Non-marketable securities		5,828	5,908
Marketable securities		3,502	2,430
Fees		1,807	1,767
Interest on cash and other income	22	472	611
Net gain (loss) on securities	19	14,763	(9,091)
Gain on dilution of investment in MCAP Commercial LP	9	326	33
		123,974	**99,646**
Term deposit interest and expenses		31,430	32,006
Mortgage expenses	20	5,269	4,588
Interest on loans payable		1,219	683
Other financial expenses		130	—
Provision for credit losses	21	480	2,075
		38,528	**39,352**
		85,446	**60,294**
Net Investment Income - Securitization Assets			
Mortgage interest		28,671	21,534
Other securitization income		225	595
		28,896	**22,129**
Interest on financial liabilities from securitization		19,554	15,898
Mortgage expenses	20	3,396	2,177
Provision for (recovery of) credit losses	21	(20)	21
		22,930	**18,096**
		5,966	**4,033**
Operating Expenses			
Salaries and benefits		18,364	15,047
General and administrative		9,083	6,631
		27,447	**21,678**
Net Income Before Income Taxes		**63,965**	**42,649**
Provision for (recovery of) income taxes			
Current	14	86	52
Deferred	14	(483)	(296)
		(397)	**(244)**
Net Income		**$ 64,362**	**$ 42,893**
Basic and diluted earnings per share		$ 2.40	$ 1.75
Cash dividends per share		$ 1.36	$ 1.36
Stock dividends per share		$ 0.85	$ —
Weighted average number of basic and diluted shares (000's)		26,766	24,517

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian dollars)

Years Ended December 31	Note	2021	2020
Share Capital			
Balance, beginning of year		$ 234,635	$ 228,008
Share capital issued	17	80,704	6,627
Balance, end of year		**315,339**	**234,635**
Contributed Surplus		**510**	**510**
Retained Earnings			
Balance, beginning of year		111,367	101,794
Net income		64,362	42,893
Dividends declared	17	(58,320)	(33,320)
Balance, end of year		**117,409**	**111,367**
Total Shareholders' Equity		**$ 433,258**	**$ 346,512**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars)

Years Ended December 31	Note	2021	2020
Cash flows from (for):			
Operating Activities			
Net income		$ 64,362	$ 42,893
Adjustments to determine cash flows relating to operating activities:			
Deferred taxes		(483)	(296)
Equity income from MCAP Commercial LP	9	(25,453)	(33,918)
Gain on dilution of investment in MCAP Commercial LP	9	(326)	(33)
Provision for credit losses	21	460	2,096
Net (gain) loss on securities		(14,763)	9,091
Amortization of securitized mortgage and liability transaction costs		4,542	2,259
Amortization of other assets		683	779
Changes in operating assets and liabilities:			
Marketable securities		1,683	(12,534)
Corporate and securitized mortgages		(1,006,694)	(519,353)
Non-marketable securities		(8,829)	37,572
Other assets		8,654	(14,958)
Cash held in trust		(23,538)	(1,035)
Term deposits		426,223	200,470
Financial liabilities from securitization		451,889	349,136
Other liabilities		8,019	(3,052)
Cash flows from (for) operating activities		**(113,571)**	**59,117**
Investing Activities			
Distributions from MCAP Commercial LP	9	17,856	15,532
Acquisition of capital and intangible assets		(161)	(307)
Cash flows from investing activities		**17,695**	**15,225**
Financing Activities			
Proceeds from issuance of common shares		53,218	—
Net change in demand loans		57,340	(5,053)
Other loan payable to MCAP Securities Limited Partnership		41,205	—
Repayment of premises lease liability		(344)	(369)
Dividends paid		(22,203)	(34,443)
Cash flows from (for) financing activities		**129,216**	**(39,865)**
Increase (decrease) in cash and cash equivalents		33,340	34,477
Cash and cash equivalents, beginning of year		88,929	54,452
Cash and cash equivalents, end of year		**$ 122,269**	**$ 88,929**
Supplementary Information			
Interest received		$ 97,633	$ 83,208
Interest paid		47,965	44,387
Distributions received from securities		8,311	7,618

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

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1. Corporate Information

MCAN Mortgage Corporation (the "Company" or "MCAN") is a Loan Company under the *Trust and Loan Companies Act* (Canada) (the "Trust Act") and a Mortgage Investment Corporation ("MIC") under the *Income Tax Act* (Canada) (the "Tax Act"). As a Loan Company under the Trust Act, the Company is subject to the guidelines and regulations set by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). MCAN is incorporated in Canada with its head office located at 200 King Street West, Suite 600, Toronto, Ontario, Canada. MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP.

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

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

The consolidated financial statements were approved in accordance with a resolution of the Board of Directors (the "Board") on February 22, 2022.

2. Basis of Preparation

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

The consolidated financial statements have been prepared on a historical cost basis, except for certain items carried at fair value as discussed in Note 4. The consolidated financial statements are presented in Canadian dollars.

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

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

3. Basis of Consolidation

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

4. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the Company in the preparation of its consolidated financial statements.

(1) Accounting for financial instruments under IFRS 9, *Financial Instruments* ("IFRS 9")

Classification and measurement

All financial instruments are measured initially at their fair value plus, in the case of financial instruments not subsequently recorded at fair value through the consolidated statements of income, directly attributable transaction costs. To determine their classification and measurement category, IFRS 9 requires all financial assets to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are capitalized and amortized over the expected life of the instrument using the effective interest rate method ("EIM"), except for transaction costs which are related to financial assets or financial liabilities at fair value through profit or loss ("FVPL"), which are expensed.

a. Debt instruments at amortized cost

The Company only measures debt instruments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales.

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

In contrast, contractual terms that introduce more than a minimal exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the principal amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at amortized cost include all corporate and securitized mortgages held by the Company.

b. Financial assets at FVPL

Financial assets in this category are those that are not held for trading purposes and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Financial assets at FVPL are recorded in the consolidated balance sheets at fair value. Changes in fair value are recorded in profit and loss. Interest earned on instruments designated at FVPL is accrued in interest income. Interest

earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rates. Dividend income from equity instruments measured at FVPL is recorded in profit and loss when the right to the payment has been established.

Financial assets at FVPL include all marketable and non-marketable securities held by the Company.

c. Financial liabilities

After initial recognition, interest-bearing financial liabilities other than those classified at FVPL are subsequently measured at amortized cost using the EIM. Amortized cost is calculated by taking into account any discount or premium, fees or other costs using the EIM. The amortization is included in the related line in the consolidated statements of income. Unamortized premiums and discounts are recognized in the consolidated statements of income upon extinguishment of the liability.

Financial liabilities include all term deposits and financial liabilities from securitization held by the Company.

Impairment

IFRS 9 requires the Company to record an allowance for expected credit loss ("ECL") for all mortgages and other debt financial assets not held at FVPL, together with mortgage commitments and financial guarantee contracts not measured at FVPL.

Overview of ECL principles

The ECL allowance is based on the 12 month ECL of the asset, unless there has been a significant increase in credit risk ("SICR") since origination in which case the allowance is based on the lifetime ECL.

The Company groups its financial assets into stage 1, stage 2 and stage 3, as described below:

- Stage 1: When mortgages are first recognized, the Company recognizes an allowance based on 12 month ECLs, which represent the portion of ECLs which would occur over the life of the mortgage related to default events that are possible to occur within 12 months after the reporting date. Stage 1 mortgages also include facilities reclassified from stage 2 or stage 3 where the credit risk has subsequently improved such that the increase in credit risk since initial recognition is no longer significant.

- Stage 2: When a mortgage has shown a SICR since origination, the Company records an allowance for the ECLs that result from all possible default events over the expected life of the asset. Stage 2 mortgages also include facilities reclassified from stage 3 where the credit risk has improved or the facility is no longer credit impaired.

- Stage 3: The Company records an allowance for the lifetime ECLs for mortgages considered to be credit-impaired (as outlined below in "Definition of default and cure").

Both lifetime ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Significant increase in credit risk ("SICR")

The Company has established a policy to assess, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The primary indicators of SICR are relative changes in credit scores for single family mortgages and changes in internal risk ratings for construction and commercial mortgages. The Company may also apply a secondary qualitative method for identifying a SICR, such as changes in macroeconomic circumstances or the application of management's judgment. In certain cases, the Company may also consider that certain events are a SICR as opposed to a default. For a definition of default and cure, refer to the "Definition of default and cure" sub-section of this note. IFRS 9 provides a rebuttable presumption that a SICR has occurred if contractual payments are more than 30 days past due. The Company has not rebutted this presumption.

Calculation of ECLs

The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate. The cash shortfall is the difference between the cash flows that are due to the Company in accordance with the contract and the cash flows that the Company expects to receive if the borrower defaults.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD: The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. Default is only assessed if the facility has not been previously derecognized and is still in the portfolio. The PD model is comprised of forward-looking macroeconomic projections and internal risk rating based segmentation.

- LGD: The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive in the event of default, including from the realization of any collateral.

- EAD: The Exposure at Default ("EAD") is an estimate of the exposure at a future default date at the borrower level, taking into account expected changes in the exposure after the reporting date, including advances and repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

The ECLs are calculated through three probability-weighted forward-looking scenarios (base, favourable, and unfavourable). Each of these is associated with different PDs, EADs and LGDs. The assessment of multiple scenarios also incorporates how defaulted mortgages are expected to be recovered, including the probability that the mortgages will cure and the value of collateral or the amount that might be received from selling the asset. Outcomes under the favourable and unfavourable scenarios are generated based on management judgment, looking at the likelihood of a range of macroeconomic variables. A cross-functional internal management committee reviews the proposed probability weights assigned to each of the three scenarios. The above committee applies judgment to adjust the weights when changes are noted in relevant macroeconomic variables.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call the instrument earlier.

Mortgage commitments and letters of credit

Undrawn mortgage commitments and letters of credit are commitments under which, over the duration of the commitment, the Company is required to advance funds to the borrower. These contracts are in the scope of the ECL requirements. The nominal contractual value of letters of credit and undrawn mortgage commitments, where the mortgage agreed to be provided is on market terms, are not recorded in the consolidated balance sheets. When estimating lifetime ECLs for undrawn mortgage commitments, the Company estimates the portion of the mortgage commitment that will be drawn down over its expected life.

Definition of default and cure

The Company considers a financial instrument defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. In certain other cases, where qualitative thresholds indicate unlikeliness to pay as a result of a credit event, the Company carefully considers whether the event should result in an assessment at stage 2 or 3 for ECL calculations.

The combined impact of several events may cause financial assets to become defaulted as opposed to one discrete event. It is the Company's policy to consider a financial instrument as "cured" and, therefore, reclassified out of stage 3 when none of the default criteria remain present at the end of each quarter. The decision whether to classify an asset as stage 1 or stage 2 once cured depends on the current assessment of SICR.

Forward-looking information

In its ECL models, the Company relies on a broad range of forward-looking information as macroeconomic variables, such as but not limited to:

Single Family

- House price indices
- Unemployment rates
- Gross domestic product
- Interest rates

Commercial and Construction

- House price indices
- Unemployment rates
- Gross domestic product
- Interest rates

The macroeconomic variables and models used for calculating ECLs may not always capture all characteristics of the market at the dates of the consolidated financial statements. To reflect this, the Company may make temporary qualitative adjustments or overlays using expert credit judgment.

Modified financial assets

In a case where the borrower experiences financial difficulties, the Company may grant certain concessionary modifications to the terms and conditions of a mortgage. If the Company determines that a modification results in an expiry of cash flows, the original financial asset is derecognized while a new asset is recognized based on the new contractual terms. SICR is assessed relative to the risk of default on the date of modification. If the Company determines that a modification does not result in derecognition, SICR is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For mortgages that have been modified while having a lifetime ECL, the mortgages can revert to having a 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Write-offs

Financial assets are written off either partially or in their entirety only when the Company believes that there are no reasonably expected future recoveries. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to provisions for losses.

(2) Determination of fair value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities are classified into three levels, as follows: quoted prices in an active market (Level 1), fair value based on directly or indirectly observable inputs other than quoted prices (Level 2) and fair value based on inputs that are not based on observable data (Level 3).

For financial instruments not traded in active markets, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices may exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Where available, their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. The fair value of certain real estate assets is determined using independent appraisals. Models and valuations are adjusted to reflect counterparty credit risk and liquidity discounts or premiums and limitations in the models.

Changes in fair value are recognized in net gain (loss) on securities in the consolidated statements of income.

(3) Derecognition of financial assets and financial liabilities

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a qualifying "pass-through" arrangement; and either:
    - the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or
    - the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the financial asset.

When substantially all the risks and rewards of ownership of the financial asset have been transferred, the Company will derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer. When substantially all the risks and rewards of ownership of the financial asset have been retained, the Company continues to recognize the financial asset and also recognizes a financial liability for the consideration received. In these circumstances, certain transaction costs incurred are also capitalized and amortized using the EIM. When the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. In that case, the Company also recognizes an associated liability.

The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

(ii) Financial liabilities

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

Realized gains and losses from the derecognition of financial assets and financial liabilities are recognized in net gain (loss) on securities in the consolidated statements of income.

(4) Taxes

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

(i) Current tax

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

(ii) Deferred tax

The Company follows the asset and liability method of accounting for income taxes, whereby deferred tax assets and liabilities are recognized for the expected future tax impact of temporary differences between the carrying amounts of certain assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the period in which those temporary differences are expected to be recovered or settled. Deferred tax assets are only recognized for deductible temporary differences and the carry forward of unused tax losses to the extent that it is probable that taxable income will be available and the carry forward of unused tax losses can be used.

(5) Dividends on common shares

Dividends on common shares are deducted from shareholders' equity at the time that they are approved. Dividends that are approved after the consolidated financial statement date are not recognized as a liability in the consolidated financial statements but are disclosed as a subsequent event.

(6) Investment in associate

The Company's investment in MCAP is accounted for using the equity method. An associate is an entity over which the Company has significant influence.

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

The consolidated statements of income reflect the Company's proportionate share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The most recent available financial statements of the associate are used by the Company in applying the equity method. When the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the Company, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the Company's consolidated financial statements.

Where necessary, adjustments are made to harmonize the accounting policies of the associate with those of the Company.

The Company determines at each consolidated financial statement date whether there is any objective evidence that the investment in the associate is impaired. The Company calculates the amount of impairment as the difference between the recoverable amount of the investment in the associate and its carrying value and recognizes the amount in the consolidated statements of income, thus reducing the carrying value by the amount of impairment.

(7) Revenue recognition

Interest income or expense

For all financial assets measured at amortized cost and interest-bearing financial assets measured at FVPL under IFRS 9, interest income or expense is accrued in interest income or expense. The calculation takes into account the contractual interest rate, along with any fees or incremental costs that are directly attributable to the instrument and all other premiums or discounts. Interest income or expense is included in the appropriate component of the consolidated statements of income.

Revenue from contracts with customers

Revenue from contracts with customers is recognized at an amount that reflects the consideration that the Company expects to receive in exchange for transferring goods or services to a customer.

(8) Cash and cash equivalents

Cash and cash equivalents (including cash held in trust) on the consolidated balance sheets comprise cash held at banks and short-term deposits with original maturity dates of less than 90 days.

(9) Share-based compensation payment transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date. The obligations are accrued over the vesting period and adjusted for fluctuations in the market price of the Company's common shares. Changes in the obligations are recorded as salaries and benefits in the consolidated statements of income with a corresponding change to other liabilities. The liability is remeasured at fair value at each consolidated financial statement date up to and including the settlement date.

(10) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

(11) Provisions

Provisions for legal claims are recognized when (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that an outflow of resources will be required to settle the obligation; and (c) the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is included in interest expense.

(12) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Right-of-use assets and lease liabilities are recognized at the lease commencement date, that is, on the date when the underlying asset is available for use by the Company. The Company's right-of-use asset relating to its premises lease does not meet the definition of investment property.

Right-of-use assets are initially and subsequently measured at cost and depreciated over the shorter of the asset's useful life and the lease term, on a straight-line basis. The right-of-use assets are remeasured in the event of impairment in accordance with IAS 36, *Impairment of Assets*.

Lease liabilities are initially and subsequently measured at the present value of the lease payments which are unpaid as of the commencement date. The future lease payments are discounted using the interest rate implicit in the lease, if readily determinable. If not readily determinable, the Company's incremental borrowing rate is used, which is the rate to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. After the commencement date, the carrying amount of lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the

underlying asset. Adjustments to the carrying amount of the lease obligation as a result of remeasurement are accounted for as a corresponding adjustment to the right-of-use asset.

(13) Significant changes in accounting policies

Interest Rate Benchmark Reform – Phase 2 Amendments

As part of the IASB's standard setting activities related to the accounting issues arising from the interest rate benchmark reform to transition away from interbank offered rates ("IBORs") benchmarks to alternative reference rates ("ARRs"), referred to as the IBOR reform, the IASB published amendments to IFRS in two phases. The second phase was published on August 27, 2020, and it amended IFRS 9, *Financial Instruments* ("IFRS 9"), IAS 39, *Financial Instruments: Recognition and Measurement*, IFRS 7, *Financial Instruments: Disclosures*, IFRS 4, *Insurance Contracts* and IFRS 16, *Leases*. The Phase 2 amendments, which became effective on January 1, 2021, provided guidelines for applying IFRS when changes are made to the contractual cash flows of financial instruments or hedging relationships as a result of IBOR reform. The Company has determined that the IBOR reform Phase 2 amendments do not have a material impact on the Company's consolidated financial statements.

5. Summary of Significant Accounting Judgments and Estimates

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

Significant influence

Significant influence represents the power to participate in the financial and operating policy decisions of an investee but does not represent control or joint control over the entity. In determining whether it has significant influence over an entity, the Company makes certain judgments to form the basis for the Company's policies in accounting for its equity investments. Although MCAN's voting interest in MCAP was less than 20% at December 31, 2021, MCAN uses the equity basis of accounting for the investment as it has significant influence in MCAP per IAS 28, *Investments in Associates and Joint Ventures*, as a result of its entitlement to a position on MCAP's Board of Directors.

Fair value of financial instruments

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

Impairment of financial assets

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

The Company's ECL calculations are model outputs with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Company's criteria for assessing if there has been a SICR which results in allowances being measured on a lifetime versus 12-month ECL basis;
- The segmentation of financial assets for the purposes of assessing ECL on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PD, EAD, and LGD; and
- Forward-looking information used as economic inputs.

The Company may also make qualitative adjustments or overlays using expert credit judgment in the calculations of ECLs, which represent accounting judgments and estimates which have been heightened due to the COVID-19 environment. Key judgments and estimates, including around probability weights to assign to each scenario and the impacts of government

stimulus measures, will be heavily influenced by the extent and severity of the pandemic. These judgments have been made with reference to the facts, projections and other circumstances at the consolidated balance sheet dates. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Any new forward-looking information subsequent to the consolidated balance sheet dates are reflected in the measurement of provisions for credit losses in future periods, as appropriate.

Mortgage prepayment rates

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

6. Marketable Securities

At December 31	2021	2020
Real estate investment trusts	$ 62,693	$ 49,583
Corporate bonds	—	30
	$ 62,693	**$ 49,613**

For details of net gains and losses on marketable securities, refer to Note 19.

7. Mortgages - Corporate

(a) Summary

At December 31, 2021	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Stage 3	Allowance Total	Net Principal
Corporate Portfolio:						
Single family mortgages						
Insured	$ 196,595	$ —	$ —	$ —	$ —	$ 196,595
Uninsured	785,192	1,754	364	13	2,131	783,061
Uninsured - completed inventory	49,776	337	8	—	345	49,431
Construction loans	688,113	3,599	216	—	3,815	684,298
Commercial loans						
Multi family residential	74,961	150	115	—	265	74,696
Other commercial	18,156	7	84	—	91	18,065
	$ 1,812,793	**$ 5,847**	**$ 787**	**$ 13**	**$ 6,647**	**$ 1,806,146**

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

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

Uninsured - completed inventory loans are extended to developers to provide interim mortgage financing on residential units (condominium or freehold) that are completed or close to completion. Qualification criteria for the completed inventory classification include no substantial remaining construction risk, commencement of occupancy permits, potential sale and closing with a purchaser within 3-4 months or units near completion.

(b) Mortgages by risk rating

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

The internal risk ratings presented below are defined as follows:

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

The table below shows the credit quality of the Company's corporate mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECLs are calculated on an impaired or performing basis are set out in Note 4.

At December 31	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Single family mortgages								
Insured								
Insured performing	$ 188,125	$ 7,621	$ —	$ 195,746	$ 163,371	$ 8,054	$ —	$ 171,425
Monitored/Arrears	—	59	—	59	682	—	—	682
Impaired/Default	—	—	790	790	—	—	1,266	1,266
	188,125	7,680	790	196,595	164,053	8,054	1,266	173,373
Uninsured								
Very low/Low	327,302	53,315	—	380,617	176,324	28,924	—	205,248
Normal/Moderate	317,481	41,903	—	359,384	215,895	31,139	—	247,034
High/Higher	30,040	3,043	—	33,083	17,427	3,183	—	20,610
Monitored/Arrears	8,985	829	—	9,814	2,764	5,271	—	8,035
Impaired/Default	—	—	163	163	—	—	2,505	2,505
	683,808	99,090	163	783,061	412,410	68,517	2,505	483,432
Uninsured - completed inventory								
High/Higher	45,982	3,449	—	49,431	35,659	13,290	—	48,949
	45,982	3,449	—	49,431	35,659	13,290	—	48,949
Construction loans								
Normal/Moderate	—	—	—	—	12,842	—	—	12,842
High/Higher	666,728	14,048	—	680,776	453,555	4,676	—	458,231
Monitored/Arrears	—	3,522	—	3,522	—	15,559	—	15,559
	666,728	17,570	—	684,298	466,397	20,235	—	486,632
Commercial loans								
Multi family residential								
Very low/Low	10,081	—	—	10,081	—	—	—	—
Normal/Moderate	33,109	—	—	33,109	29,839	—	—	29,839
High/Higher	4,160	27,346	—	31,506	—	—	—	—
	47,350	27,346	—	74,696	29,839	—	—	29,839
Other								
Normal/Moderate	1,271	—	—	1,271	13,337	—	—	13,337
Monitored/Arrears	—	16,794	—	16,794	—	17,200	—	17,200
	1,271	16,794	—	18,065	13,337	17,200	—	30,537
	$1,633,264	**$ 171,929**	**$ 953**	**$1,806,146**	**$1,121,695**	**$ 127,296**	**$ 3,771**	**$1,252,762**

(c) Mortgage allowances

Years Ended December 31	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Single family mortgages								
Insured								
Allowance, beginning of year	$ 3	$ —	$ —	$ 3	$ 1	$ —	$ —	$ 1
Net remeasurement of allowance [1]	(1)	—	—	(1)	1	—	—	1
Originations [4]	—	—	—	—	5	—	—	5
Mortgages derecognized or repaid [2]	(2)	—	—	(2)	(9)	—	—	(9)
Total recovery	(3)	—	—	(3)	(3)	—	—	(3)
Reclassification of mortgages	—	—	—	—	5	—	—	5
Allowance, end of year	—	—	—	—	3	—	—	3
Uninsured								
Allowance, beginning of year	$ 1,513	$ 663	$ 157	$ 2,333	$ 405	$ 219	$ 194	$ 818
Transfer to stage 1 [3]	425	(425)	—	—	446	(446)	—	—
Transfer to stage 2 [3]	(787)	813	(26)	—	(733)	736	(3)	—
Transfer to stage 3 [3]	(42)	—	42	—	(73)	—	73	—
Net remeasurement of allowance [1]	(946)	(476)	28	(1,394)	607	268	84	959
Originations [4]	2,197	—	—	2,197	1,106	—	—	1,106
Mortgages derecognized or repaid [2]	(605)	(211)	(152)	(968)	(144)	(114)	(108)	(366)
Total provision (recovery)	242	(299)	(108)	(165)	1,209	444	46	1,699
Write-offs	(1)	—	(36)	(37)	(101)	—	(83)	(184)
Allowance, end of year	1,754	364	13	2,131	1,513	663	157	2,333
Uninsured - completed inventory								
Allowance, beginning of year	$ 500	$ 205	$ —	$ 705	$ 226	$ 27	$ —	$ 253
Transfer to stage 1 [3]	9	(9)	—	—	—	—	—	—
Transfer to stage 2 [3]	(8)	8	—	—	(186)	186	—	—
Net remeasurement of allowance [1]	(250)	(185)	—	(435)	296	(8)	—	288
Originations [4]	128	—	—	128	241	—	—	241
Mortgages derecognized or repaid [2]	(42)	(11)	—	(53)	(77)	—	—	(77)
Total provision (recovery)	(163)	(197)	—	(360)	274	178	—	452
Allowance, end of year	337	8	—	345	500	205	—	705
Construction loans								
Allowance, beginning of year	$ 2,609	$ 191	$ —	$ 2,800	$ 2,731	$ 392	$ —	$ 3,123
Transfer to stage 1 [3]	1,301	(1,301)	—	—	549	(549)	—	—
Transfer to stage 2 [3]	(1,241)	1,241	—	—	(424)	587	(163)	—
Transfer to stage 3 [3]	—	—	—	—	(192)	—	192	—
Net remeasurement of allowance [1]	736	91	—	827	178	(42)	(29)	107
Originations [4]	1,076	—	—	1,076	1,323	—	—	1,323
Mortgages derecognized or repaid [2]	(882)	(6)	—	(888)	(1,556)	(197)	—	(1,753)
Total provision (recovery)	990	25	—	1,015	(122)	(201)	—	(323)
Allowance, end of year	3,599	216	—	3,815	2,609	191	—	2,800

Years Ended December 31	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commercial loans								
Multi family residential								
Allowance, beginning of year	$ 146	$ —	$ —	$ 146	$ 35	$ 8	$ —	$ 43
Transfer to stage 2 [3]	(246)	246	—	—	—	—	—	—
Net remeasurement of allowance [1]	112	(131)	—	(19)	(20)	(2)	—	(22)
Originations [4]	138	—	—	138	140	—	—	140
Mortgages derecognized or repaid [2]	—	—	—	—	(9)	(6)	—	(15)
Total provision	4	115	—	119	111	(8)	—	103
Allowance, end of year	150	115	—	265	146	—	—	146
Other								
Allowance, beginning of year	$ 36	$ 181	$ —	$ 217	$ 75	$ —	$ —	$ 75
Transfer to stage 2 [3]	—	—	—	—	(66)	66	—	—
Net remeasurement of allowance [1]	(5)	(97)	—	(102)	27	115	—	142
Mortgages derecognized or repaid [2]	(24)	—	—	(24)	—	—	—	—
Total provision (recovery)	(29)	(97)	—	(126)	(39)	181	—	142
Allowance, end of year	7	84	—	91	36	181	—	217
Total								
Allowance, beginning of year	$ 4,807	$ 1,240	$ 157	$ 6,204	$ 3,473	$ 646	$ 194	$ 4,313
Transfer to stage 1 [3]	1,735	(1,735)	—	—	995	(995)	—	—
Transfer to stage 2 [3]	(2,282)	2,308	(26)	—	(1,409)	1,575	(166)	—
Transfer to stage 3 [3]	(42)	—	42	—	(265)	—	265	—
Net remeasurement of allowance [1]	(354)	(798)	28	(1,124)	1,089	331	55	1,475
Originations [4]	3,539	—	—	3,539	2,815	—	—	2,815
Mortgages derecognized or repaid [2]	(1,555)	(228)	(152)	(1,935)	(1,795)	(317)	(108)	(2,220)
Total provision (recovery)	1,041	(453)	(108)	480	1,430	594	46	2,070
Write-offs	(1)	—	(36)	(37)	(101)	—	(83)	(184)
Reclassification of mortgages	—	—	—	—	5	—	—	5
Allowance, end of year	**$ 5,847**	**$ 787**	**$ 13**	**$ 6,647**	**$ 4,807**	**$ 1,240**	**$ 157**	**$ 6,204**

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

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

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

At December 31, 2021	Base		Favourable		Unfavourable	
Macroeconomic variables	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]	Next 12 months [1]	2 to 5 years [1]
Housing Price Index (annual change)						
Canada	1.97%	0.20%	3.72%	0.33%	(1.03)%	0.08%
Greater Toronto Area	2.61%	0.24%	4.77%	0.42%	(1.32)%	0.42%
Greater Vancouver Area	2.18%	0.24%	4.80%	0.42%	(1.33)%	0.42%
Gross domestic product (annual change)	4.36%	2.49%	5.36%	2.61%	1.61 %	2.24 %
Unemployment rate	5.72%	5.20%	5.22%	5.14%	6.97%	5.30%
Interest rates						
Prime rate	2.97%	3.74%	3.47%	4.24%	2.72%	3.49%

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

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

Historical regression methodology is used to relate ECL to key macroeconomic indicators including housing price indices, gross domestic product, unemployment rate and interest rates. Economic forecasts are determined based on a combination of external information and internal management judgments and estimates at the reporting date. COVID-19 has increased the level of uncertainty with respect to management's judgements and estimates including around probability weights to assign to each scenario and the impacts of various government support programs and their impact on the speed and shape of economic recovery. Since December 31, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve given new variants and resulting public health restrictions. Any new forward-looking information subsequent to December 31, 2021, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

The base scenario represents management's best estimate using all available economic forecasts in light of COVID-19. It assumes a gradual decrease in unemployment as COVID-19 lockdown measures are removed. Gross domestic product is expected to increase in 2022 and gradually increase going forward. Housing prices have increased under COVID-19 and are expected to continue to grow in 2022 with marginal increases going forward. The favourable scenario represents a speedier recovery with a faster decrease in unemployment and faster increases in gross domestic product and the housing price index. The unfavourable scenario represents the possibility of further waves and new variants of COVID-19 continuing to emerge, resulting in increases in the unemployment rate and decreases in housing prices in the short-term and slower gross domestic product growth.

Assuming a 100% base case economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the ECL for corporate mortgages at December 31, 2021 would be approximately $5,255 (December 31, 2020 - $4,128) compared to the reported ECL for corporate mortgages of $6,647 (December 31, 2020 - $6,204).

Assuming a 100% unfavourable economic forecast with the incorporation of the impact of the migration of mortgages between stages, with all other assumptions held constant, the ECL for corporate mortgages at December 31, 2021 would be approximately $9,079 (December 31, 2020 - $7,659) compared to the reported ECL for corporate mortgages of $6,647 (December 31, 2020 - $6,204).

(d) Mortgage arrears

Mortgages past due but not impaired are as follows:

At December 31, 2021	1 to 30 days	31 to 60 days	61 to 90 days	Total
Single family mortgages				
Insured	$ —	$ 59	$ —	$ 59
Uninsured	9,814	—	—	9,814
	$ 9,814	**$ 59**	**$ —**	**$ 9,873**

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

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

At December 31	2021			2020		
	Single Family Mortgages			Single Family Mortgages		
	Insured	Uninsured	Total	Insured	Uninsured	Total
Ontario	$ —	$ —	$ —	$ —	$ 919	$ 919
Alberta	627	163	790	1,111	237	1,348
British Columbia	—	—	—	—	941	941
Quebec	—	—	—	45	—	45
Atlantic Provinces	163	—	163	110	258	368
Other	—	—	—	—	150	150
	$ 790	**$ 163**	**$ 953**	**$ 1,266**	**$ 2,505**	**$ 3,771**

(e) Geographic analysis

At December 31, 2021	Single Family Mortgages	Construction Loans	Commercial Loans	Total	
Ontario	$ 858,727	$ 174,909	$ 88,601	$ 1,122,237	62.2 %
Alberta	73,079	65,010	—	138,089	7.6 %
British Columbia	57,250	444,379	—	501,629	27.8 %
Quebec	26,084	—	4,160	30,244	1.7 %
Atlantic Provinces	8,107	—	—	8,107	0.4 %
Other	5,840	—	—	5,840	0.3 %
	$ 1,029,087	**$ 684,298**	**$ 92,761**	**$ 1,806,146**	**100.0 %**

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

(f) Other information

Outstanding commitments for future fundings of mortgages are as follows:

At December 31	2021	2020
Single family mortgages		
Insured	$ 57,083	$ 79,048
Uninsured	23,411	24,728
Uninsured - completed inventory	808	2,794
Construction loans	435,638	264,163
	$ 516,940	**$ 370,733**

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

The fair value of the corporate mortgage portfolio at December 31, 2021 was $1,809,656 (December 31, 2020 - $1,266,785). Fair values are calculated on a discounted cash flow basis using the prevailing market rates for similar mortgages.

At December 31, 2021, single family insured mortgages included $50,828 (December 31, 2020 - $48,304) of mortgages that had been securitized through the market MBS program; however, the underlying MBS security has been retained by the Company for liquidity purposes.

8. Non-Marketable Securities

At December 31	2021	2020
KingSett High Yield Fund	$ 44,595	$ 43,583
Securitization Notes	6,449	12,534
TAS LP 3	5,371	—
KingSett Senior Mortgage Fund LP	4,125	—
TAS LP 3 Co-Invest LP	2,875	—
Pearl Group Growth Fund LP	1,531	—
	$ 64,946	**$ 56,117**

KingSett High Yield Fund ("KSHYF"): The Company holds an investment in the KSHYF, in which it has a 6.2% equity interest (December 31, 2020 - 6.8%). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. As mortgage advances are made by the KSHYF, the Company advances its proportionate share. The KSHYF pays a base distribution of 9% per annum, and distributes any additional income earned on a quarterly basis. At December 31, 2021, the Company's total remaining commitment to the KSHYF was $22,472 (December 31, 2020 - $23,406), consisting of $278 available for capital advances for the KSHYF (December 31, 2020 - $1,212) and $22,194 that supports credit facilities throughout the life of the KSHYF (December 31, 2020 - $22,194). The fair value of the KSHYF is based on its redemption value.

Securitization Notes: During 2019, the Company invested $18,000 in Class A Securitization Notes. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than November 15, 2022. During 2021, the Company received $6,085 (2020 - $5,066) in principal repayment and recorded $769 (2020 - $1,217) of interest income at the contractual rate of the Securitization Notes in net investment income from non-marketable securities on the consolidated statements of income.

TAS LP 3 ("TAS"): During 2021, the Company invested $5,371 in TAS representing a 9.7% partnership interest, with an additional $4,629 remaining commitment. TAS invests in, and develops, residential and mixed use properties.

KingSett Senior Mortgage Fund LP ("KSSMF"): During 2021, the Company invested $4,125 in KSSMF representing a 0.9% partnership interest, with an additional $10,875 remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 Co-Invest LP ("TAS Co"): During 2021, the Company invested $2,875 in TAS Co representing a 34.8% partnership interest, with an additional $2,125 remaining commitment. TAS Co has a 24% interest in its underlying investments of urban residential and mixed use properties that are being developed under repositioning plans.

Pearl Group Growth Fund LP ("Pearl"): During 2021, the Company invested $1,531 in Pearl representing a 6.9% partnership interest, with an additional $1,470 remaining commitment. Pearl acquires, redevelops, constructs, leases and performs property management on retail properties.

9. Equity Investment in MCAP Commercial LP

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

MCAP issued new class B units at a price in excess of MCAN's carrying value per unit, resulting in a dilution gain of $326 in 2021 (2020 - $33).

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

At December 31	**2021**	**2020**
Balance, beginning of year	$ 88,263	$ 69,844
Equity income	25,453	33,918
Dilution gain	326	33
Distributions received	(17,856)	(15,532)
Balance, end of year	**$ 96,186**	**$ 88,263**

Selected MCAP financial information is as follows:

At November 30	**2021**	**2020**
MCAP's balance sheet:		
Assets	$ 44,844,502	$ 41,506,506
Liabilities	44,143,848	40,866,696
Equity	700,654	639,810

Years Ended November 30	**2021**	**2020**
MCAP's revenue and net income:		
Revenue	$ 854,453	$ 824,761
Net income	182,270	241,658

10. Other Assets

At December 31	**2021**	**2020**
Corporate assets:		
Intangible assets, net	$ 346	$ 487
Capital assets, net	628	703
Right-of-use asset	1,759	2,065
Prepaid expenses	975	1,420
Other loans	2,685	2,382
Related party receivable - MCAP	2,476	12,611
Receivables	19	115
Foreclosed real estate	435	435
	$ 9,323	**$ 20,218**

During the year ended December 31, 2021, the Company recognized $306 (2020 - $306) of depreciation expense and recorded no additions on the right-of-use asset.

The related party receivable from MCAP consists primarily of net principal and interest collected by MCAP in its role as a mortgage servicer, which is remitted to MCAN on the next business day.

The capital assets and intangible assets continuity is as follows:

	Furniture & Fixtures	Computer Hardware	Leasehold Improvements	Capital Asset Total	Intangible Assets
Cost					
At January 1, 2020	$ 829	$ 2,049	$ 1,893	$ 4,771	$ 5,807
Additions	6	12	86	104	203
At December 31, 2020	835	2,061	1,979	4,875	6,010
Additions	—	38	24	62	99
At December 31, 2021	**835**	**2,099**	**2,003**	**4,937**	**6,109**
Amortization					
At January 1, 2020	819	1,790	1,419	4,028	5,194
Amortization for the year	5	86	53	144	329
At December 31, 2020	824	1,876	1,472	4,172	5,523
Amortization for the year	4	74	59	137	240
At December 31, 2021	**828**	**1,950**	**1,531**	**4,309**	**5,763**
Net Book Value					
At December 31, 2020	11	185	507	703	487
At December 31, 2021	**$ 7**	**$ 149**	**$ 472**	**$ 628**	**$ 346**

11. Securitization Activities

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

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

Pursuant to the NHA MBS program, MBS investors receive monthly cash flows consisting of interest and scheduled and unscheduled principal payments. Canada Mortgage and Housing Corporation ("CMHC") makes principal and interest payments in the event of any MBS default by the issuer, thus fulfilling the Timely Payment guarantee to investors. All MBS issuers (including the Company) are required to remit scheduled mortgage principal and interest payments to Computershare, the designated Central Payor and Transfer Agent ("CPTA") for the program, even if these mortgage payments have not been collected from mortgagors. Similarly, at the maturity of the MBS pools that have been issued by the Company, any outstanding principal must be paid to the CPTA. If the Company fails to make a scheduled principal and interest payment to CPTA, CMHC may enforce the assignment of the mortgages included in all MBS pools in addition to other assets backing the MBS issued. In the case of mortgage defaults, MCAN is required to make scheduled principal and interest payments to the CPTA until legal enforcement proceedings are terminated at which time MCAN is required to transfer the full amount of any outstanding principal to the CPTA as part of the Timely Payment obligation and then place the mortgage/property through the insurance claims process to recover any losses. These defaults may result in cash flow timing mismatches that may marginally increase funding and liquidity risks.

During 2021, MCAN securitized $723,514 insured single family mortgages through the market MBS and CMB programs (2020 - $684,594).

During 2021, MCAN securitized no insured multi family mortgages (2020 - $51,864). With respect to the insured multi family securitization, at the time of securitization the Company derecognized the mortgages from its consolidated balance sheet and recorded an upfront gain of $nil (2020 - $243).

Other accounting considerations

The primary risks associated with the market MBS program and CMB program are prepayment, liquidity and funding risk, including the requirement to fund 100% of any cash shortfall related to the above-noted Timely Payment obligation. Please refer to the shaded sections of the "Risk Management" section of the MD&A where these risks are discussed further.

Transferred financial assets that are not derecognized in their entirety

Since MCAN neither transfers nor retains substantially all of the risks and rewards of ownership on sale and retains significant continuing involvement through the provision of the Timely Payment obligation with respect to the majority of the market MBS program and single family CMB program sale transactions, MCAN continues to recognize the securitized mortgages (Note 12) and financial liabilities from securitization (Note 16) on its consolidated balance sheet.

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

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

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

	2025	2026	2029	2030	Total
At December 31, 2021	$ 16,086	$ 8,691	$ 13,561	$ 33,767	**$ 72,105**

12. Mortgages - Securitized

(a) Summary

	Gross Principal	Allowance Stage 1	Allowance Stage 2	Allowance Total	Net Principal
At December 31, 2021	**$ 1,583,702**	$ 5	$ —	**$ 5**	**$ 1,583,697**
At December 31, 2020	**1,135,770**	23	2	**25**	**1,135,745**

(b) Mortgages by risk rating

The Company's internal risk rating system involves judgment and combines multiple factors to arrive at a borrower-specific score to assess the borrower's probability of default and ultimately classify the mortgage into one of the categories listed in the table below. For single family mortgages, these factors include, but are not limited to, the loan to value ratio, the borrower's ability to service debt, property location and credit score. For a definition of internal risk ratings, refer to Note 7.

The table below shows the credit quality of the Company's securitized mortgage portfolio based on the Company's internal risk rating system and stage classification. The Company's policy that outlines whether ECLs are calculated on an impaired or performing basis is discussed in Note 4.

At December 31	2021			2020			
	Stage 1	Stage 2	Total	Stage 1	Stage 2	Stage 3	Total
Insured Performing	$1,506,925	$ 71,907	$1,578,832	$1,063,294	$ 66,791	$ —	$1,130,085
Monitored/Arrears	3,761	1,104	4,865	2,650	2,538	—	5,188
Impaired/Default	—	—	—	—	—	472	472
	$1,510,686	**$ 73,011**	**$1,583,697**	**$1,065,944**	**$ 69,329**	**$ 472**	**$1,135,745**

(c) Mortgage allowances

The allowance for credit losses on the securitized portfolio at December 31, 2021 was $5 (December 31, 2020 - $25). The recovery of credit losses recorded during 2021 was $20 (2020 - provision for credit losses of $21).

(d) Mortgage arrears

Securitized mortgages past due but not impaired are as follows:

	1 to 30 days	31 to 60 days	61 to 90 days	Total
At December 31, 2021	$ 4,674	$ 191	$ —	**$ 4,865**
At December 31, 2020	3,403	336	1,449	**5,188**

Impaired securitized mortgages are as follows:

At December 31	2021	2020
Alberta	$ —	$ 175
Atlantic Provinces	—	60
Quebec	—	237
	$ —	**$ 472**

(e) Geographic analysis

At December 31	2021		2020	
Ontario	$ 1,372,801	86.6 %	$ 956,980	84.3 %
Alberta	112,500	7.1 %	95,958	8.4 %
British Columbia	54,371	3.4 %	36,082	3.2 %
Quebec	10,347	0.7 %	11,840	1.0 %
Atlantic Provinces	23,244	1.5 %	25,124	2.2 %
Other	10,434	0.7 %	9,761	0.9 %
	$ 1,583,697	**100.0 %**	**$ 1,135,745**	**100.0 %**

(f) Other information

Capitalized transaction costs are included in mortgages and are amortized using the EIM. At December 31, 2021, the unamortized capitalized transaction cost balance was $12,380 (December 31, 2020 - $9,016).

The fair value of the securitized mortgage portfolio at December 31, 2021 was $1,603,120 (December 31, 2020 - $1,194,167).

Other assets of $8,771 at December 31, 2021 (December 31, 2020 - $7,051), consist of interest-only strips from the Company's CMB insured multi family securitizations and prepaid expenses.

13. Term Deposits

At December 31	2021	2020
Maturity Date		
Within 3 Months	$ 115,016	$ 123,728
> 3 Months to 1 Year	717,288	426,047
> 1 to 3 Years	556,155	519,630
> 3 to 5 Years	272,533	165,364
	$ 1,660,992	**$ 1,234,769**

The estimated fair value of term deposits at December 31, 2021 was $1,661,368 (December 31, 2020 - $1,259,433) and is determined by discounting the contractual cash flows using market interest rates currently offered for deposits of similar remaining maturities.

14. Income Taxes

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

Years Ended December 31	2021	2020
Income before income taxes	$ 63,965	$ 42,649
Statutory rate of tax [1]	0 %	0 %
Tax provision (recovery) before the following:	—	—
Provision related to income subject to tax in subsidiaries	(397)	(244)
	$ (397)	**$ (244)**

[1] MCAN is subject to tax at a statutory tax rate of 38% to the extent that it does not pay sufficient dividends to eliminate its taxable income. As MCAN has historically paid sufficient dividends such that it does not have taxable income, a 0% tax rate is used above.

Years Ended December 31	2021	2020
Current tax		
Current tax provision	86	52
Deferred tax provision (recovery)		
Non-marketable securities	—	(3,894)
Relating to loss carry forward benefit	(402)	3,528
Other	(81)	70
	(483)	(296)
	$ (397)	**$ (244)**

A summary of temporary differences by type is as follows:

At December 31	2021	2020
Deferred tax assets		
Loss carry forward benefit	$ 547	$ 145
Other	344	262
	$ 891	**$ 407**
Deferred tax liabilities		
Non-marketable securities	$ —	$ —
Other	—	—
	$ —	**$ —**

Deferred tax assets and liabilities are assessed for each entity and presented as deferred tax assets of $891 (December 31, 2020 - $407) and deferred tax liabilities of $0 (December 31, 2020 - $0) on the consolidated balance sheets.

The loss carry forward benefit reflected in the deferred tax asset relates to losses in subsidiaries to which the Company has attributed a future benefit.

The Company has loss carry forward amounts in the non-consolidated MIC entity of $5,609 (December 31, 2020 - $7,551), the benefit of which has not been recorded in deferred tax assets. This balance only includes assessed fiscal years and does not incorporate taxable income for 2021. The tax loss carry forward amounts expire beginning in 2034.

15. Other Liabilities

At December 31	2021	2020
Accounts payable and accrued charges	$ 8,637	$ 2,055
Premises lease liability	2,426	2,770
Dividends payable	10,071	—
	$ 21,134	**$ 4,825**

During 2021, the Company recognized $92 (2020 - $67) of interest expense and $436 (2020 - $436) of payments relating to the premises lease liability.

The maturity of the premises lease liability is as follows:

Less than 1year	$ 356
> 1 to 5 years	2,070
Total premises lease liability	**$ 2,426**

16. Financial Liabilities from Securitization

Total financial liabilities from securitization mature as follows:

At December 31	2021	2020
2021	$ —	$ 72,233
2022	59,058	87,352
2023	64,355	85,789
2024	207,111	248,159
2025	577,081	649,076
2026	686,536	—
	$ 1,594,141	**$ 1,142,609**

17. Share Capital

At December 31	2021		2020	
	Number of Shares	Share Capital	Number of Shares	Share Capital
Balance, January 1	24,727,145	$ 234,635	24,215,383	$ 228,008
Issued				
Dividend reinvestment plan	363,585	6,006	417,384	5,442
Rights Offerings	3,281,196	53,054	—	—
Stock Dividend	1,218,133	21,096	—	—
Executive Share Purchase Plan	30,880	548	94,378	1,185
Balance, December 31	**29,620,939**	**$ 315,339**	**24,727,145**	**$ 234,635**

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

The Company issues shares under the dividend reinvestment plan ("DRIP") out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2%.

On February 23, 2021, the Board declared a special stock dividend of $0.85 per share paid on March 31, 2021 to shareholders of record as of March 15, 2021. The Company issued 1,218,133 common shares out of treasury to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $17.3178.

On May 5, 2021, the Company announced a rights offering that closed on June 10, 2021. The Company issued 1,306,467 common shares out of treasury to shareholders at a price of $15.65 per common share. Total proceeds net of share issuance costs of $334 was $20,111.

On August 20, 2021, the Company filed a Base Shelf prospectus allowing it to make public offerings of up to $400,000 of debt or equity securities during the 25 month period that it is effective. As of February 22, 2022, there have been no offerings of securities under the Base Shelf prospectus.

On October 6, 2021, the Company filed a Prospectus Supplement to the Base Shelf prospectus establishing an at-the-market equity program ("ATM Program") to issue up to $30,000 common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program will be determined at MCAN's sole discretion. As of February 22, 2022, there have been no sales of common shares under the ATM Program.

On November 8, 2021, the Company announced a rights offering that closed on December 10, 2021. The Company issued 1,974,729 common shares out of treasury to shareholders at a price of $16.86 per common share. Total proceeds net of share issuance costs of $351 was $32,943.

For details on the Executive Share Purchase Plan, refer to Note 22.

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

18. Dividends

On February 22, 2022, the Board declared a quarterly regular cash dividend of $0.36 per share and a special stock dividend of $0.97 both to be paid on March 31, 2022 to shareholders of record as of March 15, 2022.

19. Net Gain (Loss) on Securities

Years Ended December 31	2021	2020
Net gain (loss) on marketable securities	$ 14,763	$ (9,091)
	$ 14,763	**$ (9,091)**

For the year ended December 31, 2021, proceeds from disposition in the Company's REIT portfolio were $16,617 (2020 - $1,247), resulting in a $3,845 realized gain (2020 - $296).

20. Mortgage Expenses

Corporate assets

Years Ended December 31	2021	2020
Mortgage servicing expense	$ 3,695	$ 3,378
Letter of credit expense	776	623
Other mortgage expenses	798	587
	$ 5,269	**$ 4,588**

Letter of credit expense relates to outstanding letters of credit under the Company's credit facility, discussed in Note 23.

Securitization assets

Mortgage expenses associated with securitization assets of $3,396 (2020 - $2,177) consist primarily of mortgage servicing expenses.

21. Provision for (Recovery of) Credit Losses

Years Ended December 31	Note	2021	2020
Corporate portfolio:			
Stage 1 - provisions for (recoveries of) performing mortgages	7	$ 1,041	$ 1,430
Stage 2 - provisions for (recoveries of) performing mortgages	7	(453)	594
Stage 3 - provisions for (recoveries of) impaired mortgages	7	(108)	46
		480	2,070
Other provisions (recoveries), net		—	5
Provision for credit losses		**480**	**2,075**
Securitized portfolio:			
Stage 1 - provisions for (recoveries of) performing mortgages	12	(18)	19
Stage 2 - provisions for (recoveries of) performing mortgages	12	(2)	2
Provision for (recovery of) credit losses		**$ (20)**	**$ 21**

22. Related Party Disclosures

Transactions with MCAP

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

- Purchase of mortgage origination and administration services of $5,014 (2020 - $4,063)
- Purchase of uninsured single family mortgages of $31,656 (2020 - $18,820)
- Purchase of construction loans of $41,383 (2020 - $nil) and sale of construction loans at par of $45,690 (2020 - $nil) with no gain or loss on sale.
- During the year, the Company entered into an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, whereby the Company can sell to MCAP Securities Limited Partnership insured single family mortgage commitments. The Company sold $76,179 in commitments in 2021 under this agreement and received revenue of $853 recorded in interest on cash and other income on the consolidated statements of income.
- On November 3, 2021, the Company obtained a loan with reference to the fair value of a pool of insured single family mortgages from MCAP Securities Limited Partnership. At December, 31, 2021, the carrying value of the loan payable was $41,205. On January 27, 2022, the Company settled the loan with MCAP Securities Limited Partnership at the same referenced fair value price of the same pool of insured single family mortgages. Interest on the loan of $120 is included in interest on loans payable on the consolidated statements of income.

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

Compensation

Key management personnel of the Company consist of individuals that have authority and accountability for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the members of the Board.

The compensation of key management personnel is as follows:

Years Ended December 31	2021	2020
Short term employee benefits (salaries, benefits and director fees)	$ 4,674	$ 4,032
Share-based payments (DSU, RSU, PSU)	800	495
	$ 5,474	**$ 4,527**

Executive Share Purchase Plan

The Company has an Executive Share Purchase Plan (the "Share Purchase Plan") whereby the Board can approve loans to senior management for the purpose of purchasing the Company's common shares. The maximum amount of loans approved under the Share Purchase Plan is limited to 10% of the issued and outstanding common shares.

Dividend distributions on the common shares are used to reduce the principal balance of the loans as follows: 50% of regular distributions; 75% of capital gain distributions. Common shares are issued out of treasury for the Share Purchase Plan. During 2019, the Board approved an amendment that precludes the granting of awards under the Share Purchase Plan before the sixth day after the end of a black-out period.

At December 31, 2021, $2,088 of loans were outstanding under the Share Purchase Plan (December 31, 2020 - $1,742). During 2021, the Company advanced new loans under the Share Purchase Plan of $788 (2020 - $1,185). The loans under the Share Purchase Plan bore interest at 3.45% at December 31, 2021 (December 31, 2020 - 3.45%) which represents prime plus 1% and have a five-year term. The shares are pledged as security for the loans and had a fair value of $2,962 at December 31, 2021 (December 31, 2020 - $2,589). In 2021, MCAN recognized $66 of interest income (2020 - $46) on the Share Purchase Plan loans.

Employee Share Ownership Plan

The Company has an Employee Share Ownership Plan whereby employees can elect to purchase common shares of the Company up to 6% of their annual earnings. The Company matches 50% of the each employee's contribution amount. During each pay period, all contributions are used by the plan's trustee to purchase the common shares in the open market. The common shares acquired with the Company's contributions fully vest immediately. The Company's contributions are expensed as paid and totalled $191 for 2021 (2020 - $157).

Share Unit Plans

Deferred Share Units Plan

The Company has a Deferred Share Units Plan (the "DSU Plan") whereby the Board grants units under the DSU Plan to certain members of senior management of the Company (the "DSU Participants"). Each unit is equivalent in value to one common share of the Company. The DSU Participants are entitled to receive cash for each unit following their individual retirement or termination dates, whichever is earlier. The individual unit values are based on the average market value of the Company's common shares for the five days preceding the retirement/termination date. During 2021 and 2020, there were no DSU Plan units outstanding.

Restricted Share Units Plan

The Company has a Restricted Share Units Plan (the "RSU Plan") whereby the Board grants units under the RSU Plan to certain members of senior management of the Company (the "RSU Participants"). Each unit is equivalent in value to one common share of the Company. The RSU Participants are entitled to receive cash for each unit three years subsequent to the awarding of the units subject to continued employment with the Company. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the RSU Participants are entitled to receive dividend distributions in the form of additional units. All RSU units vest after three years.

During 2021, the Company paid the RSU Participants $37 (2020 - $55) upon vesting of 2,135 RSU Plan units (2020 - 3,434 units).

Performance Share Units Plan

The Company has established a Performance Share Units Plan (the "PSU Plan") whereby the Board grants units under the PSU Plan to certain members of senior management of the Company (the "PSU Participants"). Each unit is equivalent in value to one common share of the Company. Issuances prior to 2019 vest three years subsequent to the awarding of the units subject to continued employment with the Company. Units issued in 2019 and thereafter vest annually over a three year period, however these units are not payable until three years from the issuance date. The individual unit values are based on the value of the Company's common shares at the time of payment. In addition, the PSU Participants are entitled to receive dividend distributions in the form of additional units. At the time of vesting, a "Performance Factor" of 0-150% is applied to the number of units awarded which is based on earnings per share and other performance metrics in the years subsequent to the grant date.

The units granted under the PSU Plan may be either PSU units or Performance Deferred Share Units ("PDSU units"). Holders of PSU units issued prior to 2019 are paid in cash at the time of vesting. Holders of PSU units issued in 2019 and thereafter are paid in cash three years from the issuance date. Holders of PDSU units are paid in cash at their individual retirement or termination, whichever is earlier, provided that the units have vested. Additionally, the PDSU units earn dividends subsequent to vesting until the retirement or termination, whichever is earlier.

During 2021, the Company paid the PSU Participants $nil (2020 - $nil) upon vesting of 9,743 PSU Plan units (2020 - 26,447). Of the total outstanding PSU units at December 31, 2021, the Company has recorded a liability on all of these units. At December 31, 2020, the Company did not record a liability on 40,819 units as it did not expect any payout on these units.

Activity related to the RSU Plan and PSU Plan is as follows:

At December 31	2021		2020	
	RSU	PSU	RSU	PSU
Units outstanding, beginning of year	78,314	70,290	50,456	78,853
New units granted	29,813	29,863	43,604	28,999
Units issued as dividends	10,898	8,863	7,134	6,839
Units vested	(2,135)	(9,743)	(3,434)	(26,447)
Units forfeited	(14,450)	(12,993)	(19,446)	(17,954)
Units outstanding, end of year	**102,440**	**86,280**	**78,314**	**70,290**
Compensation expense for the year	$ 555	$ 648	$ 249	$ 404
Outstanding liability, end of year	$ 1,004	$ 1,182	$ 486	$ 534

23. Credit Facilities

The Company has a demand loan revolver facility from a Canadian Schedule I Chartered bank bearing interest at prime plus 0.75% (3.20%) (December 31, 2020 - prime plus 0.75% (3.20%)). The facility limit is $120,000. The facility is due and payable upon demand. At December 31, 2021, the outstanding loan payable was $10,046 (December 31, 2020 - $nil).

Under the facility, there is a sublimit for issued letters of credit. Letters of credit have a term of up to one year from the date of issuance, plus a renewal clause providing for an automatic one-year extension at the maturity date subject to the bank's option to cancel by written notice at least 30 days prior to the letters of credit expiry date. The letters of credit are for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case the Company is obligated to fund the letters of credit. At December 31, 2021, there were letters of credit in the amount of $45,564 issued (December 31, 2020 - $39,105) and additional letters of credit in the amount of $11,795 committed but not issued (December 31, 2020 - $15,774).

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

In May 2021, the Company signed a demand loan credit agreement with a Canadian Schedule I Chartered bank for a $50,000 senior secured mortgage warehouse facility that bears interest at either prime rate plus 0.05% or bankers' acceptance rate plus 1.05%. The facility can be increased by another $50,000 upon notice by the Company and with the lender's consent. On November 26, 2021, the facility limit was temporarily increased to $75,000 until December 31, 2021. The facility is used to fund insured single family mortgages prior to securitization activities. At December 31, 2021, the outstanding loan payable was $47,290.

24. Capital Management

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

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

Regulatory capital

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

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

At December 31	2021	2020
Regulatory ratios (OSFI)		
Share capital	$ 315,339	$ 234,635
Contributed surplus	510	510
Retained earnings	117,409	111,367
Deduction for equity investment in MCAP [1]	(52,734)	(53,475)
Eligible stage 1 and stage 2 allowances [3]	1,258	1,364
Common Equity Tier 1 and Tier 1 Capital [3] (A)	**381,782**	**294,401**
Tier 2 Capital [3]	5,381	4,707
Total Capital [3]	**$ 387,163**	**$ 299,108**
Total exposures/Regulatory assets		
Consolidated assets	$ 3,808,070	$ 2,728,715
Less: deduction for equity investment in MCAP [1]	(52,734)	(53,475)
Other adjustments [2]	1,760	3,018
Total on-balance sheet exposures	**3,757,096**	**2,678,258**
Mortgage and investment funding commitments	558,511	394,139
Less: conversion to credit equivalent amount (50%)	(279,256)	(197,070)
Letters of credit	45,564	39,105
Less: conversion to credit equivalent amount (50%)	(22,782)	(19,553)
Off-balance sheet items	**302,037**	**216,621**
Total exposures/Regulatory assets (B)	**$ 4,059,133**	**$ 2,894,879**
Leverage ratio (A / B)	**9.41%**	**10.17%**

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

Income tax capital

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

Other Capital Management Activity

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

25. Financial Instruments

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

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

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

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

There were no transfers between levels during the years ended December 31, 2021 and 2020.

The following tables summarize the fair values of financial assets measured at FVPL and financial assets and liabilities measured at amortized cost for which fair values are disclosed.

At December 31, 2021	Level 1	Level 2	Level 3	Total	Carrying Value
Assets measured at FVPL					
Marketable securities	$ 62,693	$ —	$ —	62,693	$ 62,693
Non-marketable securities - KSHYF [1]	—	—	44,595	44,595	44,595
Non-marketable securities - Securitization Notes [2]	—	—	6,449	6,449	6,449
Non-marketable securities - TAS [8]	—	—	5,371	5,371	5,371
Non-marketable securities - KSSMF [1]	—	—	4,125	4,125	4,125
Non-marketable securities - TAS Co [8]	—	—	2,875	2,875	2,875
Non-marketable securities - Pearl [8]	—	—	1,531	1,531	1,531
	$ 62,693	**$ —**	**$ 64,946**	**$ 127,639**	**$ 127,639**
Assets measured at amortized cost for which fair values are disclosed					
Cash and cash equivalents	$ 122,269	$ —	$ —	$ 122,269	$ 122,269
Mortgages - corporate [3]	—	—	1,809,656	1,809,656	1,806,146
Other assets - other loans [4]	—	—	2,685	2,685	2,685
Securitization program cash held in trust	53,148	—	—	53,148	53,148
Mortgages - securitized [3]	—	—	1,603,120	1,603,120	1,583,697
	$ 175,417	**$ —**	**$ 3,415,461**	**$ 3,590,878**	**$ 3,567,945**
Liabilities measured at amortized cost for which fair values are disclosed					
Term deposits [6]	$ —	$ —	$ 1,661,368	$ 1,661,368	$ 1,660,992
Other loan payable to MCAP Securities Limited Partnership [5]	—	—	41,205	$ 41,205	41,205
Demand loans payable [5]	—	—	57,340	$ 57,340	57,340
Other liabilities - corporate [5]	—	—	21,134	$ 21,134	21,134
Financial liabilities from securitization [7]	—	—	1,579,812	1,579,812	1,594,141
	$ —	**$ —**	**$ 3,360,859**	**$ 3,360,859**	**$ 3,374,812**

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

[1] Fair value is based on the redemption value.
[2] Fair value of investment in securitized notes is determined by discounting the expected future cash flows of the future fee income from the renewals of a securitized insured mortgage portfolio. The significant unobservable input is the discount rate.
[3] Fair value of corporate and securitized fixed rate mortgages are calculated based on discounting the expected future cash flows of the mortgages, adjusting for credit risk and prepayment assumptions at current market rates for offered mortgages based on term, contractual maturities and product type. For variable rate mortgages, fair value is assumed to equal their carrying amount since there are no fixed spreads. The Company classifies its mortgages as Level 3 given the fact that although many of the inputs to the valuation models used are observable, non-observable inputs include the discount rate and the assumed level of prepayments.
[4] Fair value is assumed to be the carrying value as underlying loans are variable rate.
[5] The carrying value of the asset/liability approximates fair value.
[6] As term deposits are non-transferable by the deposit holders, there is no observable market. As such, the fair value of the term deposits is determined by discounting expected future cash flows of the deposits at current offered rates for deposits with similar terms.
[7] Fair value of financial liabilities from securitization is determined using current market rates for CMB and MBS.
[8] Fair value based on recent transaction price.

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

At December 31	2021	2020
Balance, beginning of year	$ 56,117	$ 93,689
Advances / Purchases	14,913	635
Repayments / Dispositions	(6,084)	(38,207)
Balance, end of year	**$ 64,946**	**$ 56,117**

Risk management

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

26. Commitments and Contingencies

MCAP was actively defending a claim arising from a power of sale process with respect to a defaulted land development loan previously funded by MCAN. The plaintiff had claimed improvident sale and had claimed damages of approximately $6,000. On December 11, 2020, a trial on this matter resulted in a court judgment to dismiss the claim with $300 in costs to be paid by the plaintiff. On January 11, 2021, the plaintiff appealed. On March 24, 2021, the Court dismissed the appeal. Based on this, the Company does not have any material liability arising out of the indemnification obligation to MCAP and accordingly has not recorded a provision.

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

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

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

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

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

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

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

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

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

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

EXECUTIVE OFFICERS

Karen Weaver
President and Chief Executive Officer

Floriana Cipollone
Vice President and Chief Financial Officer

Avish Buck
Vice President, Residential Lending

Carl Brown
Vice President, Investments

Aaron Corr
Vice President and Chief Risk Officer

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

Brenna McGibney
Vice President, Human Resources and Communications

Sylvia Pinto
Vice President, Corporate Secretary & Governance Officer

Milica Pejic
Vice President, Finance

Paul Gill
Vice President, Information Technology

Nazeera Khan
Chief Audit Officer

CORPORATE INFORMATION

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

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

Stock Listing
Toronto Stock Exchange
Symbol: MKP

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

Websites
www.mcanmortgage.com
www.xmcmortgage.com

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

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

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

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

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

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

Annual and Special Meeting of Shareholders
Tuesday, May 10, 2022
4:30pm (Toronto time)
All shareholders and prospective investors are invited to attend.



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

(855) 213-6226 | mcanmortgage.com | mcanexecutive@mcanmortgage.com