MCAN MORTGAGE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

MARCH 31, 20HM

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2021 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2020. These items and additional information regarding MCAN Mortgage Corporation ("MCAN", the "Company" or "we"), including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanmortgage.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2020 remain substantially unchanged. Information has been presented as of May 11, 2021.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

The COVID-19 pandemic has cast particular uncertainty on the Company's internal expectations, estimates, projections, assumptions and beliefs, including with respect to the Canadian economy, employment conditions, interest rates, levels of housing activity and household debt service levels. There can be no assurance that they will continue to be valid. Given the rapid pace of change with respect to the impact of the COVID-19 pandemic, it is premature to make further assumptions about these matters. The duration, extent and severity of the impact the COVID-19 pandemic, including measures to prevent its

spread and related government actions adopted in response, will have on our business is highly uncertain and difficult to predict at this time.

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

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Quarter

(in thousands except for per share amounts) At and for the Quarters Ended	March 31 2021	December 31 2020	Change (%)	March 31 2020	Change (%)
Income Statement Highlights					
Mortgage interest - corporate assets	$ 15,796	$ 17,115	(8%)	$ 15,397	3%
Net investment income (loss) - corporate assets	$ 20,205	$ 25,704	(21%)	$ (5,022)	502%
Mortgage interest - securitization assets	$ 6,632	$ 6,461	3%	$ 4,783	39%
Net investment income - securitization assets	$ 1,545	$ 1,694	(9%)	$ 801	93%
Net income (loss)	$ 15,924	$ 22,086	(28%)	$ (9,730)	264%
Basic and diluted earnings (loss) per share	$ 0.64	$ 0.89	(28%)	$ (0.40)	260%
Dividends per share - cash	$ 0.34	$ 0.34	— %	$ 0.34	— %
Dividends per share - stock	$ 0.85	$ —	n/a	$ —	n/a
Next quarter's dividend per share - cash	$ 0.34				
Return on average shareholders' equity [1]	18.15 %	25.92 %	(7.77%)	(11.84)%	29.99%
Taxable income per share [1,2]	$ 0.85	$ 1.05	(19%)	$ 0.71	20 %
Spreads					
Spread of corporate mortgages over term deposit interest	2.76 %	2.76 %	—%	2.62 %	0.14%
Spread of securitized mortgages over liabilities [1]	0.81 %	0.89 %	(0.08%)	0.63 %	0.18%
Average term to maturity (in months)					
Mortgages - corporate	13.7	14.2	(4%)	12.2	12 %
Term deposits	17.7	18.3	(3%)	17.0	4%
Balance Sheet Highlights					
Total assets	$ 2,976,687	$ 2,728,715	9%	$ 2,211,909	35 %
Mortgages - corporate	$ 1,286,890	$ 1,252,762	3%	$ 1,188,331	8 %
Mortgages - securitized	$ 1,326,519	$ 1,135,745	17%	$ 751,530	77%
Shareholders' equity	$ 356,869	$ 346,512	3%	$ 315,093	13%
Capital Ratios [1]					
Income tax assets to capital ratio	5.05	5.09	(1%)	5.03	— %
CET 1 & Tier 1 capital ratio [4]	21.65 %	21.67 %	(0.02%)	21.80 %	(0.15%)
Total capital ratio [4]	22.02 %	22.02 %	—%	22.17 %	(0.15%)
Leverage ratio [3]	9.69 %	10.17 %	(0.48%)	11.70 %	(2.01%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	1.10 %	0.30 %	0.80%	0.39 %	0.71 %
Impaired mortgage ratio (total) [1]	0.55 %	0.18 %	0.37%	0.28 %	0.27 %
Mortgage Arrears [1]					
Corporate	$ 26,514	$ 24,288	9%	$ 31,289	(15%)
Securitized	4,710	5,660	(17%)	5,016	(6%)
Total	$ 31,224	$ 29,948	4%	$ 36,305	(14%)
Common Share Information (end of period)					
Number of common shares outstanding	26,135	24,727	6%	24,420	7 %
Book value per common share [1]	$ 13.65	$ 14.01	(3%)	$ 12.90	6%
Common share price - close	$ 16.46	$ 15.77	4%	$ 12.18	35%
Market capitalization [1]	$ 430,182	$ 389,945	10%	$ 297,436	45%

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

HIGHLIGHTS

Financial Performance

- Net income of $15.9 million in Q1 2021, an increase of $25.6 million (264%) from net loss of $9.7 million in Q1 2020.

- Earnings per share totalled $0.64 in Q1 2021, an increase of $1.04 (260%) from loss per share of $0.40 in Q1 2020.

- Return on average shareholders' equity[1] of 18.15% in Q1 2021, an increase from (11.84)% in Q1 2020.

- Net corporate mortgage spread income[1] increased by $0.9 million from Q1 2020. The net corporate mortgage spread income[1] increased due to a higher average corporate mortgage portfolio balance[1] of $1.27 billion in Q1 2021 compared to $1.14 billion in Q1 2020. This increase was augmented by an increase in the spread of corporate mortgages over term deposit interest[1] to 2.76% in Q1 2021 from 2.62% in Q1 2020. The increase in the spread of corporate mortgages over term deposit interest[1] is due to a larger reduction in term deposit rates compared to mortgage rates. The decline in our mortgage rate is due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition which has compressed rates in our single family portfolio and a reduction in the prime rate since the onset of COVID-19 partially offset by higher residential construction rates.

- Net securitized mortgage spread income[1] increased by $1.2 million from Q1 2020. The net securitized mortgage spread income[1] increased due to a higher average securitized mortgage portfolio balance[1] from significantly higher originations of insured single family mortgages and an increase in the spread of securitized mortgages over liabilities[1]

- Our provision for credit losses on our corporate mortgage portfolio decreased by $1.5 million from Q1 2020 due to refinements in model parameters to reflect our policies and business practices in our commercial and construction portfolio and improved economic forecasts, partially offset by growth in the corporate mortgage portfolio balance compared to Q1 2020. Compared to Q4 2020, our provision for credit losses on our corporate mortgage portfolio increased by $0.3 million mainly due to a higher corporate mortgage portfolio balance.

- Equity income from MCAP Commercial LP ("MCAP") totalled $6.7 million in Q1 2021, an increase of $3.3 million (96%) from $3.4 million in Q1 2020, which was due to higher assets under management, increased volumes across all lines of business, which contributed to higher mortgage related income on the sale and securitization of these mortgages, higher net interest income on securitized mortgages, and financial instrument gains compared to financial instrument losses in Q1 2020. We expect that MCAP will continue to have strong earnings, however, more normal market and business dynamics will continue through the remainder of 2021 compared to 2020.

- In Q1 2021, we recorded a $3.9 million net gain on securities compared to a $15.7 million net loss on securities in Q1 2020. Activity in Q1 2021 related to fair value gains on our real estate investment trust ("REIT") portfolio and in Q1 2020 related to fair value losses on our REIT portfolio due to the onset of the pandemic. We may continue to see volatility in the market value of our REIT portfolio given the recent third wave and uncertainty around the vaccine rollout.

Business Activity and Balance Sheet

- Corporate assets totalled $1.61 billion at March 31, 2021, an increase of $53 million (3%) from December 31, 2020.

- Corporate mortgage portfolio totalled $1.29 billion at March 31, 2021, an increase of $34 million (3%) from December 31, 2020.

- Uninsured single family portfolio totalled $533 million at March 31, 2021, an increase of $50 million (10%) from December 31, 2020.

- Uninsured single family originations were $105 million in Q1 2021, a decrease of $9 million (8%) from Q4 2020 and an increase of $53 million (101%) from Q1 2020.

- Insured single family originations were $210 million in Q1 2021, a decrease of $8 million (4%) from Q4 2020 and an increase of $110 million (111%) from Q1 2020.

- Securitization volumes totalled $228 million in Q1 2021, a decrease of $38 million (14%) from $266 million in Q4 2020 and an increase of $133 million (140%) from $95 million in Q1 2020. Securitization volumes in Q1 2021 consisted of $228 million of insured single family mortgages (Q4 2020 - $249 million; Q1 2020 - $80 million) and $nil of insured multi family mortgages (Q4 2020 - $17 million; Q1 2020 - $15 million). Securitization issuances exceeded maturities in Q1 2021, resulting in a net increase in securitized mortgages of 17% from Q4 2020.

- Construction and commercial portfolios totalled $559 million at March 31, 2021, an increase of $12 million (2%) from December 31, 2020.

Dividend

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

Credit Quality

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

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

- Total mortgage arrears[1] were $31 million at March 31, 2021 compared to $30 million at December 31, 2020. Both period ends include the one construction mortgage discussed above.

- Net write-offs were $1,000 (0.0 basis points of the average corporate portfolio) in Q1 2021 compared to $69,000 (2.4 basis points) in Q1 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 60.0% at March 31, 2021 compared to 60.6% at December 31, 2020.

Capital

- In order to support our continued growth and maintain our targeted capital requirements, we announced on May 5, 2021, that we will be offering rights (the "Rights Offering") to eligible holders of the Company's common shares of record at the close of business on May 12, 2021. Pursuant to the Rights Offering, each shareholder will receive one Right for each common share held. Every 20 Rights plus $15.65 will entitle the holder to subscribe for one common share. The Company expects to raise gross proceeds of approximately $20.4 million. The expected closing date of the Rights Offering is June 10, 2021. Directors and senior officers, collectively holding approximately 4.4 million common shares (including major shareholder Ian Sutherland), have indicated their intention to exercise some or all of their Rights, subject to market conditions. As well, KingSett Canadian Real Estate Income Fund, an institutional shareholder with a significant position in the Company's common shares, has indicated its intention to exercise all of its Rights, subject to market conditions. The Rights will trade on the Toronto Stock Exchange under the symbol MKP.RT commencing on May 11, 2021, and will cease trading at 12:00 p.m. (Toronto time) on

June 7, 2021. Rights are exercisable until 5:00 p.m. (Toronto time) on June 7, 2021. The Rights Offering includes an additional subscription privilege under which eligible holders who fully exercise their Rights will be entitled to subscribe for additional common shares, if available, that are not otherwise subscribed for in the Rights Offering.

- We issued 184,072 new common shares through the Dividend Reinvestment Program ("DRIP") in Q1 2021 compared to 204,894 new common shares in Q1 2020. The DRIP participation rate was 17% for the Q1 2021 dividend (Q4 2020 - 17%; Q1 2020 - 17%).

- We issued 1,223,499 new common shares on March 31, 2021 for the special stock dividend to shareholders of record on March 15, 2021 (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $17.3178.

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

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

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

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

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

OUTLOOK

Market Outlook

The Canadian and global economy continues to be impacted by the COVID-19 pandemic with the beginning of a third wave of infections, increases in cases related to new strains of the virus, delayed vaccine supply and rollouts and further lockdowns in various parts of the country. Many non-essential businesses and services continue to either be closed or operating under restrictions. International borders continue to have restrictions. Vaccine rollouts and virus containment measures had boosted confidence in mid-term forecasts; however, with vaccine supply issues and new virus strains, the pandemic continues to have an adverse impact on the near-term economic outlook. It is still too early to determine the impacts of this third wave or even the full impacts COVID-19 will have on the Canadian economy. We expect that effective mass vaccinations will allow for a stronger economic recovery in the latter half of 2021.

Canadian governments at all levels, as well as the Bank of Canada, have taken extraordinary measures by injecting a significant amount of fiscal stimulus into the economy through various support measures. These measures have been both direct to individuals and businesses affected through various benefits, subsidies and credit support, as well as indirect to improve liquidity conditions and ensure that that the economy is functioning properly. The recent 2021 federal budget continues the extension of key pandemic support programs, which are expected to be slowly phased out, and introduced new targeted programs that aim to accelerate Canada's economic recovery. Inflation has increased slightly but still within the Bank of Canada's target range and its overnight rate of 0.25% is expected to remain steady in the mid-term. All these measures have helped and will continue to help support Canadians and the Canadian economy. Canada's GDP grew through the second wave of the virus despite lockdown measures in various parts of the country. That said, many economists don't expect GDP to be back to its pre-pandemic level until at least 2022. In its most recent address, the Bank of Canada revised its GDP growth forecasts upwards significantly, but did note near-term risk due to the third wave and associated lockdowns. The Bank of Canada now sees the economy returning to full capacity in the second half of 2022. Employment numbers also continue to take a positive direction overall; however, there continues to be a shortfall in the travel and hospitality sectors due to virus containment measures. It should also be noted that the Canadian household savings rate and net worth have increased significantly since COVID-19 began due to living and travel expenses falling as a result of lockdown measures, credit deferrals extended by lenders, government stimulus, asset price appreciation and many households not being affected by job losses. It is still unclear, however, what Canada's economic and employment future will be - particularly when key support measures end and the hoard of savings that have accumulated in many households begins to deplete.

Business Outlook

We continue to execute our business efficiently and effectively since moving to remote operations at the beginning of the pandemic. We conduct our business based on our expectations of the market, economic outlook, demand for housing, asset quality and financial health of the Canadian economy. We continue to be focused on managing all our business activities and risks in the context of the COVID-19 pandemic and the current economic, business and daily living environment in Canada.

The timing and speed of the recovery of the Canadian economy continues to be uncertain as previously mentioned, and the Bank of Canada has indicated that interest rates will remain low for the near-term. We had seen a decline in housing starts at the beginning of the pandemic, however, housing now continues to be a hot spot for the Canadian economy. In fact, housing starts continue into 2021 above pre-pandemic norms. On the resale side of the housing business, Q1 2021 saw bidding contests in record numbers. Home prices continue to increase significantly due to the high demand, with supply being extremely tight, particularly for single family homes. Low interest rates and remote working has been the main reason for this outcome. Remote working has also meant that prices of houses have continued to increase outside of the major urban markets. All of this has been the opposite of what many predicted would be the outcome at the start of the pandemic. We believe that our strategy will continue to serve us well during the pandemic and beyond. We believe that we are a prudent and disciplined lender and investor and that we have strong relationships with our brokers, borrowers, servicers and strategic partners. We continue to see strong deal flow in all our product lines, as well as loan repayments from completed construction projects and maturing residential mortgages. Our business activities will continue, with enhanced focus on all key lending metrics given the heightened uncertainty in the economy and outlook.

Single Family Business

The Q1 2021 housing market continued to remain extremely strong and extremely active, fueled by low interest rates, remote working and families seeking to advance their lives and homes. In our portfolios, we continued to see a record increase in new insured and uninsured mortgage volumes relating to home purchases and uninsured mortgage refinances across our target markets. We had some of the highest monthly originations in our history in Q1 2021 and our pipeline remains strong. In May 2021, we signed a credit agreement with a Canadian Schedule I Chartered bank for a new $50 million senior secured mortgage warehouse facility to provide improved funding in response to our continued growth. Currently, we are seeing a much more competitive environment in both the insured and uninsured mortgage market. We expect this to continue for much of the balance of 2021.

In these unprecedented times our risk management, credit monitoring and assessment activities have increased. We worked with our borrowers on a case-by-case basis to provide effective alternatives that allowed them to manage the challenges they were facing due to COVID-19. We implemented appropriate measures to support borrowers after their payment deferral periods ended, which included increased amortizations and other payment arrangements. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term. Having said that, we are not seeing significant credit deterioration or prolonged financial distress among our borrowers. Also given the volatility of house prices, OSFI has proposed to establish a risk-based fixed floor on qualifying rates for all uninsured mortgages effective June 1, 2021. This may have an impact on volumes in this portfolio in the short term, potentially increasing volumes just prior to the increased fixed floor rate being implemented. We are focused on keeping abreast of the many changes in the market and in our portfolios that could negatively impact our business or that could create opportunities in line with our risk appetite.

Construction and Commercial Business

While there continues to be some construction site delays due to COVID-19, our construction project finance loans are progressing forward without major delays or credit issues in the markets where we do business. We have seen some slowdowns in interior unit finishing in particular, due to social distancing protocols and workplace safety rules, as well as supply chain challenges for key components such as plumbing fixtures, lighting fixtures, and mechanical units. The cost of construction has also increased. Furthermore, certain municipal staff inspections have been delayed. These factors have, and may continue to, impact the timing of repayments, however, they have not changed the overall expected outcome of project successes or loan performances. In fact, we have seen a significant amount of timely repayments within our construction and commercial book as loans matured.

The Canadian housing market remains strong. We are focused on increasing the amount of construction originations and currently our pipeline remains active. We will of course continue to monitor the Canadian economic landscape as we move through the pandemic. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential product with experienced borrowers where we have existing relationships. We approach our underwriting with a conservative lens in light of COVID-19 and will continue to do so as we move forward.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will continue to depend on the scope and duration of this crisis, this third wave of COVID-19 and the overall effectiveness of actions that have been taken by various governmental agencies. We support the actions taken by the government and regulators as we believe that to date, they have been positive for the economy, consumers and our business. We are encouraged by the strength of our single family and construction and commercial business, all fuelled by the interest rate markets in addition to the enhanced importance of “home” since the pandemic set in and impacted our lives. We continued to see further recovery in our marketable securities in Q1 2021 and we continue to invest in other non-marketable securities, which also continue to solidly perform. MCAN’s management and Board are committed to proactively and effectively managing and evolving the Company’s strategy, business activities and team through the pandemic and into the future. Our targeted annual growth in corporate assets over the long term is 10%. We believe that with our rights offering we will continue to be well positioned in terms of capital and liquidity to support our targeted growth within our risk appetite in 2021.

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

RESULTS OF OPERATIONS

Table 2: Net Income (loss)

(in thousands except for per share amounts and %)					
	Q1	Q4	Change	Q1	Change
For the Quarters Ended	**2021**	**2020**	**(%)**	**2020**	**(%)**
Net Investment Income - Corporate Assets					
Mortgage interest	$ 15,796	$ 17,115	(8%)	$ 15,397	3%
Equity income from MCAP Commercial LP	6,742	9,378	(28%)	3,434	96%
Non-marketable securities	1,383	1,483	(7%)	1,546	(11%)
Marketable securities	805	668	21%	611	32%
Fees	417	691	(40%)	363	15%
Interest on cash and other income	117	104	13%	302	(61%)
Net gain (loss) on securities	3,920	5,702	(31%)	(15,688)	125%
	29,180	**35,141**	**(17%)**	**5,965**	**389%**
Term deposit interest and expenses	7,556	7,918	(5%)	8,008	(6%)
Mortgage expenses	1,084	1,300	(17%)	1,034	5%
Interest on loans payable	65	199	(67%)	141	(54%)
Provision for credit losses	270	20	1,250%	1,804	(85%)
	8,975	**9,437**	**(5%)**	**10,987**	**(18%)**
	20,205	**25,704**	**(21%)**	**(5,022)**	**502%**
Net Investment Income - Securitization Assets					
Mortgage interest	6,632	6,461	3%	4,783	39%
Other securitization income	42	112	(63%)	261	(84%)
	6,674	**6,573**	**2%**	**5,044**	**32%**
Interest on financial liabilities from securitization	4,426	4,232	5%	3,747	18%
Mortgage expenses	723	637	14%	495	46%
Provision for (recovery of) credit losses	(20)	10	(300%)	1	(2,100%)
	5,129	**4,879**	**5%**	**4,243**	**21%**
	1,545	**1,694**	**(9%)**	**801**	**93%**
Operating Expenses					
Salaries and benefits	4,271	4,509	(5%)	3,802	12%
General and administrative	2,312	1,601	44%	1,755	32%
	6,583	**6,110**	**8%**	**5,557**	**18%**
Net income (loss) before income taxes	15,167	21,288	(29%)	(9,778)	255%
Provision for (recovery of) income taxes	(757)	(798)	5%	(48)	(1,477%)
Net Income (loss)	**$ 15,924**	**$ 22,086**	**(28%)**	**$ (9,730)**	**264%**
Basic and diluted earnings (loss) per share	$ 0.64	$ 0.89	(28%)	$ (0.40)	260%
Dividends per share - cash	$ 0.34	$ 0.34	—%	$ 0.34	—%
Dividends per share - stock	$ 0.85	$ —	n/a	$ —	n/a

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	March 31, 2021			December 31, 2020			March 31, 2020		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Single family mortgages									
Insured	$ 180,143	$ 1,016	2.26 %	$ 199,861	$ 1,266	2.50 %	$ 137,778	$ 1,023	3.04 %
Uninsured	507,516	5,513	4.49 %	460,027	5,552	4.81 %	387,852	4,604	4.75 %
Uninsured - completed inventory	45,393	716	6.39 %	52,175	805	6.14 %	42,821	668	6.34 %
Construction loans									
Residential	468,406	7,626	6.60 %	543,869	8,682	6.35 %	524,236	8,432	6.48 %
Non residential	3,918	73	7.50 %	2,486	51	8.15 %	142	4	6.45 %
Commercial loans									
Multi family residential	34,474	438	5.14 %	24,425	327	5.32 %	12,820	264	6.85 %
Other	30,616	414	5.48 %	31,882	432	5.38 %	32,356	402	4.80 %
Mortgages - corporate portfolio	$1,270,466	$ 15,796	5.07 %	$1,314,725	$ 17,115	5.18 %	$1,138,005	$ 15,397	5.42 %
Term deposit interest and expenses	1,235,398	7,556	2.31 %	1,217,436	7,918	2.42 %	1,038,158	8,008	2.80 %
Net corporate mortgage spread income[2]		$ 8,240			$ 9,197			$ 7,389	
Spread of mortgages over term deposit interest [2]			2.76 %			2.76 %			2.62 %
Average term to maturity (months)									
Mortgages - corporate	13.7			14.2			12.2		
Term deposits	17.7			18.3			17.0		

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate as applicable. Income/expense incorporates items such as penalty income, commitment fee income, origination expense and commission expense.
[2] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

Table 4: Mortgage Originations

(in thousands except %) For the Quarters Ended	Q1 2021	Q4 2020	Change (%)	Q1 2020	Change (%)
Originations					
Single family - insured	$ 209,864	$ 217,780	(4%)	$ 99,542	111%
Single family - uninsured	104,817	113,358	(8%)	52,146	101%
Single family - uninsured completed inventory [1]	604	8,920	(93%)	18,466	(97%)
Residential construction [1]	99,972	121,676	(18%)	89,819	11%
Non-residential construction [1]	1,119	1,283	(13%)	269	316%
Commercial [1]	19,600	20,000	(2%)	—	n/a
	$ 435,976	**$ 483,017**	**(10%)**	**$ 260,242**	**68%**
Renewals of securitized mortgages [2]					
Single family - insured	$ 4,182	$ 25,063	(83%)	$ 28,413	(85%)

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

Overview

Balancing of the risk profile of the mortgages on our balance sheet is a focus of the Company due to COVID-19. The lower interest rate environment impacted both mortgages and term deposits. For Q1 2021, the increase in the spread of mortgages over term deposit interest[1] from Q1 2020 was due to a larger reduction in term deposit rates compared to mortgage rates. The decline in our mortgage rate is due to a portfolio mix with a greater proportion of lower-yield single family to higher-yield construction and commercial loans, continued market competition which has compressed rates in our single family portfolio and a reduction in the prime rate since the onset of COVID-19 partially offset by higher residential construction rates.

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 Q1 2021 and Q4 2020 increased significantly from Q1 2020. This increase was a result of a buoyant housing market propelled by a very low interest rate environment, our enhanced internal sales and marketing capabilities, strengthened relationships with the broker community and an increased underwriting capacity.

We continue to grow our insured single family originations to allow us to securitize opportunistically through the CMHC *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program. The continued increase in insured single family originations in Q1 2021 supported a 184% increase in single family securitization volumes to $228 million in Q1 2021 from $80 million in Q1 2020. Renewals of securitized mortgages were lower in the current quarter due to fewer maturities in the securitization portfolio.

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

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

Construction and Commercial

During Q1 2021, we continued to focus on originations in our residential construction portfolio in selected markets, with our preferred borrowers and risk profile. We have seen an increase in originations compared to Q1 2020 after briefly pausing new fundings during the initial onset of the pandemic.

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

Mortgage renewal rights

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

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

Equity Income from MCAP

In Q1 2021, MCAP's origination volumes were $5.8 billion, an increase from $3.7 billion in Q1 2020. At February 28, 2021 (we account for MCAP on a one-month lag basis), MCAP had $112.2 billion of assets under management compared to $111.4 billion at November 30, 2020 and $105.8 billion at February 29, 2020. For Q1 2021, the $3.3 million increase in equity income from MCAP was due to higher assets under management, increased volumes across all lines of business, which contributed to higher mortgage related income on the sale and securitization of these mortgages, higher net interest income on securitized mortgages, and financial instrument gains compared to financial instrument losses in Q1 2020. We expect that MCAP will continue to have strong earnings, however, more normal market and business dynamics will continue through the remainder of 2021 compared to 2020.

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

Non-Marketable Securities

In Q1 2021, we received distribution income of $1.1 million (Q1 2020 - $1.1 million) from the KingSett High Yield Fund ("KSHYF"). In Q1 2021, we received principal and interest of $1.0 million (Q1 2020 - $1.1 million) from MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"). For further information, refer to the "Other Corporate Assets" section of this MD&A.

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The yield on this portfolio was 6.09% in Q1 2021 (Q1 2020 - 5.64%). The higher yield is due to the significant declines in market value since COVID-19. The yield has been calculated based on the average portfolio carrying value.

Fees

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

Net Gain (Loss) on Securities

In Q1 2021, we recorded a $3.9 million net gain on securities compared to a $15.7 million net loss on securities in Q1 2020. Activity in Q1 2021 related to fair value gains on our REIT portfolio and in Q1 2020 related to fair value losses on our REIT portfolio due to the onset of the pandemic. We may continue to see volatility in the market value of our REIT portfolio given the recent third wave and uncertainty around the vaccine rollout.

Term Deposit Interest and Expenses

The reduction in term deposit interest and expenses from Q1 2020 was partly due to a decrease in rates compared to March 2020 when rates remained high and even increased for several weeks immediately following the COVID-19 impact in Canada, notwithstanding the significant decrease in Bank of Canada overnight rates. We have since seen rates come down and stabilize. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and the Canada Housing Trust ("CHT") Canada Mortgage Bonds ("CMB") program. Our total new securitization volumes were $228 million in Q1 2021 (Q1 2020 - $95 million), of which $nil were insured multi family loans that were derecognized from the consolidated balance sheet at the time of securitization (Q1 2020 - $15 million). The low interest rate environment and higher insured single family originations have generated a higher volume of securitizations.

Table 5: Net Mortgage Interest Income and Average Rate for Securitized Mortgage Portfolio - Quarterly

For the Quarters Ended	March 31, 2021			December 31, 2020			March 31, 2020		
(in thousands except %)	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]	Average Balance[2]	Interest Income	Average Rate [1, 2]
Mortgages - securitized portfolio	$1,208,935	$ 6,632	2.26 %	$1,019,780	$ 6,461	2.54 %	$ 751,781	$ 4,783	2.56 %
Financial liabilities from securitization	1,217,093	4,426	1.45 %	1,030,716	4,232	1.65 %	777,608	3,747	1.93 %
Net securitized mortgage spread income [2]		$ 2,206			$ 2,229			$ 1,036	
Spread of mortgages over liabilities [2]			0.81 %			0.89 %			0.63 %

[1] Average interest rate is equal to income/expense divided by the average balance on an annualized basis. The average interest rate as presented may not necessarily be equal to "Income/Expense" divided by "Average Balance", as non-recurring items such as prior period adjustments are excluded from the calculation of the average interest rate, as applicable. Income/expense incorporates items such as penalty income and indemnity expense.
[2] Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this MD&A.

As a result of a decline in rates, there was an increase in the number of early repaid mortgages in late Q1 2020. This impacted the net securitized mortgage spread income[2] and spread of mortgages over liabilities[2] in the prior year due to indemnity expenses on early repaid mortgages that were higher than penalty income. In Q1 2021 and Q4 2020, the number of early repaid mortgages has declined and the spread of mortgages over liabilities[2] has widened consistent with the broader mortgage market.

Provision for (Recovery of) Credit Losses

Table 6: Provision for (Recovery of) Credit Losses and Write-offs

(in thousands except basis points and %) For the Quarters Ended	Q1 2021	Q4 2020	Change (%)	Q1 2020	Change (%)
Provision for (recovery of) impaired corporate mortgages					
Single family mortgages uninsured	$ (61)	$ (3)	(1,933%)	$ (135)	55%
	(61)	(3)	(1,933%)	(135)	55%
Provision for (recovery of) performing corporate mortgages					
Single family mortgages insured	(2)	(5)	60%	—	n/a
Single family mortgages uninsured	303	776	(61%)	267	13%
Single family mortgages uninsured - completed inventory	(201)	(25)	(704%)	624	(132%)
Construction loans	70	(812)	109%	1,144	(94%)
Commercial loans					
Multi family residential	228	105	117%	(35)	751%
Other commercial	(67)	(17)	(294%)	(61)	(10%)
	331	22	1,405%	1,939	(83%)
Other provisions (recoveries)	—	1	(100%)	—	n/a
Total corporate provision for (recovery of) credit losses	270	20	1,250%	1,804	(85%)
Provision for (recovery of) performing securitized mortgages	(20)	10	(300%)	1	(2,100%)
Total provision for (recovery of) credit losses	$ 250	$ 30	733%	$ 1,805	(86%)
Corporate mortgage portfolio data:					
Provision for (recovery of) credit losses, net	$ 270	$ 19	1,321%	$ 1,804	(85%)
Net write offs	$ 1	$ 32	(97%)	$ 69	(99%)
Net write offs (basis points)	—	1.0	(100%)	2.4	(100%)

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

Our provision for credit losses on our corporate mortgage portfolio decreased by $1.5 million from Q1 2020. The decrease is due to refinements in model parameters to reflect our policies and business practices in our commercial and construction portfolio and improved economic forecasts, partially offset by growth in the corporate mortgage portfolio balance compared to Q1 2020. Compared to Q4 2020, our provision for credit losses on our corporate mortgage portfolio increased by $0.3 million mainly due to a higher corporate mortgage portfolio balance. Despite more optimistic forecasts in the housing market, the start of the third wave of COVID-19 has kept the overall economic outlook highly uncertain. Key judgments include the speed and shape of economic recovery, the impact of government stimulus and the uncertainty around the impact of the third wave and vaccine rollout. These judgments have been made with reference to the facts, projections and other circumstances at March 31, 2021. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since March 31, 2021, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any new forward-looking information subsequent to March 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 COVID-19-specific significant stress or deterioration and note that government support programs are still in effect. The increase in impaired mortgages in the first quarter is due to one construction mortgage where an asset recovery program has been initiated and is not related to COVID-19. We anticipate full recovery of past due interest and principal on this loan in Q2 2021.

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

Operating Expenses

Table 7: Operating Expenses

(in thousands except %) **For the Quarters Ended**	**Q1 2021**	**Q4 2020**	**Change (%)**	**Q1 2020**	**Change (%)**
Salaries and benefits	$ 4,271	$ 4,509	(5%)	$ 3,802	12%
General and administrative	2,312	1,601	44%	1,755	32%
	$ 6,583	**$ 6,110**	**8%**	**$ 5,557**	**18%**

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

The increase in general and administrative expenses is primarily due to higher professional fees relating to a number of initiatives, many of which are occurring in the first half of 2021.

Taxable Income

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

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

Table 8: Taxable Income Reconciliation [1]

(in thousands) **For the Quarters Ended March 31**	**2021**	**2020**
Consolidated net income for accounting purposes	$ 15,924	$ (9,730)
Adjustments to calculate taxable income:		
Reverse: Equity income from MCAP - accounting purposes	(6,742)	(3,434)
Add: MCAP taxable income	16,448	11,017
Reverse: Provision for (recovery of) credit losses [2]	306	1,929
Add: Amortization of upfront securitization program costs [3]	1,467	1,321
Deduct: Securitization program mortgage origination costs [3]	(3,713)	(1,304)
Add: Securitization program premium (discount)	(773)	(781)
Reverse: Net unrealized loss (gain) on securities [4]	(3,920)	15,688
Reverse: Loss (Income) earned in subsidiaries [5]	2,080	1,612
Other items	(12)	893
Taxable Income	**$ 21,065**	**$ 17,211**

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

The change in taxable income for Q1 2021 compared to Q1 2020 was primarily due to the following factors:

- Higher net income for accounting purposes net of mark-to-market adjustments on marketable securities;
- Higher taxable income from MCAP; and
- Increased securitization activity resulting in higher mortgage origination costs.

FINANCIAL POSITION

Assets

Table 9: Assets

(in thousands except %)	March 31 2021	December 31 2020	Change (%)	March 31 2020	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 103,838	$ 88,929	17%	$ 63,960	62%
Marketable securities	59,933	49,613	21%	30,483	97%
Mortgages	1,286,890	1,252,762	3%	1,188,331	8%
Non-marketable securities	58,129	56,117	4%	60,068	(3%)
Equity investment in MCAP Commercial LP	90,190	88,263	2%	71,298	26%
Deferred tax asset	1,164	407	186%	442	163%
Other assets	9,469	20,218	(53%)	10,463	(10%)
	1,609,613	**1,556,309**	**3%**	**1,425,045**	**13%**
Securitization Assets					
Cash held in trust	32,558	29,610	10%	29,736	9%
Mortgages	1,326,519	1,135,745	17%	751,530	77%
Other assets	7,997	7,051	13%	5,598	43%
	1,367,074	**1,172,406**	**17%**	**786,864**	**74%**
	$ 2,976,687	**$ 2,728,715**	**9%**	**$ 2,211,909**	**35%**

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

Mortgages - Corporate & Securitized

Corporate Mortgages

Single Family Mortgages

Insured and uninsured

We invest in insured and uninsured residential single family mortgages across Canada primarily focused on first time and move up buyer markets in the greater urban regions in Ontario and to a lesser extent in Alberta and Vancouver. These mortgages are primarily originated by our XMC subsidiary through its strategic relationships with mortgage brokers for our own corporate portfolio and for securitization activities. We focus our uninsured mortgage lending to those customers with credit challenges and to those who are self-employed. Uninsured mortgages may not exceed 80% of the value of the real estate securing such loans at the time of funding. For the purposes of this ratio, the value at the time of funding is the lower of the appraised value of the property as determined by a qualified appraiser or purchase price (if applicable). Residential mortgages insured by CMHC or other private insurers may exceed this ratio.

Uninsured - completed inventory loans

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

Construction Loans

Residential construction loans are made to developers to finance residential construction projects. These loans generally have a floating interest rate, with a floor interest rate set at origination and loan terms typically ranging between 24 and 36 months, with extensions requiring additional underwriting and approval. Non-residential construction loans provide construction

financing for retail shopping developments, office buildings and industrial developments. We expect that some of our construction portfolio projects may experience delays as a result of the impact of COVID-19 on the construction industry. We expect that this may lengthen the time these loans are outstanding. We continue to be prudent and selective in our credit adjudication and we have enhanced our portfolio management given the fluid situation of the pandemic.

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

Commercial Loans

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

Securitized Mortgages

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

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

During Q1 2021, we securitized $228 million (Q1 2020 - $80 million) of MBS through the market MBS program and CMB program.

During Q1 2021, we securitized $nil (Q1 2020 - $15 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 (Q1 2020 - $0.1 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 March 31, 2021, we held $36 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 10: Mortgage Summary

(in thousands except %)	March 31 2021	December 31 2020	Change (%)	March 31 2020	Change (%)
Corporate portfolio					
Single family mortgages					
Insured	$ 152,858	$ 173,373	(12%)	$ 161,017	(5%)
Uninsured	533,148	483,432	10%	395,833	35%
Uninsured - completed inventory	41,629	48,949	(15%)	41,638	—%
Construction loans	479,545	486,632	(1%)	546,967	(12%)
Commercial loans					
Multi family residential	49,116	29,839	65%	10,436	371%
Other commercial	30,594	30,537	—%	32,440	(6%)
	1,286,890	**1,252,762**	**3%**	**1,188,331**	**8%**
Securitized portfolio	**1,326,519**	**1,135,745**	**17%**	**751,530**	**77%**
	$ 2,613,409	**$ 2,388,507**	**9%**	**$ 1,939,861**	**35%**

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

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

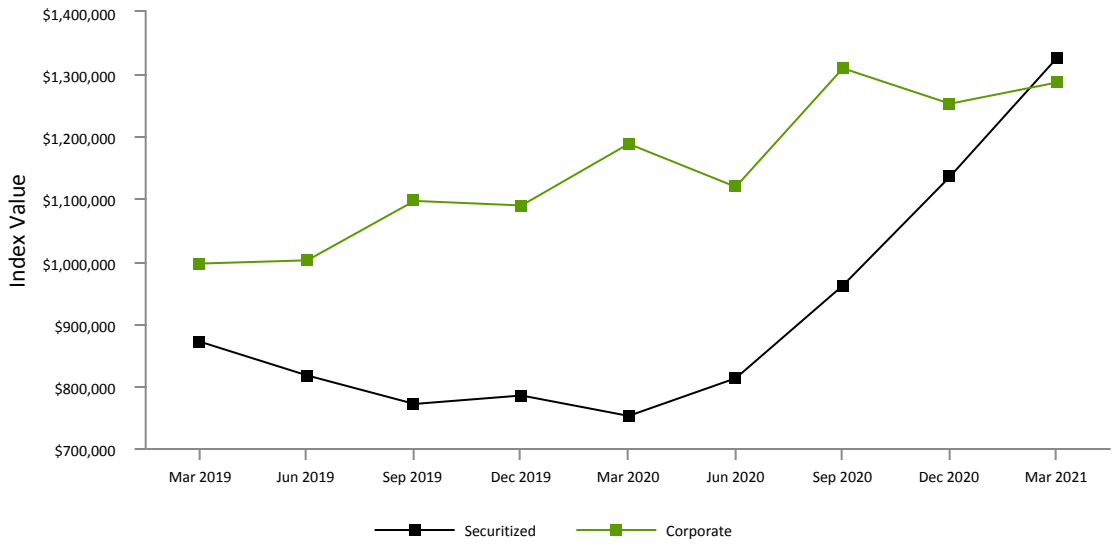
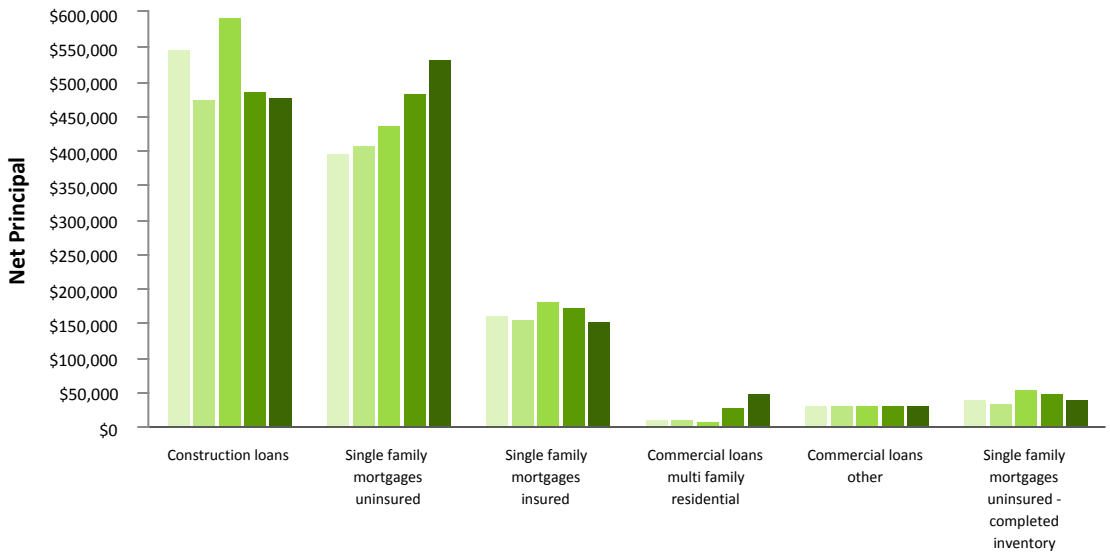


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Single family mortgages uninsured	Single family mortgages insured	Commercial loans multi family residential	Commercial loans other	Single family mortgages uninsured - completed inventory
Mar 31, 2020	$546,967 (46%)	$395,833 (33%)	$161,017 (14%)	$10,436 (1%)	$32,440 (3%)	$41,638 (4%)
Jun 30, 2020	$475,274 (42%)	$410,014 (37%)	$157,333 (14%)	$10,350 (1%)	$32,380 (3%)	$33,962 (3%)
Sep 30, 2020	$592,778 (46%)	$436,417 (33%)	$183,556 (14%)	$10,031 (1%)	$32,216 (2%)	$54,607 (4%)
Dec 31, 2020	$486,632 (39%)	$483,432 (39%)	$173,373 (14%)	$29,839 (2%)	$30,537 (2%)	$48,949 (4%)
Mar 31, 2021	$479,545 (37%)	$533,148 (42%)	$152,858 (12%)	$49,116 (4%)	$30,594 (2%)	$41,629 (3%)

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

Figure 3: Mortgage Portfolio Geographic Distribution at March 31, 2021 (December 31, 2020)

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

Credit Quality

Table 11: Arrears and Impaired Mortgages

(in thousands except %)	March 31 2021	December 31 2020	Change (%)	March 31 2020	Change (%)
Impaired mortgages					
Corporate					
Single family mortgages - insured	$ 734	$ 1,266	(42%)	$ 2,561	(71%)
Single family mortgages - uninsured	1,617	2,505	(35%)	2,109	(23%)
Construction loans	11,800	—	n/a	—	n/a
	14,151	3,771	275%	4,670	203%
Securitized	164	472	(65%)	698	(77%)
Total impaired mortgages	$ 14,315	$ 4,243	237%	$ 5,368	167%
Impaired mortgage ratio (corporate) [1]	1.10 %	0.30 %	0.80%	0.39 %	0.71%
Impaired mortgage ratio (total) [1]	0.55 %	0.18 %	0.37%	0.28 %	0.27%
Mortgage arrears [1]					
Corporate					
Single family mortgages - insured	$ 1,051	$ 1,948	(46%)	$ 4,876	(78%)
Single family mortgages - uninsured	13,663	10,540	30%	15,845	(14%)
Construction loans	11,800	11,800	—%	10,568	12%
Total corporate mortgage arrears [1]	26,514	24,288	9%	31,289	(15%)
Total securitized mortgage arrears [1]	4,710	5,660	(17%)	5,016	(6%)
Total mortgage arrears [1]	$ 31,224	$ 29,948	4%	$ 36,305	(14%)
Staging analysis - corporate portfolio					
Stage 2					
Single family mortgages - insured	$ 6,935	$ 8,054	(14%)	$ 10,452	(34%)
Single family mortgages - uninsured	67,117	68,517	(2%)	70,649	(5%)
Single family mortgages - uninsured - completed inventory	10,321	13,290	(22%)	2,442	323%
Construction loans	4,262	20,235	(79%)	43,017	(90%)
Commercial loans - multi-family residential	27,131	—	n/a	404	6,616%
Commercial - other	17,283	17,200	—%	—	n/a
	133,049	127,296	5%	126,964	5%
Stage 3					
Single family mortgages - insured	734	1,266	(42%)	2,561	(71%)
Single family mortgages - uninsured	1,617	2,505	(35%)	2,109	(23%)
Construction loans	11,800	—	n/a	—	n/a
	14,151	3,771	275%	4,670	203%
Total stage 2 and 3 corporate mortgages	$ 147,200	$ 131,067	12%	$ 131,634	12%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,377	$ 6,047	5%	$ 5,989	6%
Allowance on impaired mortgages	96	157	(39%)	59	63%
	6,473	6,204	4%	6,048	7%
Securitized - allowance on performing mortgages	4	25	(84%)	6	(33%)
Total allowance for credit losses	$ 6,477	$ 6,229	4%	$ 6,054	7%

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

Arrears and Impaired Mortgage Summary

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

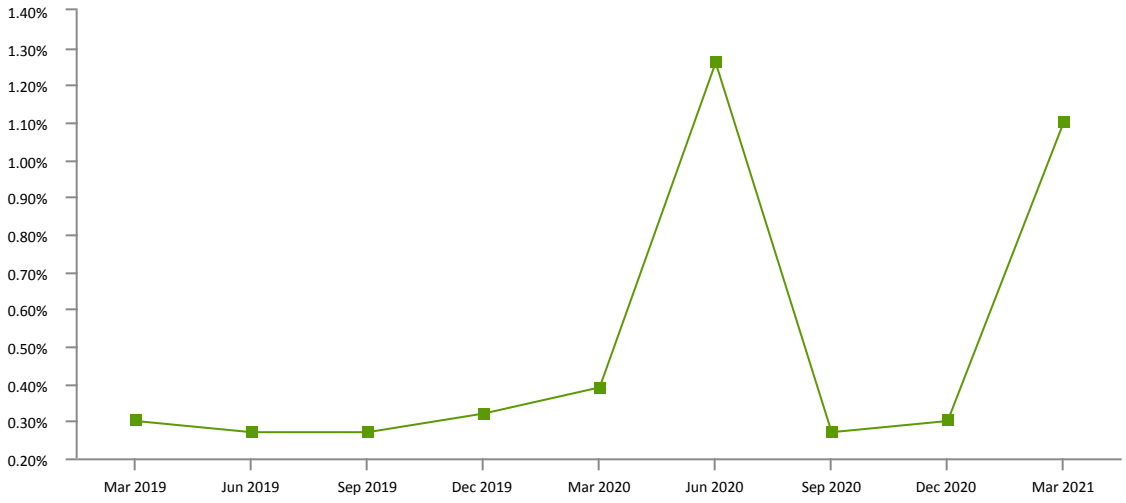
We have historically had low arrears and impaired balances related to our construction and commercial loan portfolios due to our prudent and selective lending methodology and our default management processes in these product types. The increase in impaired mortgages in the first quarter is due to one construction mortgage where an asset recovery program has been initiated and is not related to COVID-19. We anticipate full recovery of past due interest and principal on this loan in Q2 2021.

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

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

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

Figure 4: Impaired Corporate Mortgage Ratio[1]



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

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

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

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

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

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

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

Table 12: Single Family Mortgages by Province at March 31, 2021

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 114,437	75.0 %	$ 462,082	80.4 %	$ 64	73.6 %	$1,135,655	85.7 %	$ 1,712,238	83.4 %
Alberta	21,996	14.4 %	51,529	9.0 %	23	26.4 %	99,975	7.5 %	173,523	8.4 %
British Columbia	5,982	3.9 %	49,971	8.7 %	—	— %	44,816	3.4 %	100,769	4.9 %
Quebec	5,091	3.3 %	2,887	0.5 %	—	— %	11,245	0.8 %	19,223	0.9 %
Atlantic Provinces	3,996	2.6 %	3,550	0.6 %	—	— %	24,997	1.9 %	32,543	1.6 %
Other	1,269	0.8 %	4,758	0.8 %	—	— %	9,831	0.7 %	15,858	0.8 %
Total	**$ 152,771**	**100.0 %**	**$ 574,777**	**100.0 %**	**$ 87**	**100.0 %**	**$1,326,519**	**100.0 %**	**$ 2,054,154**	**100.0 %**

Table 13: 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 14: Single Family Mortgages by Amortization Period at March 31, 2021

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 117,605	$ 185,933	$ 321,946	$ 102,151	$ 727,635
	16.2 %	25.6 %	44.2 %	14.0 %	100.0 %
Securitized	$ 252,699	$ 1,045,936	$ 27,884	$ —	$ 1,326,519
	19.1 %	78.8 %	2.1 %	— %	100.0 %
Total	**$ 370,304**	**$ 1,231,869**	**$ 349,830**	**$ 102,151**	**$ 2,054,154**
	18.0 %	**60.0 %**	**17.0 %**	**5.0 %**	**100.0 %**

Table 15: 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 16: Average Loan to Value (LTV) Ratio for Uninsured Single Family Mortgage Originations

(in thousands except %) For the Quarters Ended	Q1 2021	Average LTV	Q1 2020	Average LTV
Ontario	$ 97,714	70.4%	$ 48,363	69.8%
Alberta	1,968	73.1%	18,905	60.2%
British Columbia	5,739	62.0%	3,234	74.7%
Other	—	—%	110	61.8%
	$105,421	**70.0%**	**$ 70,612**	**67.4%**

Table 17: Average Mortgage Loan to Value (LTV) Ratios at Origination

	March 31 2021	December 31 2020
Corporate portfolio		
Single family mortgages		
Insured	77.6 %	78.5 %
Uninsured[1]	68.3 %	68.6 %
Uninsured - completed inventory	61.9 %	62.3 %
Construction loans		
Residential	59.8 %	59.0 %
Non-residential	64.7 %	64.7 %
Commercial loans		
Multi family residential	75.9 %	74.0 %
Other commercial	53.7 %	53.7 %
	66.0 %	65.7 %
Securitized portfolio	82.3 %	82.1 %
	74.2 %	73.5 %

[1] *MCAN's corporate uninsured single family mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 67.9% at March 31, 2021 (December 31, 2020 - 68.0%). Based on an industry index that incorporates current real estate values, the ratio would be 60.0% at March 31, 2021 (December 31, 2020 - 60.6%).*

Other Corporate Assets

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities, consisting primarily of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. At March 31, 2021, the portfolio balance was $60 million (December 31, 2020 - $50 million). The increase relates to $6 million in REIT purchases and a $4 million fair value gain on our REITs during Q1 2021.

Non-Marketable Securities

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

We invest in Class A securitization notes (the "Securitization Notes"), which are issued by a wholly-owned subsidiary of MCAP. At March 31, 2021, the carrying value of the Securitization Notes was $12 million (December 31, 2020 - $13 million). 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 Q1 2021, we invested $3 million in TAS LP 3 Limited Partnership ("TAS") with an additional $7 million remaining commitment representing a 12.5% partnership interest in total committed capital. TAS invests in and develops residential multi-unit properties.

In May 2021, we plan to invest up to $15 million in KingSett Senior Mortgage Fund LP which invests in a diversified portfolio of first mortgage loans secured by Canadian residential and commercial real estate.

Equity Investment in MCAP

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

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

During Q1 2021, we received $4.8 million of unitholder distributions from MCAP (Q1 2020 - $2.0 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

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

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

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 18: Liabilities and Shareholders' Equity

(in thousands except %)	March 31 2021	December 31 2020	Change (%)	March 31 2020	Change (%)
Corporate Liabilities					
Term deposits	$ 1,251,116	$ 1,234,769	1%	$ 1,105,039	13%
Loans payable	27,009	—	n/a	19,107	41%
Current taxes payable	—	—	n/a	231	(100%)
Other liabilities	8,904	4,825	85%	6,502	37%
	1,287,029	**1,239,594**	**4%**	**1,130,879**	**14%**
Securitization Liabilities					
Financial liabilities from securitization	1,332,789	1,142,609	17%	765,937	74%
	1,332,789	**1,142,609**	**17%**	**765,937**	**74%**
	2,619,818	**2,382,203**	**10%**	**1,896,816**	**38%**
Shareholders' Equity					
Share capital	258,605	234,635	10%	230,724	12%
Contributed surplus	510	510	—%	510	—%
Retained earnings	97,754	111,367	(12%)	83,859	17%
	356,869	**346,512**	**3%**	**315,093**	**13%**
	$ 2,976,687	**$ 2,728,715**	**9%**	**$ 2,211,909**	**35%**

Term Deposits

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

Financial Liabilities from Securitization

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

Share Capital

Share capital activity for Q1 2021 reflects new common shares issued through the DRIP and the special stock dividend. The DRIP participation rate for the Q1 2021 first quarter dividend was 17% (2020 fourth quarter - 17%; 2020 first quarter - 17%). For further information, refer to Note 12 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q1 2021 consists of net income of $15.9 million (Q1 2020 - net loss of $9.7 million) less dividends of $29.5 million (Q1 2020 - $8.2 million).

SELECTED QUARTERLY FINANCIAL DATA

Table 19: Selected Quarterly Financial Data

(in thousands except per share amounts, % and where indicated)	Q1/21	Q4/20	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19
Income Statement Highlights								
Mortgage interest - corporate assets	$15,796	$17,115	$16,149	$15,409	$15,397	$14,910	$14,609	$13,656
Net investment income (loss) - corporate assets	$20,205	$25,704	$26,963	$12,649	$(5,022)	$14,839	$18,207	$13,124
Mortgage interest - securitization assets	$ 6,632	$ 6,461	$ 5,504	$ 4,786	$ 4,783	$ 4,950	$ 4,800	$ 5,241
Net investment income - securitization assets	$ 1,545	$ 1,694	$ 1,149	$ 389	$ 801	$ 1,015	$ 962	$ 965
Net income (loss)	$15,924	$22,086	$22,741	$ 7,796	$(9,730)	$10,550	$14,551	$ 8,888
Basic and diluted earnings (loss) per share	$ 0.64	$ 0.89	$ 0.92	$ 0.32	$ (0.40)	$ 0.44	$ 0.60	$ 0.37
Dividends per share - cash	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.32	$ 0.32	$ 0.32
Dividends per share - stock	$ 0.85	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Return on average shareholders' equity [1]	18.15 %	25.92 %	28.04 %	9.96 %	(11.84)%	12.84 %	18.05 %	11.27 %
Taxable income per share [1,2]	$ 0.85	$ 1.05	$ 0.48	$ 0.21	$ 0.71	$ 0.46	$ 0.28	$ 0.28
Spreads								
Spread of corporate mortgages over term deposit interest [1]	2.76 %	2.76 %	2.63 %	2.48 %	2.62 %	2.63 %	2.48 %	2.66 %
Spread of securitized mortgages over liabilities [1]	0.81 %	0.89 %	0.81 %	0.44 %	0.63 %	0.72 %	0.72 %	0.70 %
Average term to maturity (in months)								
Mortgages - corporate	13.7	14.2	13.5	12.3	12.2	10.7	11.3	11.6
Term deposits	17.7	18.3	19.2	18.7	17.0	18.4	19.1	20.1
Balance Sheet Highlights ($ million)								
Total assets	$ 2,977	$ 2,729	$ 2,566	$ 2,248	$ 2,212	$ 2,179	$ 2,200	$ 2,130
Mortgages - corporate	$ 1,287	$ 1,253	$ 1,310	$ 1,119	$ 1,188	$ 1,089	$ 1,097	$ 1,001
Mortgages - securitized	$ 1,327	$ 1,136	$ 961	$ 812	$ 752	$ 784	$ 771	$ 816
Total liabilities	$ 2,620	$ 2,382	$ 2,233	$ 1,931	$ 1,897	$ 1,849	$ 1,872	$ 1,811
Shareholders' equity	$ 357	$ 347	$ 333	$ 317	$ 315	$ 330	$ 328	$ 319
Capital Ratios								
Income tax assets to capital ratio [1]	5.05	5.09	5.44	4.95	5.03	4.93	5.13	4.71
CET 1 & Tier 1 Capital ratios [1,5]	21.65 %	21.67 %	20.45 %	23.01 %	21.80 %	22.52 %	21.77 %	22.40 %
Total Capital ratio [1,5]	22.02 %	22.02 %	20.80 %	23.40 %	22.17 %	22.52 %	21.77 %	22.40 %
Leverage ratio [3]	9.69 %	10.17 %	10.26 %	11.46 %	11.70 %	12.58 %	12.28 %	12.16 %
Credit Quality								
Impaired mortgage ratio (corporate) [1,4]	1.10 %	0.30 %	0.27 %	1.26 %	0.39 %	0.32 %	0.27 %	0.27 %
Impaired mortgage ratio (total) [1,4]	0.55 %	0.18 %	0.17 %	0.77 %	0.28 %	0.23 %	0.18 %	0.19 %
Mortgage Arrears								
Corporate [1]	$26,514	$24,288	$10,229	$36,083	$31,289	$12,161	$13,014	$11,334
Securitized [1]	4,710	5,660	3,522	4,005	5,016	3,750	3,367	4,122
Total [1]	$31,224	$29,948	$13,751	$40,088	$36,305	$15,911	$16,381	$15,456
Common Share Information (end of period)								
Number of common shares outstanding	26,135	24,727	24,727	24,621	24,420	24,215	24,215	24,129
Book value of common share [1]	$ 13.65	$ 14.01	$ 13.46	$ 12.88	$ 12.90	$ 13.64	$ 13.53	$ 13.23
Common share price - close	$ 16.46	$ 15.77	$ 13.41	$ 12.65	$ 12.18	$ 17.10	$ 15.95	$ 15.95
Market capitalization ($ million) [1]	$ 430	$ 390	$ 332	$ 311	$ 297	$ 414	$ 386	$ 385

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

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

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

The size of the securitized mortgage portfolio has increased due to increased volume of insured single family mortgage originations. The overall economics of securitization was impacted by competitive and market driven pressures since mid-2020. We participate in this market opportunistically.

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

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

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

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 20: Income Tax Capital [1]

(in thousands except ratios)

	March 31 2021	December 31 2020
Income tax assets [1]		
Consolidated assets	$ 2,976,687	$ 2,728,715
Adjustment for assets in subsidiaries	18,123	16,117
Non-consolidated assets in MIC entity	2,994,810	2,744,832
Add: corporate mortgage allowances	6,380	6,061
Less: securitization assets [2]	(1,353,112)	(1,160,073)
Adjustments to equity investments in MCAP and subsidiaries	(42,805)	(55,581)
Other adjustments	(2,480)	2,013
	$ 1,602,793	$ 1,537,252
Income tax liabilities [1]		
Consolidated liabilities	$ 2,619,818	$ 2,382,203
Adjustment for liabilities in subsidiaries	(3,185)	(6,183)
Non-consolidated liabilities in MIC entity	2,616,633	2,376,020
Less: securitization liabilities [2]	(1,331,049)	(1,140,991)
	$ 1,285,584	$ 1,235,029
Income tax capital [1]	$ 317,209	$ 302,223
Income tax capital ratios [1]		
Income tax assets to capital ratio	5.05	5.09
Income tax liabilities to capital ratio	4.05	4.09

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

Regulatory Capital

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

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

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

At March 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 21: Regulatory Capital

(in thousands except %)

	March 31 2021	December 31 2020
Regulatory Ratios (OSFI)		
Share capital	$ 258,605	$ 234,635
Contributed surplus	510	510
Retained earnings	97,754	111,367
Deduction from equity investment in MCAP [2]	(54,390)	(53,475)
Eligible Stage 1 and Stage 2 mortgage allowances [4]	1,129	1,364
Common Equity Tier 1 and Tier 1 Capital [4] (A)	303,608	294,401
Tier 2 Capital [4]	5,252	4,707
Total Capital [4] (D)	$ 308,860	$ 299,108
Total Exposure/Regulatory Assets [1]		
Consolidated assets	$ 2,976,687	$ 2,728,715
Less: deduction for equity investment in MCAP [2]	(54,390)	(53,475)
Other adjustments [3]	3,824	3,018
Total On-Balance Sheet Exposures	2,926,121	2,678,258
Mortgage and investment funding commitments (50%)	187,487	197,069
Letters of credit (50%)	20,409	19,552
Total Off-Balance Sheet Items	207,896	216,621
Total Exposure/Regulatory Assets (B)	$ 3,134,017	$ 2,894,879
Leverage ratio [1] **(A / B)**	9.69 %	10.17 %
Risk-weighted assets [1] **(C)**	$ 1,402,355	$ 1,358,261
Regulatory Capital Ratios [1]		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	21.65 %	21.67 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	21.65 %	21.67 %
Total capital to risk-weighted assets ratio **(D / C)**	22.02 %	22.02 %

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

Table 22: Regulatory Risk-Weighted Assets

(in thousands except %)	March 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	$ 103,838	21 %	$ 21,532	$ 88,929	21 %	$ 18,389
Cash held in trust	32,558	20 %	6,512	29,610	20 %	5,922
Marketable securities	59,933	100 %	59,933	49,613	100 %	49,613
Mortgages - corporate	1,286,890	62 %	801,994	1,252,762	62 %	775,093
Mortgages - securitized	1,326,519	5 %	72,266	1,135,745	5 %	59,146
Non-marketable securities	58,129	163 %	95,004	56,117	173 %	97,020
Equity investment in MCAP Commercial LP	90,190	40 %	35,800	88,263	39 %	34,788
Deferred tax asset	1,164	100 %	1,164	407	100 %	407
Other assets	17,466	100 %	17,467	27,269	100 %	27,269
			1,111,672			1,067,647
Off-Balance Sheet Items						
Letters of credit	40,819	50 %	20,410	39,105	50 %	19,553
Commitments	374,975	39 %	148,010	394,139	38 %	151,598
			168,420			171,151
Charge for operational risk [1]			122,263			119,463
Risk-Weighted Assets			**$ 1,402,355**			**$ 1,358,261**

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

RISK MANAGEMENT

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

Major Risk Types

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

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

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

As a response to COVID-19, the Company enhanced the oversight of its portfolio and operations with more frequent monitoring and management activities to proactively identify and address emerging risks. The Company continues to monitor the evolving pandemic and has oversight with respect to its effects on operations and the Company. Additionally, we increased the frequency of reporting to and interaction with the Board to facilitate their role in providing oversight as information and

developments are fluid. The Company's management is prepared to continue to adapt to the situation and will take necessary actions to protect the Company's business while keeping the safety of the Company's employees and other stakeholders at the centre of all decision-making.

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

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

Liquidity and Funding Risk

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

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

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

ALCO, which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's liquidity risk profile, reviews funding strategies and regularly monitors performance against established liquidity risk limits. Results of the monitoring of liquidity risk is reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). At March 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 March 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 $120 million. On April 19, 2021, the facility limit was temporarily increased to $150 million until May 31, 2021.

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

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

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

OSFI's Liquidity Adequacy Requirements ("LAR") guideline currently establishes two minimum standards based on the Basel III framework with national supervisory discretion applied to certain treatments: the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics. At March 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 23: Liquidity Analysis

(in thousands)	Within 3 months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	March 31 2021
Sources of liquidity						
Cash and cash equivalents	$ 103,838	$ —	$ —	$ —	$ —	$ 103,838
Marketable securities	59,903	—	30	—	—	59,933
Mortgages - corporate	175,855	615,944	394,797	63,054	37,240	1,286,890
Non-marketable securities	—	—	11,738	—	46,391	58,129
Other loans	4,241	—	—	—	—	4,241
	343,837	615,944	406,565	63,054	83,631	1,513,031
Uses of liquidity						
Term deposits	171,631	370,204	535,243	174,038	—	1,251,116
Loans payable	27,009	—	—	—	—	27,009
Other liabilities	3,341	563	1,605	1,859	1,536	8,904
	201,981	370,767	536,848	175,897	1,536	1,287,029
Net liquidity surplus (deficit)	**$ 141,856**	**$ 245,177**	**$ (130,283)**	**$ (112,843)**	**$ 82,095**	**$ 226,002**

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.

CCC, 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 RCC, which is comprised of management, monitors and challenges credit risk exposures, monitors portfolio and underwriting quality and performance against credit risk limits on a monthly basis, and the ERM&CC reviews all material risks affecting the Company on a quarterly basis, which includes the identification, assessment, and monitoring of material credit risks.

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at March 31, 2021, there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 5 to the interim consolidated financial statements.

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

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

Interest Rate Risk

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

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

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

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at March 31, 2021 would have an estimated positive effect of $1.4 million (December 31, 2020 - $4.1 million) to net income over the following twelve month period. The decrease compared to December 31, 2020 is due to model refinements. An immediate and sustained parallel 1% decrease to market interest rates at March 31, 2021 would have an estimated adverse effect of $0.1 million (December 31, 2020 - $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 be partially mitigated by the effect of changes in interest rates on the value of other financial instruments, given our balance sheet composition.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at March 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. Non-interest sensitive includes marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 24: Interest Rate Sensitivity at March 31, 2021

At March 31, 2021								
(in thousands except %)	Floating Rate	Within 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$489,122	$132,603	$474,370	$210,435	$ 63,054	$ 83,544	$ 156,485	$ 1,609,613
Securitization	32,558	12,942	82,004	166,611	1,064,962	—	7,997	1,367,074
	521,680	145,545	556,374	377,046	1,128,016	83,544	164,482	2,976,687
Liabilities								
Corporate	27,009	171,631	370,204	535,243	174,038	—	8,904	1,287,029
Securitization	—	8,556	83,751	154,647	1,085,835	—	—	1,332,789
	27,009	180,187	453,955	689,890	1,259,873	—	8,904	2,619,818
Shareholders' Equity	—	—	—	—	—	—	356,869	356,869
GAP	**$494,671**	**$(34,642)**	**$102,419**	**$(312,844)**	**$(131,857)**	**$ 83,544**	**$ (201,291)**	**$ —**
YIELD SPREAD	**1.63 %**	**2.40 %**	**2.14 %**	**1.84 %**	**1.02 %**	**6.66 %**		

Table 25: 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	Over 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$413,977	$199,490	$393,550	$242,439	$ 70,568	$ 80,196	$ 156,089	$ 1,556,309
Securitization	29,610	5,198	78,310	168,243	883,994	—	7,051	1,172,406
	443,587	204,688	471,860	410,682	954,562	80,196	163,140	2,728,715
Liabilities								
Corporate	—	123,727	426,047	519,630	165,365	—	4,825	1,239,594
Securitization	—	8,617	69,403	173,141	891,448	—	—	1,142,609
	—	132,344	495,450	692,771	1,056,813	—	4,825	2,382,203
Shareholders' Equity	—	—	—	—	—	—	346,512	346,512
GAP	**$443,587**	**$ 72,344**	**$(23,590)**	**$(282,089)**	**$(102,251)**	**$ 80,196**	**$ (188,197)**	**$ —**
YIELD SPREAD	**4.08 %**	**2.71 %**	**2.05 %**	**1.86 %**	**1.13 %**	**6.56 %**		

Future Regulatory Changes

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

Market Risk

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

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

The pandemic impacted and disrupted global economic activities, resulting in a decline in equity prices, including in the REIT sector. In Q4 2020 and into Q1 2021, there was a partial rebound in REIT prices amid optimism around the impending economic outlook given the COVID-19 vaccine; however, volatility may continue given the recent third wave and uncertainty around the vaccine rollout.

Operational Risk

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

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

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

Outsourcing Risk

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

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

Information Technology and Cybersecurity Risk

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

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

Despite the Company's implementation of security measures, its systems could be vulnerable to damages from computer viruses, natural disasters, unauthorized access, cyber-attacks and other similar disruptions. Any such system failure, accident or security breach could disrupt the Company's delivery of services and make the Company's applications unavailable or cause similar disruptions to the Company's operations. If the Company's network security is penetrated or its sensitive data is misappropriated, we could be subject to liability or our business could be interrupted, and any of these developments could have a material adverse effect on the Company's business, results of operations and financial condition.

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

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

cybersecurity insurance coverage for both direct and third party coverage in the event of a cybersecurity incident that would result in a loss.

Model Risk

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

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

Risk of Accuracy and Completeness of Borrower Information

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

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

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

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

Regulatory Compliance Risk

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

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

Strategic Risk

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

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

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

Reputational Risk

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

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

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

Other Risk Factors

Reliance on Key Personnel

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

Mortgage Renewal and Prepayment Risk

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

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

Economic and Geopolitical Conditions

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

Competition Risk

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

Qualification as a Mortgage Investment Corporation

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

Capital Adequacy Risk

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

Environmental Risk

We recognize that environmental hazards are a potential liability. This risk exposure can result from non-compliance with environmental laws, either as principal or lender, which may negatively affect our financial condition and results of operations. We aim to mitigate this risk by complying with all environmental laws and by applying an environmental policy and procedures to our commercial and development lending activities.

General Litigation

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

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

Changes in Accounting Standards and Accounting Policies

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At March 31, 2021, there were 26,134,716 common shares outstanding (December 31, 2020 - 24,727,145). At May 11, 2021, there were 26,129,350 common shares outstanding.

We issued 184,072 new common shares in Q1 2021 (Q1 2020 - 204,894) 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. We also issued 1,223,499 new common shares on March 31, 2021, for the special stock dividend to shareholders.

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

OFF-BALANCE SHEET ARRANGEMENTS

We have contractual obligations relating to outstanding commitments for future fundings of corporate mortgages and our investments in the KSHYF and TAS. 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 26: Contractual Obligations

(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	March 31 2021
Mortgage funding commitments	$ 144,256	$ 106,772	$ 93,079	$ —	$ —	$ 344,107
Commitment - TAS	—	—	5,410	1,741	311	7,462
Commitment - KSHYF	—	—	1,212	—	22,194	23,406
	$ 144,256	**$ 106,772**	**$ 99,701**	**$ 1,741**	**$ 22,505**	**$ 374,975**

We retain mortgage servicing obligations relating to securitized mortgages where balance sheet derecognition has been achieved. For further information on our securitization activities, refer to Note 9 to the interim consolidated financial statements.

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

obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 18 to the interim consolidated financial statements.

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

DIVIDENDS

On May 11, 2021, the Board declared a quarterly dividend of $0.34 per share to be paid on June 30, 2021 to shareholders of record as at June 15, 2021.

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

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

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended March 31, 2021 and March 31, 2020 and related party balances at March 31, 2021 and December 31, 2020 are discussed in Notes 8 and 17 to the interim consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

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

PEOPLE

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At March 31, 2021, the President and CEO, and CFO of MCAN, with the assistance of the Company's Disclosure Committee comprised of members of management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

As a result of changes to our operations due to the impact of COVID-19, we have automated certain of our internal controls over financial reporting. There were no changes in our ICFR during the interim period ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our control framework.

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

Notice required under National Instrument 51-102, "Continuous Disclosure Obligations," Part 4.3 (3) (a)

The accompanying consolidated interim financial statements of MCAN have not been reviewed by an auditor.

The Company is in compliance with the interim Management's Discussion and Analysis of Operations requirements set out by National Instrument 51-102.

NON-IFRS MEASURES

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

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

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

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

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

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

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

Common Equity Tier 1, Tier 1, Tier 2 and Total Capital, Total Exposures, Regulatory Assets, Leverage Ratio and Risk-Weighted Asset Ratios
These measures are calculated in accordance with guidelines issued by OSFI and are located on Table 21 of this MD&A and Note 19 to the interim consolidated financial statements.

Income Tax Capital Measures
Income tax assets, income tax liabilities and income tax capital represent assets, liabilities and capital as calculated on a non-consolidated basis using the provisions of the Tax Act applicable to a MIC. The calculation of the income tax assets to capital ratio and income tax liabilities to capital ratio are based on these amounts.

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

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

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