MCAN Financial



MCAN Financial Group

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

September 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

MCAN Mortgage Corporation has been doing business as ("d/b/a") MCAN Financial Group ("MCAN", the "Company" or "we") effective April 1, 2022. This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter and the nine months ended September 30, 2022 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2021. These items and additional information regarding MCAN, including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and our website at www.mcanfinancial.com. Except as indicated below, all other factors discussed and referred to in the MD&A for fiscal 2021 remain substantially unchanged. Information has been presented as of November 10, 2022.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information include, but are not limited to, the risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2021, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Q3 2022

(in thousands except for per share amounts and %)								
	Q3	Q2	Change	Q3	Change	YTD	YTD	Change
For the Periods Ended	**2022**	**2022**	**(%)**	**2021**	**(%)**	**2022**	**2021**	**(%)**
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$ 27,216	$ 22,815	19%	$ 19,072	43%	$ 70,539	$ 51,387	37%
Term deposit interest and expenses [B]	$ 12,330	$ 10,185	21%	$ 8,013	54%	$ 31,033	$ 23,041	35%
Net corporate mortgage spread income[1] [A-B]	$ 14,886	$ 12,630	18%	$ 11,059	35%	$ 39,506	$ 28,346	39%
Equity income from MCAP Commercial LP	$ 8,236	$ 6,288	31%	$ 5,606	47%	$ 19,743	$ 19,207	3%
Net gain (loss) on securities	$ (5,092)	$ (9,906)	49%	$ 1,016	(601%)	$ (13,809)	$ 11,389	(221%)
Net investment income - corporate assets	$ 18,845	$ 9,468	99%	$ 18,976	(1%)	$ 49,071	$ 63,571	(23%)
Net investment income - securitization assets	$ 877	$ 1,068	(18%)	$ 1,443	(39%)	$ 3,060	$ 4,558	(33%)
Net income	$ 11,650	$ 4,137	182%	$ 12,990	(10%)	$ 31,266	$ 48,292	(35%)
Basic and diluted earnings per share	$ 0.37	$ 0.13	185%	$ 0.47	(21%)	$ 1.01	$ 1.84	(45%)
Dividends per share - cash	$ 0.36	$ 0.36	—%	$ 0.34	6%	$ 1.08	$ 1.02	6%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ 0.97	$ 0.85	14%
Next quarter's dividend per share - cash	$ 0.36							
Return on average shareholders' equity [1]	10.52 %	3.75 %	6.77%	13.22 %	(2.70%)	9.47 %	17.40 %	(7.93%)
Taxable income per share [2]	$ (0.47)	$ 0.30	(257%)	$ 0.57	(182%)	$ 0.16	$ 2.31	(93%)
Yields								
Spread of corporate mortgages over term deposit interest and expenses [1]	2.83 %	2.50 %	0.33%	2.77 %	0.06%	2.63 %	2.81 %	(0.18%)
Spread of securitized mortgages over liabilities [1]	0.44 %	0.51 %	(0.07%)	0.65 %	(0.21%)	0.50 %	0.72 %	(0.22%)
Average term to maturity (in months)								
Mortgages - corporate	12.9	13.9	(7%)	13.9	(7%)			
Term deposits	17.1	17.7	(3%)	19.9	(14%)			

	Sept 30	Jun 30	Change	Dec 31	Change
	2022	**2022**	**(%)**	**2021**	**(%)**
Balance Sheet Highlights					
Total assets	$ 4,004,393	$ 4,066,355	(2%)	$ 3,808,070	5%
Mortgages - corporate	$ 1,974,957	$ 1,977,100	—%	$ 1,806,146	9%
Mortgages - securitized	$ 1,691,211	$ 1,699,799	(1%)	$ 1,583,697	7%
Total liabilities	$ 3,561,642	$ 3,625,854	(2%)	$ 3,374,812	6%
Shareholders' equity	$ 442,751	$ 440,501	1%	$ 433,258	2%
Capital Ratios					
Income tax assets to capital ratio [2]	5.76	5.53	4%	5.29	9%
CET 1 & Tier 1 capital ratio [4]	18.35 %	18.82 %	(0.47%)	20.26 %	(1.91%)
Total capital ratio [4]	18.64 %	19.09 %	(0.45%)	20.54 %	(1.90%)
Leverage ratio [3]	8.88 %	8.82 %	0.06%	9.41 %	(0.53%)
Credit Quality					
Impaired mortgage ratio (corporate) [1]	— %	0.01 %	(0.01%)	0.05 %	(0.05%)
Impaired mortgage ratio (total) [1]	0.01 %	0.02 %	(0.01%)	0.03 %	(0.02%)
Mortgage Arrears					
Corporate	$ 37,792	$ 9,908	281%	$ 10,826	249%
Securitized	2,842	3,397	(16%)	4,865	(42%)
Total	$ 40,634	$ 13,305	205%	$ 15,691	159%
Common Share Information (end of period)					
Number of common shares outstanding	31,855	31,715	—%	29,621	8%
Book value per common share [1]	$ 13.90	$ 13.89	—%	$ 14.63	(5%)
Common share price - close	$ 14.57	$ 16.75	(13%)	$ 17.23	(15%)
Market capitalization	$ 464,127	$ 531,226	(13%)	$ 510,370	(9%)

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

[2] For further information refer to the "Taxable Income" and "Income Tax Capital" sections of this MD&A. Tax balances are calculated in accordance with the Tax Act.

[3] This measure has been calculated in accordance with OSFI's Leverage Requirements guidelines. Mortgages securitized through the market MBS program and CMB program for which derecognition has not been achieved are included in regulatory assets in the leverage ratio. For further information, refer to the "Capital Management" section of this MD&A.

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

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$27,216	$22,815	$20,508	$20,436	$19,072	$16,543	$15,796	$17,115
Term deposit interest and expenses [B]	$12,330	$10,185	$ 8,518	$ 8,389	$ 8,013	$ 7,472	$ 7,556	$ 7,918
Net corporate mortgage spread income[1] [A-B]	$14,886	$12,630	$11,990	$12,047	$11,059	$ 9,071	$ 8,240	$ 9,197
Equity income from MCAP Commercial LP	$ 8,236	$ 6,288	$ 5,219	$ 6,246	$ 5,606	$ 6,859	$ 6,742	$ 9,378
Net gain (loss) on securities	$(5,092)	$(9,906)	$ 1,189	$ 3,374	$ 1,016	$ 6,453	$ 3,920	$ 5,702
Net investment income - corporate assets	$18,845	$ 9,468	$20,758	$21,875	$18,976	$24,390	$20,205	$25,704
Net investment income - securitization assets	$ 877	$ 1,068	$ 1,115	$ 1,408	$ 1,443	$ 1,570	$ 1,545	$ 1,694
Net income	$11,650	$ 4,137	$15,479	$16,070	$12,990	$19,378	$15,924	$22,086
Basic and diluted earnings per share	$ 0.37	$ 0.13	$ 0.52	$ 0.57	$ 0.47	$ 0.73	$ 0.64	$ 0.89
Dividends per share - cash	$ 0.36	$ 0.36	$ 0.36	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34
Dividends per share - stock	$ —	$ —	$ 0.97	$ —	$ —	$ —	$ 0.85	$ —
Return on average shareholders' equity [1]	10.52 %	3.75 %	14.19 %	15.39 %	13.22 %	21.28 %	18.15 %	25.92 %
Taxable income per share [2]	$ (0.47)	$ 0.30	$ 0.35	$ 0.32	$ 0.57	$ 0.89	$ 0.85	$ 1.05
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	2.83 %	2.50 %	2.59 %	2.70 %	2.77 %	2.89 %	2.76 %	2.76 %
Spread of securitized mortgages over liabilities [1]	0.44 %	0.51 %	0.54 %	0.62 %	0.65 %	0.72 %	0.81 %	0.89 %
Average term to maturity (in months)								
Mortgages - corporate	12.9	13.9	13.8	13.0	13.9	12.8	13.7	14.2
Term deposits	17.1	17.7	17.7	18.5	19.9	19.6	17.7	18.3
Balance Sheet Highlights ($ million)								
Total assets	$ 4,004	$ 4,066	$ 4,000	$ 3,808	$ 3,604	$ 3,305	$ 2,977	$ 2,729
Mortgages - corporate	$ 1,975	$ 1,977	$ 1,902	$ 1,806	$ 1,657	$ 1,401	$ 1,287	$ 1,253
Mortgages - securitized	$ 1,691	$ 1,700	$ 1,659	$ 1,584	$ 1,531	$ 1,435	$ 1,327	$ 1,136
Total liabilities	$ 3,562	$ 3,626	$ 3,558	$ 3,375	$ 3,210	$ 2,916	$ 2,620	$ 2,382
Shareholders' equity	$ 443	$ 441	$ 442	$ 433	$ 394	$ 389	$ 357	$ 347
Capital Ratios								
Income tax assets to capital ratio [2]	5.76	5.53	5.53	5.29	5.50	5.05	5.05	5.09
CET 1 & Tier 1 capital ratios [4]	18.35 %	18.82 %	19.32 %	20.26 %	19.45 %	21.91 %	21.65 %	21.67 %
Total capital ratio [4]	18.64 %	19.09 %	19.57 %	20.54 %	19.73 %	22.24 %	22.02 %	22.02 %
Leverage ratio [3]	8.88 %	8.82 %	8.96 %	9.41 %	8.86 %	9.59 %	9.69 %	10.17 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	0.00 %	0.01 %	0.03 %	0.05 %	0.06 %	0.11 %	1.10 %	0.30 %
Impaired mortgage ratio (total) [1]	0.01 %	0.02 %	0.02 %	0.03 %	0.04 %	0.07 %	0.55 %	0.18 %
Mortgage Arrears								
Corporate	$37,792	$ 9,908	$ 9,981	$10,826	$ 8,794	$ 8,968	$26,514	$24,288
Securitized	2,842	3,397	4,124	4,865	3,818	7,359	4,710	5,660
Total	$40,634	$13,305	$14,105	$15,691	$12,612	$16,327	$31,224	$29,948
Common Share Information (end of period)								
Number of common shares outstanding	31,855	31,715	31,373	29,621	27,646	27,560	26,135	24,727
Book value of common share [1]	$ 13.90	$ 13.89	$ 14.08	$ 14.63	$ 14.26	$ 14.13	$ 13.65	$ 14.01
Common share price - close	$ 14.57	$ 16.75	$ 17.85	$ 17.23	$ 18.00	$ 17.29	$ 16.46	$ 15.77
Market capitalization ($ million)	$ 464	$ 531	$ 560	$ 510	$ 498	$ 477	$ 430	$ 390

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

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

Financial Statement Highlights - Quarterly Trends

Net income has been driven by multiple factors. In late 2020 and 2021, the main drivers related to the pandemic impact including a lower interest rate environment and volatility in the fair value of our REIT portfolio. Into 2022, we are seeing a rising interest rate environment and unrealized losses in our REIT portfolio. Other factors include higher average corporate mortgage portfolio balances and reduced but stable equity income from our investment in MCAP Commercial LP ("MCAP") since late 2020.

Taxable income was much higher up to Q2 2021 and lower since then, mainly due to lower taxable income from MCAP. This has been partially offset by growth in our core business.

The corporate portfolio mix during the past 8 quarters shifted towards residential mortgages amidst the pandemic. Term deposit funding and related costs also increased through this period to support corporate asset growth. In late 2020, term deposit funding and related costs began to decrease and we had seen an increase in the spread of corporate mortgages over term deposit interest and expenses up to Q2 2021. Through the latter half of 2021 and into Q2 2022, continued market competition had kept mortgage rates low in our residential mortgage portfolio, while increased demand by financial institutions for term deposit funding in the wake of the Russia/Ukraine conflict and demand by deposit customers for higher rates due to anticipated and actual Bank of Canada rate increases had kept term deposit rates elevated, causing a decline in the spread. In Q3 2022, the rising interest rate environment has increased rates in our floating rate residential construction portfolio well above their floor rates and longer duration term deposit funding has kept average term deposit rates from rising faster than our mortgage rates, which has increased our spread of corporate mortgages over term deposit interest and expenses.

The size of the securitized mortgage portfolio had increased due to increased volume of insured residential mortgage originations. We have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly over 2021 and into Q3 2022. As a result, we have reduced our securitization volumes in recent quarters and focused on more higher-yielding areas of our business. We participate in this market opportunistically.

Capital ratios have reduced across the previous quarters due to our growing tax-adjusted and risk-weighted assets compared to our capital base. The Company successfully initiated two capital raises by way of rights offerings in June and December 2021. These two offerings raised $53 million of capital. In 2022, we also raised $4 million of capital through our at-the-market equity program ("ATM Program") that we launched in 2021.

Mortgage arrears have varied on a quarterly basis given the nature of the 1-30 day arrears. The increase in arrears in Q4 2020 and into Q1 2021 is mainly due to one construction mortgage where an asset recovery program was initiated. We recovered all past due interest and principal in Q2 2021. In Q3 2022, the increase in arrears is mainly due to two construction mortgages where asset recovery programs are being initiated. The circumstances of the construction mortgages arrears are unrelated to the pandemic. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

BUSINESS OVERVIEW AND STRATEGY

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

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

MCAN Home is our residential mortgage lender that partners exclusively with accredited mortgage professionals to offer both insured and uninsured mortgage solutions across Canada. MCAN Home operates through MCAN's wholly owned subsidiary, XMC Mortgage Corporation, which has legally changed its name effective April 1, 2022, to MCAN Home Mortgage Corporation.

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

MCAN Wealth offers investors Canada Deposit Insurance Corporation ("CDIC") insured investment solutions at competitive rates, differing term options, and with no fees.

Figure 1: Business Model



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

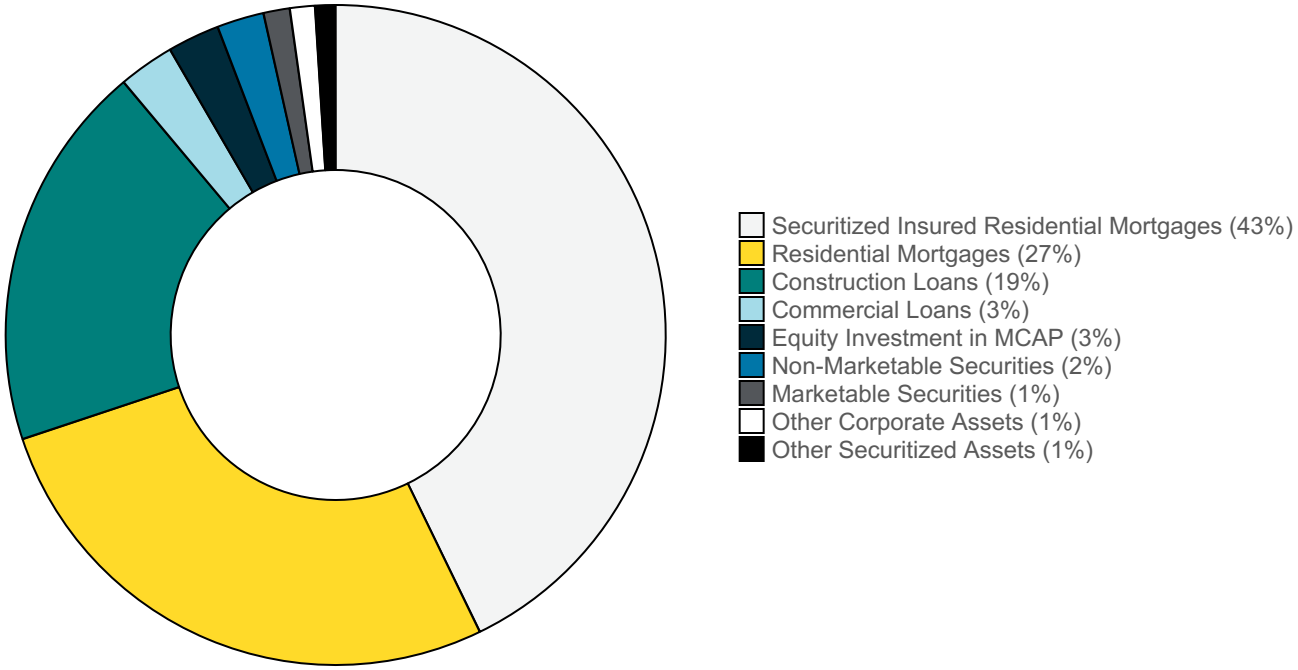
Our business model helps us to achieve our long-term objectives:

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

Our Investment Portfolio

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

Figure 2: Total Assets at September 30, 2022 of $4.0 billion



Residential Mortgage Lending (September 30, 2022 - $2.8 billion; December 31, 2021 - $2.6 billion)

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

Construction Lending (September 30, 2022 - $769 million; December 31, 2021 - $684 million)

Residential construction loans are made to developers to finance residential construction projects. We focus our lending on the construction of affordable housing in urban/suburban growth markets with a preference for proximity to transit. This approach aims to mitigate the impact of price volatility and tightened sales activity in the event of market corrections. As well, these markets are where we, or our originating partners, have experience and local expertise. We have long established strategic relationships with originators, partners and borrowers. In house, we apply our own seasoned experience and underwriting. The borrowers that we like to target are experienced developers with a successful track record of project completion and loan repayment, and often repeat customers to us. These loans generally have a floating interest rate, with a floor rate set at origination and loan

terms typically ranging between 24 and 36 months. We also strategically lend at the land development stage to enhance longer term relationships with borrowers. Non-residential construction loans provide similar construction financing, but for retail shopping developments, office buildings and industrial developments.

Commercial Lending (September 30, 2022 - $110 million; December 31, 2021 - $93 million)

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

Investment in MCAP (September 30, 2022 - $103 million; December 31, 2021 - $96 million)

We have an approximate 14% equity interest in MCAP. MCAP is Canada's largest independent mortgage finance company with assets under management of $151 billion, serving many institutional investors and over 400,000 homeowners. This investment allows us to participate in the growth of MCAP and typically provides quarterly distributions on our investment which can be reinvested into other areas of our business.

Non-Marketable Securities (September 30, 2022 - $93 million; December 31, 2021 - $65 million)

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

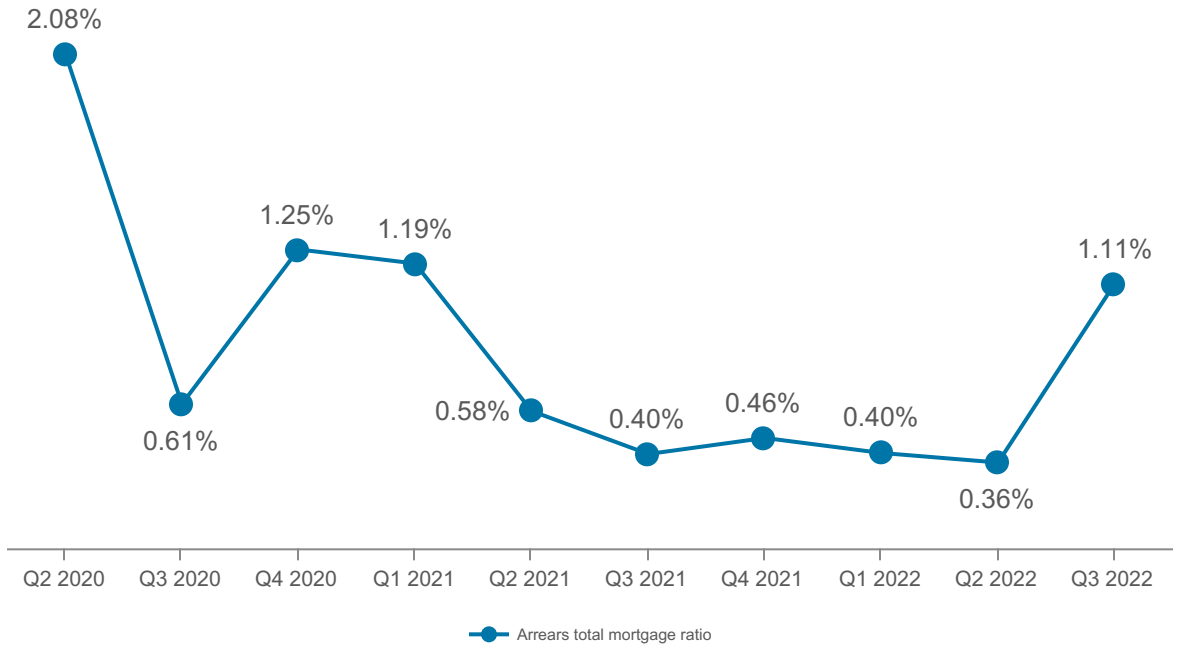
Marketable Securities (September 30, 2022 - $52 million; December 31, 2021 - $63 million)

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

Our Loan Portfolio Quality

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

Figure 3: Arrears Total Mortgage Ratio[1]

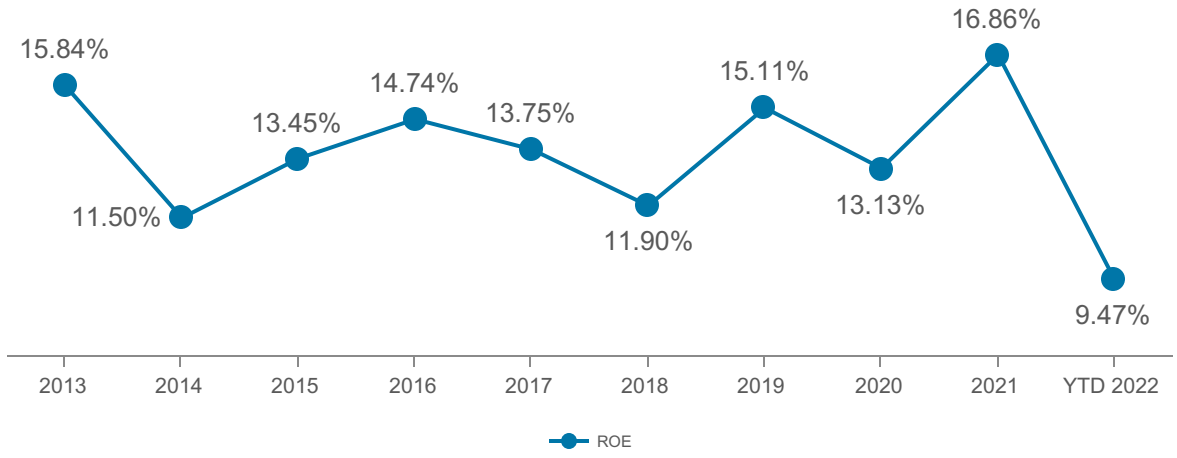


The two spikes in 2020 and 2021 relate to two construction loans where asset recovery programs were initiated and successfully resulted in full recovery of past due amounts. In Q3 2022, the spike relates to two construction loans where asset recovery programs are being initiated and we expect to fully recover all past due amounts. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

Our Shareholder Returns

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

Figure 4: Historical ROE[1]

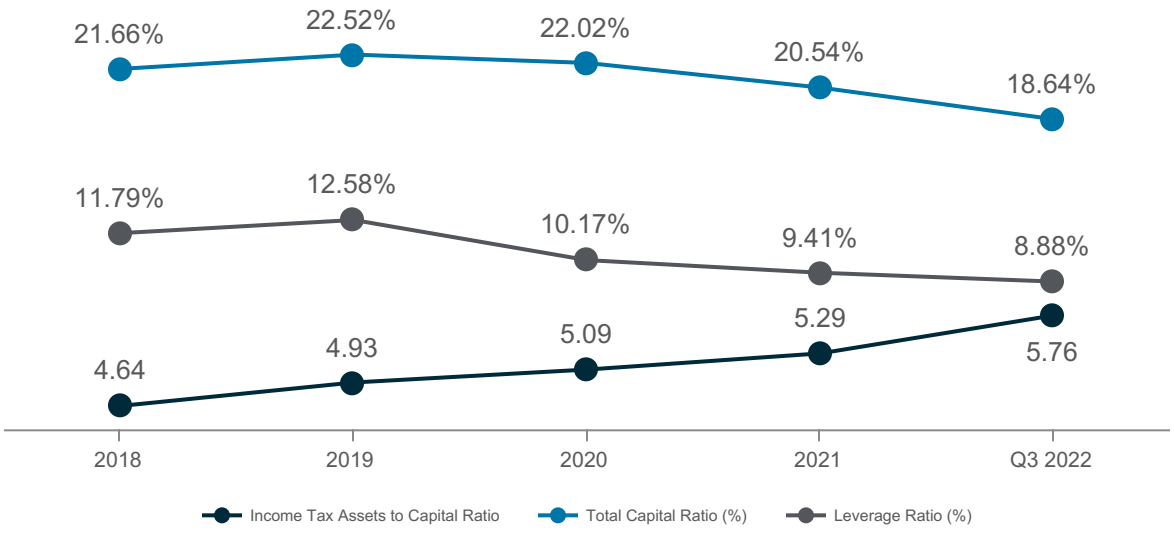


Our long-term objective is sustained 13% to 15% average ROE. The nature of our investing activities may result in fluctuations in our ROE year to year. ROE for year to date 2022 was negatively impacted by unrealized fair value losses on our REIT portfolio. In the last 10 years, we have delivered an average ROE[1] of approximately 14%.

Our Capital Strength

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

Figure 5: Historical Capital Ratios



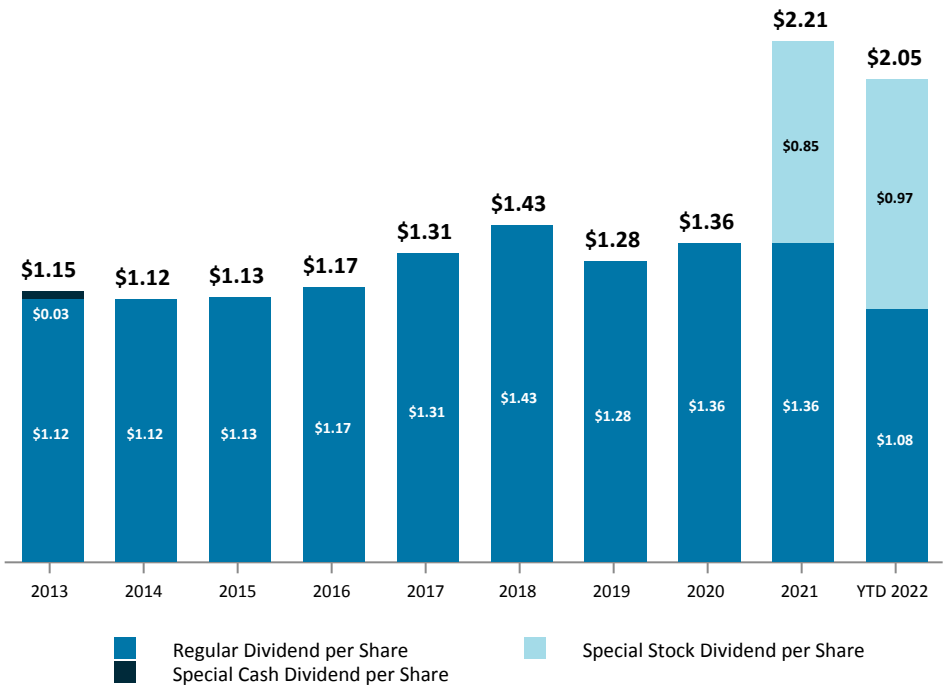
Our capital ratios have adjusted due to our growing assets compared to our capital base. Our capital growth thus far this year was due to our first quarter stock dividend, dividend reinvestment program and at-the-market program. Further growth will be dependent on better equity market conditions or shareholder appetite.

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

Our Dividends

Uniquely structured as a MIC, our dividend policy is to pay out substantially all of our taxable income to our shareholders. These dividends are taxable to our shareholders as interest income. Should taxable income per share exceed our regular cash dividends per share, we expect to distribute special cash or stock dividends per our dividend policy. We have been paying regular dividends for the past 30 years.

Figure 6: Dividend History



The Board of Directors ("Board") declared a fourth quarter regular cash dividend of $0.36 per share to be paid January 3, 2023 to shareholders of record on December 15, 2022. At this time, we do not expect to have taxable income per share greater than our regular cash dividends per share.

Our ESG Highlights

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

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

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

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

OUTLOOK

We continue to focus over the long term on growing our business and shareholder returns. We believe that our long-term strategy will continue to serve us well though we must also consider the current market conditions in the execution of that strategy. Over the short to mid term, our focus is on maintaining solid net interest margin within our capital requirements and risk appetite. We believe that we are a prudent and disciplined real estate lender and investor and that we have strong relationships with our brokers and strategic partners that are foundational to our strategy. This strategy and long-term outlook is based on assumptions from our experience, our market knowledge, and sources we consider reliable including the Canadian government, the seven largest Canadian banks and industry regulators.

Economic Outlook

Aggressive interest rate hikes by central banks and their potential impact on inflation and consumer demand continue to dominate the outlook for the Canadian and global economies. While inflation may have peaked in Canada and labour markets remain strong, many Canadian economists believe that a "soft-landing" is looking less likely as it is expected that inflation will remain high for longer than anticipated and the ongoing Russia/Ukraine conflict continues to add to supply chain pressures and commodity price volatility. Steep interest rate increases intended to moderate spending and reduce inflation could risk a deep or prolonged recession. Current inflation and lower household net worth is expected to negatively impact overall household disposable income leading to reduced discretionary spending in the near term as prices for food and energy remain elevated. Most economists expect slowing growth in Canadian GDP and our unemployment rate to increase very gradually but remain low. We expect inflation and interest rates to be the dominant concern throughout the remainder of 2022 and into 2023. The Bank of Canada expects inflation to be high in the near term and its policy interest rate to rise further. The Bank of Canada is expected to continue its quantitative tightening and act as required to achieve its 2% inflation target. We expect more forthcoming rate increases in 2022 and 2023 given indications from the Bank of Canada that it is prepared to act using interest rate increases, as needed, to meet its target.

Housing Market Outlook

The quantum and pace of rising interest rates are a strong headwind that are expected to continue cooling demand for the remainder of 2022 and into 2023 as housing affordability is expected to worsen. Following a record year for Canada's housing market, most economists are expecting average home prices to decrease further in the short to mid term, underpinned by quickly rising borrowing costs and buyers waiting to see how high rates will go. In the long term, we believe that the continued supply-demand imbalance will provide some upward pressure on home prices, or at least a counter-balance to the headwinds, particularly in and around our core markets of (i) the Greater Toronto area; (ii) the Capital region; and (iii) the Greater Vancouver area. Further, robust immigration rates will keep lifting housing demand. The lack of supply of affordable housing is not easily resolved in the short term, as there are multiple factors to consider in increasing supply (i.e. local/municipal government processes, skilled labour shortages, increased construction costs, supply chain challenges, etc.) that limit how many homes can be built in the short term. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business.

Business Outlook

We believe that our business is well structured with its focus on multiple facets of the Canadian residential real estate market, giving us some flexibility in terms of income generation and allowing us to balance out volatility that we may experience at certain points and in certain areas of our business. The current pace and steepness of interest rate increases, as well as the risk of a recession, have already created some headwinds to our MCAN Home division which runs our residential lending business, MCAN Capital division which manages our REIT portfolio, and MCAN Wealth which manages our term deposits, and may create further headwinds over the course of the remainder of this year and into next year. That said, we continue to experience positive momentum in other parts of our business, such as our construction lending business and we believe that the housing market will remain strong given supply/demand imbalances and the pace of immigration. We believe that there is opportunity to grow our core business in this environment, without taking on significantly more risk. We have seen better spreads in our residential lending business and there continues to be ample opportunity to lend to residential construction developers, particularly in our core area of lending on affordable housing projects near transit corridors around key urban markets. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in the short term, with a focus on protecting our net interest margin.

MCAN Capital

Over the remainder of this year and the coming years we will look to rebalance our portfolios, where possible, and pivot to using more of our capital for higher-yielding products, like construction and commercial lending and in non-marketable securities, including investments in real estate-based development or higher-yielding mortgage funds.

We see the benefits of solid income and distributions from these investments. Notwithstanding headwinds that may be created by the current rising interest rate environment, we expect continued high demand for more affordable housing, which is our focus generally with all of these investments and loans. We therefore expect a continued pipeline for our residential construction lending business. We will also benefit from rising interest rates in this area of our business as this portfolio of loans is almost entirely at floating rates. While there continues to be construction site delays and interest rate and housing market headwinds, we expect our construction project finance loans to progress forward to completion and without credit issues, but we continue to monitor our portfolio, and the market in general, very closely. The cost of construction has increased due to inflationary pressures in the cost of building materials and labour, as well as supply chain issues. All these factors have, and may continue to have, an impact on the timing of repayments as loans remain outstanding longer; however, they have not changed the overall expected success of these construction projects or loan performance within our portfolio thus far. We apply our prudent approach to underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential products, near transit corridors, with experienced borrowers where we have existing relationships. We will continue to remain vigilant in our underwriting and loan management practices.

MCAN Home

Given the rising interest rate environment, our risk management, credit monitoring and assessment activities will continue to have a heightened focus in operating our business. We currently have a portfolio with a strong credit profile and a minimal level of arrears. Single family residential mortgages tend to provide comparatively lower yields given their risk profile. That said, we have seen spreads improve over the last several months as interest rates have increased. Based on the current economic and housing market outlook, and our strategy to focus on protecting our bottom line within our capital requirements during this time of uncertainty, we expect lower origination volumes in MCAN Home for the remainder of 2022. Notwithstanding the current interest rate and economic environment, we do believe that there is opportunity to grow this business in the mid-term. We remain dedicated to continuously improving our service for our borrowers and the broker community, and as such, we will continue to invest in our current and new systems and business infrastructure and look to add new lending products that fit within our risk appetite to further enhance our service experience and broaden our offering to our customers. We are also now focused on increasing our mortgage lending in the Alberta and British Columbia urban markets. We will continue to keep abreast of the many changes in the market and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

MCAN Wealth

We employ leverage and fund our business by issuing GICs that are eligible for CDIC deposit insurance that are sourced through a network of independent brokers and financial agents. Regarding the term deposit market, we experienced high competition for term deposit funding in the wake of the Russia/Ukraine conflict in the first quarter. That temporary dislocation in the market caused rates to increase significantly at that time. More recently we've seen higher term deposit rates amid a more aggressive rising interest rate environment. We typically see the term deposit market impacted first and immediately by rising interest rates, compared to residential loans that these term deposits fund. We expect to see further increases in term deposit rates based on actual or expected Bank of Canada rate increases. In the current quarter, we saw extremely high market volumes for term deposits as investors exited the stock market for safer havens, like GICs. Given current and expected interest rates, we continue to look for opportunities to realign the duration of our term deposits relative to our corporate mortgage portfolio. We will continue to expand our broker network, and invest in our current and new systems and business infrastructure. We are focusing on digital strategies, process improvements and potentially new product offerings within our term deposit operations.

We will continue to focus in the mid to long term on expanding and maturing our capital markets and other funding strategies to continue our growth. That growth will be dependent on capital availability and therefore the strength of capital markets or existing shareholder demand for our shares. That said, MCAN's management and Board are committed to proactively and effectively managing and evolving all our strategies, business activities and team into the future, regardless of market conditions. We will always invest in our greatest asset – our people. Our targeted average annual growth in corporate assets over the long term is 10%. For 2022, however, we have remained focused on protecting our bottom line and preserving capital over corporate asset growth.

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

HIGHLIGHTS

Q3 2022

- Net income totalled $11.7 million in Q3 2022, a decrease of $1.3 million (10%) from $13.0 million in Q3 2021. Results for the third quarter of 2022 were mainly impacted by $5.0 million of unrealized fair value losses on our REIT portfolio due to the current market environment partially offset by growth in our core business.

- Earnings per share totalled $0.37 in Q3 2022, a decrease of $0.10 (21%) from earnings per share of $0.47 in Q3 2021. The unrealized fair value gains and losses on our REIT portfolio negatively impacted our earnings per share by $0.16 compared to a positive impact of $0.04 in Q3 2021.

- Return on average shareholders' equity[1] was 10.52% for Q3 2022 compared to 13.22% in Q3 2021.

- Net corporate mortgage spread income[1] increased by $3.8 million from Q3 2021. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued net mortgage originations and an increase in the spread of corporate mortgages over term deposit interest and expenses. The increase in the spread of corporate mortgages over term deposit interest and expenses is due to a larger increase in average mortgage rates compared to average term deposit rates. The increase in our average mortgage rate is primarily due to the rising rate environment on our floating rate residential construction mortgages. The increase in our average term deposit rate is due to actual and expected Bank of Canada rate increases.

- Net securitized mortgage spread income[1] decreased by $0.5 million from Q3 2021. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. We have seen the spread of securitized mortgages over liabilities decline on securitizations mainly as a result of higher securitization liability interest expense from significantly increasing Government of Canada bond yields in 2022 as we have entered a rising interest rate environment.

- Provision for credit losses on our corporate mortgage portfolio of $0.9 million in Q3 2022 was mainly due to changes in economic forecasts from uncertainty around inflation and the rising interest rate environment, as well as growth in our portfolio. In Q3 2021, we had a recovery of credit losses of $0.1 million due to economic forecasts being more optimistic amid vaccine roll-outs at that time.

- Equity income from MCAP totalled $8.2 million in Q3 2022, an increase of $2.6 million (47%) from $5.6 million in Q3 2021, which was primarily due to higher servicing and administration revenue resulting from higher assets under management, and higher financial instrument gains resulting from (i) hedge gains; (ii) favourable fair value adjustments; and (iii) lower hedge costs. These were partially offset by (i) lower net interest income on securitized mortgages due to compressed spreads as a result of the rising interest rate environment; (ii) lower mortgage origination fees from lower spreads and origination volumes due to market conditions; (iii) higher interest expense; and (iv) higher operating expenses mainly attributed to higher headcount.

- In Q3 2022, we recorded a $5.1 million net unrealized loss on securities compared to a $1.0 million net unrealized gain on securities in Q3 2021 as we saw continued declines in REIT prices from a rising interest rate environment and current geopolitical conflicts compared to optimism in Q3 2021 around vaccine roll-outs. While we expect continued volatility in the REIT market, we are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments.

Year to Date 2022

- Net income totalled $31.3 million for 2022 year to date, a decrease of $17.0 million (35%) from $48.3 million net income in 2021. Year to date 2022 results were mainly impacted by $12.0 million of unrealized fair value losses on our REIT portfolio due to the current market environment partially offset by growth in our core business.

- Earnings per share totalled $1.01 for 2022 year to date, a decrease of $0.83 (45%) from earnings per share of $1.84 in 2021. The unrealized fair values gains and losses on our REIT portfolio negatively impacted our earnings per share by $0.39 compared to a positive impact of $0.43 in 2021.

- Return on average shareholders' equity[1] was 9.47% for 2022 compared to 17.40% in 2021.

- Net corporate mortgage spread income[1] increased by $11.2 million from 2021. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from continued high mortgage originations partially offset by a reduction in the spread of corporate mortgages over term deposit interest and expenses. The decrease in the spread of corporate mortgages over term deposit interest and expenses is mainly due to (i) an increase in our average term deposit rates as a result of the same factors as for Q3 2022 mentioned above, as well as

dislocation in the term deposit market at the start of the Russia/Ukraine conflict which caused increased demand by financial institutions for term deposit funding; and (ii) a decrease in our average mortgage rates from continued market competition keeping mortgage rates low in our residential mortgage portfolio.

- Net securitized mortgage spread income[1] decreased by $1.1 million from 2021. The net securitized mortgage spread income decreased due to a decrease in the spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from originations of insured residential mortgages. The decline in the spread of securitized mortgages over liabilities is due to the same factors as described above for Q3 2022.

- Provision for credit losses on our corporate mortgage portfolio of $27,000 year to date 2022 compared to recovery of credit losses of $0.3 million for year to date 2021. The current year to date provision was due to the shift in economic forecasts from the pandemic to the recent uncertainty around inflation and the rising interest rate environment as well as growth in the portfolio. For 2021, the recovery was mainly due to economic forecasts being more optimistic amid vaccine roll-outs at that time.

- Equity income from MCAP totalled $19.7 million for 2022 year to date, an increase of $0.5 million (3%) from $19.2 million in 2021. For 2022 year to date, the increase is due to the same factors as for Q3 2022 mentioned above.

- Year to date net realized and unrealized loss on securities was $13.8 million for 2022 compared to a year to date net unrealized gain on securities of $11.4 million for 2021. Activity in both years mainly relate to the same factors as Q3 2022 mentioned above except during Q1 2022, one REIT in our portfolio had a mandatory corporate action resulting in privatization and as such we recognized a $1.8 million realized loss.

Business Activity and Balance Sheet

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

- Corporate assets totalled $2.27 billion at September 30, 2022, a net decrease of $47 million (2%) from June 30, 2022 and a net increase of $111 million (5%) from December 31, 2021.

- Corporate mortgage portfolio totalled $2.0 billion at September 30, 2022, a net decrease of $2 million (—%) from June 30, 2022 and a net increase of $169 million (9%) from December 31, 2021.

- Construction and commercial portfolios totalled $879 million at September 30, 2022, a net increase of $25 million (3%) from June 30, 2022 and a net increase of $102 million (13%) from December 31, 2021. The movement in the portfolio is attributed to originations of $414 million year to date 2022 in new construction and commercial mortgages, partly offset by maturities and repayments. We will look to rebalance through the remainder of this year and next year, if possible, to a higher proportion of construction and commercial loans that fit within our risk appetite and capital requirements.

- Uninsured residential mortgage portfolio totalled $848 million at September 30, 2022, a net decrease of $22 million (3%) from June 30, 2022 and a net increase of $65 million (8%) from December 31, 2021. Uninsured residential mortgage originations were $72 million in Q3 2022, a decrease of $56 million (44%) from Q2 2022 and a decrease of $92 million (56%) from Q3 2021 and $320 million year to date 2022 compared to $417 million year to date 2021. We are also actively rebalancing to a lower proportion of uninsured residential mortgage originations compared to higher yielding residential construction loans.

- Insured residential mortgage originations were $126 million in Q3 2022, a decrease of $66 million (34%) from Q2 2022 and a decrease of $132 million (51%) from Q3 2021, and $499 million year to date 2022 compared to $634 million year to date 2021. This includes $87 million of insured residential mortgage commitments originated and sold in Q3 2022 under an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, compared to $64 million in Q2 2022 and $56 million in Q3 2021, and $184 million year to date 2022 compared to $65 million year to date 2021. We launched our insured adjustable rate residential mortgage product in Q1 2022. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise. Insured residential mortgage securitization volumes were $56 million in Q3 2022, a decrease of $65 million (54%) from Q2 2022 and a decrease of $123 million (69%) from Q3 2021, and $314 million year to date 2022 compared to $582 million year to date 2021. We decreased our insured residential mortgage originations and securitization volumes and increased the volume of our insured residential mortgage commitment sales given the extremely tight and even negative securitization spreads. We use various channels in the insured residential mortgage market, in the context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

Dividend

- The Board declared a fourth quarter regular cash dividend of $0.36 per share to be paid January 3, 2023 to shareholders of record as of December 15, 2022. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income so that we pay no income taxes at the corporate level. At this time, we do not expect to have taxable income per share greater than our regular cash dividends per share.

Credit Quality

- Impaired corporate mortgage ratio[1] was 0.00% at September 30, 2022 compared to 0.01% at June 30, 2022 and 0.05% at December 31, 2021.

- Impaired total mortgage ratio[1] was 0.01% at September 30, 2022 compared to 0.02% at June 30, 2022 and 0.03% at December 31, 2021.

- Arrears total mortgage ratio[1] was 1.11% at September 30, 2022 compared to 0.36% at June 30, 2022 and 0.46% at December 31, 2021. The increase in the arrears total mortgage ratio is primarily due to two construction mortgages where asset recovery programs are being initiated and we expect to recover all past due interest and principal. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

- Net write-offs were $11,000 (0.2 basis points of the average corporate portfolio) in Q3 2022 compared to $36,000 (0.9 basis points) in Q3 2021.

- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 58.1% at September 30, 2022 compared to 58.1% at June 30, 2022 and 60.3% at December 31, 2021.

Capital

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

- In 2021, we filed a Prospectus Supplement to our Base Shelf prospectus establishing an ATM Program to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program will be determined at our sole discretion. We began issuing shares under the ATM Program in Q1 2022. During Q3 2022, we sold 600 common shares at a weighted average price of $17.10 for gross and net proceeds of $11,000. Year to date 2022, we sold 236,600 common shares at a weighted average price of $17.88 for gross proceeds of $4.2 million and net proceeds of $4.1 million including $85,000 of commission paid to our agent and $30,000 of other share issuance costs under the ATM Program.

- We issued $2.0 million in new common shares through the Dividend Reinvestment Plan ("DRIP") in Q3 2022 compared to $2.0 million in Q2 2022 and $1.4 million in Q3 2021. The DRIP participation rate was 17% for the Q3 2022 dividend (Q2 2022 dividend - 17%; Q3 2021 dividend - 17%).

- We issued $28.8 million in new common shares on March 31, 2022 from our 2022 first quarter special stock dividend to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $18.9326.

- Income tax assets to capital ratio[3] was 5.76 at September 30, 2022 compared to 5.53 at June 30, 2022 and 5.29 at December 31, 2021.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[2] were 18.35% at September 30, 2022 compared to 18.82% at June 30, 2022 and 20.26% at December 31, 2021. Total Capital to risk-weighted assets ratio[2] was 18.64% at September 30, 2022 compared to 19.09% at June 30, 2022 and 20.54% at December 31, 2021.

- Leverage ratio[2] was 8.88% at September 30, 2022 compared to 8.82% at June 30, 2022 and 9.41% at December 31, 2021.

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

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

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

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %)								
	Q3	Q2	Change	Q3	Change	YTD	YTD	Change
For the Periods Ended	**2022**	**2022**	**(%)**	**2021**	**(%)**	**2022**	**2021**	**(%)**
Net Investment Income - Corporate Assets								
Mortgage interest	$ 27,216	$ 22,815	19%	$ 19,072	43%	$ 70,539	$ 51,387	37%
Equity income from MCAP Commercial LP	8,236	6,288	31%	5,606	47%	19,743	19,207	3%
Non-marketable securities	2,202	1,970	12%	1,549	42%	5,732	4,309	33%
Marketable securities	864	862	—%	938	(8%)	2,692	2,665	1%
Fees	682	577	18%	506	35%	1,843	1,354	36%
Interest on cash and other income	579	162	257%	93	523%	858	286	200%
Net gain (loss) on securities	(5,092)	(9,906)	49%	1,016	(601%)	(13,809)	11,389	(221%)
Gain on dilution of investment in MCAP Commercial LP	—	—	n/a	—	n/a	—	326	(100%)
	34,687	**22,768**	**52%**	**28,780**	**21%**	**87,598**	**90,923**	**(4%)**
Term deposit interest and expenses	12,330	10,185	21%	8,013	54%	31,033	23,041	35%
Mortgage expenses	1,592	1,623	(2%)	1,401	14%	4,769	3,683	29%
Interest on loans payable	1,064	866	23%	512	108%	2,488	791	215%
Other financial expenses	—	200	(100%)	—	n/a	210	125	68%
Provision for (recovery of) credit losses	856	426	101%	(122)	802%	27	(288)	109%
	15,842	**13,300**	**19%**	**9,804**	**62%**	**38,527**	**27,352**	**41%**
	18,845	**9,468**	**99%**	**18,976**	**(1%)**	**49,071**	**63,571**	**(23%)**
Net Investment Income - Securitization Assets								
Mortgage interest	7,949	7,598	5%	7,478	6%	22,804	21,376	7%
Other securitization income	195	122	60%	77	153%	383	165	132%
	8,144	**7,720**	**5%**	**7,555**	**8%**	**23,187**	**21,541**	**8%**
Interest on financial liabilities from securitization	6,214	5,633	10%	5,222	19%	17,096	14,561	17%
Mortgage expenses	1,050	1,015	3%	890	18%	3,025	2,442	24%
Provision for (recovery of) credit losses	3	4	(25%)	—	n/a	6	(20)	130%
	7,267	**6,652**	**9%**	**6,112**	**19%**	**20,127**	**16,983**	**19%**
	877	**1,068**	**(18%)**	**1,443**	**(39%)**	**3,060**	**4,558**	**(33%)**
Operating Expenses								
Salaries and benefits	5,044	4,639	9%	4,542	11%	14,679	13,737	7%
General and administrative	2,442	2,464	(1%)	1,946	25%	6,831	6,667	2%
	7,486	**7,103**	**5%**	**6,488**	**15%**	**21,510**	**20,404**	**5%**
Net income before income taxes	12,236	3,433	256%	13,931	(12%)	30,621	47,725	(36%)
Provision for (recovery of) income taxes	586	(704)	(183%)	941	(38%)	(645)	(567)	14%
Net Income	**$ 11,650**	**$ 4,137**	**182%**	**$ 12,990**	**(10%)**	**$ 31,266**	**$ 48,292**	**(35%)**
Basic and diluted earnings per share	$ 0.37	$ 0.13	185%	$ 0.47	(21%)	$ 1.01	$ 1.84	(45%)
Dividends per share - cash	$ 0.36	$ 0.36	—%	$ 0.34	6%	$ 1.08	$ 1.02	6%
Dividends per share - stock	$ —	$ —	n/a	$ —	n/a	$ 0.97	$ 0.85	14%

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	September 30, 2022			June 30, 2022			September 30, 2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages									
Insured	$ 210,271	$ 1,418	2.74 %	$ 221,667	$ 1,214	2.20 %	$ 175,746	$ 951	2.20 %
Uninsured	855,224	8,772	4.09 %	853,080	8,111	3.80 %	660,951	6,576	3.96 %
Uninsured - completed inventory	33,047	609	7.31 %	35,141	512	5.84 %	35,878	602	6.66 %
Construction loans									
Residential	763,841	14,537	7.55 %	711,597	11,457	6.45 %	616,756	9,679	6.22 %
Non residential	5,077	93	7.28 %	5,018	81	6.45 %	4,810	91	7.48 %
Commercial loans									
Multi family residential	92,659	1,537	6.58 %	87,922	1,188	5.41 %	59,299	740	4.94 %
Other	17,800	250	5.56 %	17,844	252	5.66 %	30,094	433	5.70 %
Mortgages - corporate portfolio	$1,977,919	$ 27,216	5.47 %	$1,932,269	$ 22,815	4.73 %	$1,583,534	$ 19,072	4.78 %
Term deposit interest and expenses	1,790,540	12,330	2.64 %	1,772,958	10,185	2.23 %	1,514,721	8,013	2.01 %
Net corporate mortgage spread income[1]		$ 14,886			$ 12,630			$ 11,059	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.83 %			2.50 %			2.77 %
Average term to maturity (months)									
Mortgages - corporate	12.9			13.9			13.9		
Term deposits	17.1			17.7			19.9		

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

For the Nine Months Ended September 30	2022			2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages						
Insured	$ 206,877	$ 3,522	2.30 %	$ 166,414	$ 2,799	2.26 %
Uninsured	835,976	24,270	3.87 %	581,709	18,159	4.20 %
Uninsured - completed inventory	36,883	1,718	6.22 %	40,527	1,989	6.56 %
Construction loans						
Residential	723,853	36,335	6.71 %	520,831	25,129	6.45 %
Non residential	5,029	262	6.97 %	4,446	248	7.46 %
Commercial loans						
Multi family residential	83,716	3,605	5.87 %	47,907	1,800	5.02 %
Other commercial	17,905	827	5.60 %	30,394	1,263	5.55 %
Mortgages - corporate portfolio	$ 1,910,239	$ 70,539	4.93 %	$ 1,392,228	$ 51,387	4.95 %
Term deposit interest and expenses	1,743,658	31,033	2.30 %	1,353,886	23,041	2.14 %
Net corporate mortgage spread income[1]		$ 39,506			$ 28,346	
Spread of corporate mortgages over term deposit interest and expenses [1]			2.63 %			2.81 %

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

Table 6: Mortgage Originations

(in thousands except %) For the Periods Ended	Q3 2022	Q2 2022	Change (%)	Q3 2021	Change (%)	YTD 2022	YTD 2021	Change (%)
Originations								
Residential mortgages - insured fixed [3]	$ 44,951	$ 64,617	(30%)	$ 258,150	(83%)	$ 205,276	$ 634,032	(68%)
Residential mortgages - insured adjustable rate [3]	81,341	127,783	(36%)	—	n/a	294,104	—	n/a
Residential mortgages - uninsured	72,361	128,116	(44%)	164,500	(56%)	320,290	416,584	(23%)
Residential mortgages - uninsured completed inventory [1]	12,567	4,546	176%	6,247	101%	17,399	27,228	(36%)
Residential construction [1]	120,226	178,136	(33%)	186,275	(35%)	387,090	531,375	(27%)
Non-residential construction [1]	34	54	(37%)	205	(83%)	115	1,546	(93%)
Commercial [1]	—	13,600	(100%)	16,200	(100%)	26,855	36,310	(26%)
	$ 331,480	**$ 516,852**	**(36%)**	**$ 631,577**	**(48%)**	**$1,251,129**	**$1,647,075**	**(24%)**
Renewals of securitized mortgages [2]								
Residential mortgages - insured	$ 8,266	$ 10,481	(21%)	$ 13,876	(40%)	$ 26,637	$ 21,155	26%

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

Overview

The low interest rate environment in 2021 and the current rising interest rate environment in 2022 impacted both average mortgage and average term deposit rates. For Q3 2022, the increase in the spread of corporate mortgages over term deposit interest and expenses from Q2 2022 and Q3 2021 was attributable to the rising interest rate environment's impact on (i) floating rates on residential construction loans that are now well above their floor rates; and (ii) residential mortgage rates more than exceeding the pace of increase in term deposit rates. Average term deposit rates for the quarter are higher due to actual and expected Bank of Canada rate hikes. That said, we have been actively managing our interest rate risk during this period of rising interest rates by realigning the duration of our term deposits portfolio relative to our corporate mortgage portfolio. For year to date 2022, the decrease in the spread of corporate mortgages over term deposit interest and expenses from year to date 2021 was mainly due to the increase in average term deposit rates outpacing the increase in average rates on our construction loans and residential mortgages. Through the latter half of 2021 and into Q2 2022, continued market competition had kept mortgage rates low in our residential mortgage portfolio, while increased demand by financial institutions for term deposit funding in the wake of the Russia/Ukraine conflict and demand by deposit customers for higher rates due to anticipated and actual Bank of Canada rate increases had kept term deposit rates elevated, causing a decline in the spread.

Residential Mortgage Lending

Residential mortgages provide comparatively lower yields given their risk profile, with uninsured residential mortgages providing higher yields than insured residential mortgages. For the quarter, higher average balances and higher average rates in the uninsured residential mortgage portfolio contributed to a higher corporate mortgage interest compared to Q2 2022 and Q3 2021. For year to date, higher average balances contributed to higher corporate mortgage interest compared to the same period last year.

Total origination volumes in Q3 2022 and year to date 2022 on our residential mortgages were lower compared to Q2 2022 and Q3 2021 and year to date 2021. The current economic environment and its impact on the housing market and borrowers, has caused a slowdown in origination volumes, as well as a more purposeful focus on protecting our net interest margin over quantity of originations. We are also actively rebalancing to a lower proportion of uninsured residential mortgage originations compared to higher yielding residential construction loans.

We launched our new insured adjustable rate residential mortgage product at the beginning of the year as a result of market demand for that product and as Table 6 shows, there has been great traction in that category. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise.

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

We have an agreement with MCAP Securities Limited Partnership ("MSLP"), a wholly owned subsidiary of MCAP, whereby we can sell to MSLP insured residential mortgage commitments. In Q3 2022, we increased the amount of commitment sales into this program, given the extremely tight and even negative spreads from the securitization market. We originated and sold $87 million in commitments in Q3 2022 (Q2 2022 - $64 million; Q3 2021 - $56 million) and $184 million year to date 2022 (year to date 2021 - $65 million) under this agreement.

We have a $100 million senior secured mortgage warehouse facility with a Canadian Schedule I Chartered bank. The facility is used to fund insured residential mortgages prior to securitization activities. This facility is a lower cost form of short term financing compared to term deposits; however, we have seen the interest on this loan payable increase due to the rising interest rate environment.

We continue to maintain our insured residential mortgage originations to allow us to securitize opportunistically through the CMHC *National Housing Act* ("NHA") Mortgage-Backed Securities ("MBS") program. Year to date residential mortgage securitization volumes of $314 million compared to $582 million year to date 2021. The decrease in securitization volumes is mainly due to the sale of insured residential mortgage commitments as mentioned previously. Renewals of securitized mortgages fluctuate each period depending on the maturities in the securitization portfolio.

Construction and Commercial

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

Some projects have experienced construction delays and cost overruns due to certain restrictions, higher interest costs and supply chain issues as a result of geopolitical conflicts and the current inflationary environment, which has led to some loan extension and amendment requests. To date, projects continue to progress toward completion. In Q3 2022, we have two construction loans where asset recovery programs are being initiated and we expect to fully recover all past due amounts. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets.

Mortgage Renewal Rights

Through our origination platform, we retain the renewal rights to internally originated residential mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the interim consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income including renewal income. At September 30, 2022, we had the renewal rights to $2.7 billion of residential mortgages (June 30, 2022 - $2.7 billion; December 31, 2021 - $2.4 billion).

Equity Income from MCAP

In Q3 2022, MCAP's origination volumes were $8.7 billion, a decrease from $9.5 billion in Q3 2021. At August 31, 2022 (we account for MCAP on a one-month lag basis), MCAP had $151.1 billion of assets under management compared to $148.5 billion at May 31, 2022 and $143.6 billion at August 31, 2021. Equity income from MCAP totalled $8.2 million in Q3 2022, an increase of $2.6 million from $5.6 million in Q3 2021. For Q3 2022, the increase in equity income from MCAP was primarily due to higher servicing and administration revenue resulting from higher assets under management, and higher financial instrument gains resulting from (i) hedge gains; (ii) favourable fair value adjustments; and (iii) lower hedge costs. These were partially offset by (i) lower net interest income on securitized mortgages due to compressed spreads as a result of the rising interest rate environment; (ii) lower mortgage origination fees from lower spreads and origination volumes due to market conditions; (iii) higher interest expense; and (iv) higher operating expenses mainly attributed to higher headcount. For year to date 2022, equity income from MCAP totalled $19.7 million, an increase of $0.5 million from $19.2 million year to date 2021. For the year to date, the increase in equity income from MCAP was due to the same factors as for Q3 2022 mentioned above.

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

Non-Marketable Securities

KingSett High Yield Fund ("KSHYF"): We received distribution income of $1.5 million in Q3 2022 (Q3 2021 - $1.3 million) and $4.5 million year to date 2022 (year to date 2021 - $3.6 million). The distribution yield[1] on this portfolio was 11.89% in Q3 2022 compared to 12.11% in Q3 2021. Year to date 2022, the distribution yield[1] on this investment was 12.62% compared to 11.16% during year to date 2021.

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

MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"): We received principal and interest of $1.8 million in Q3 2022 (Q3 2021 - $2.3 million) and $4.3 million year to date 2022 (year to date 2021 - $4.6 million), representing a distribution yield[1] of 8.00%.

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

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

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 6.07% in Q3 2022 (Q3 2021 - 5.20%) and 5.86% year to date 2022 (year to date 2021 - 5.56%). For the quarter and year-end, the higher distribution yield is mainly due to the decline in unrealized fair value in the current year. The distribution yield has been calculated based on the average portfolio carrying value.

Fees

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

Net Gain (Loss) on Securities

In Q3 2022, we recorded a $5.1 million net unrealized loss on securities compared to a $1.0 million net unrealized gain on securities in Q3 2021. Our year to date net realized and unrealized loss on securities was $13.8 million for 2022 compared to a year to date net unrealized gain on securities of $11.4 million for year to date 2021. During Q1 2022, one REIT in our portfolio had a mandatory corporate action resulting in privatization and as such we recognized a $1.8 million realized loss. In the current year, we began to see a decline in REIT prices from current geopolitical conflicts and a rising interest rate environment compared to optimism in 2021 around vaccine roll-outs. While we expect continued volatility in the REIT market, we are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments.

Term Deposit Interest and Expenses

The increase in term deposit interest and expenses for the quarter and year to date compared to prior periods was due to a higher average term deposit balance and a higher average term deposit rate. Term deposit rates continued to decline during 2021 and as the higher rate term deposits matured, the average term deposit rate of the outstanding average term deposit balance had declined. Beginning in Q1 2022, average term deposit rates have increased due to the rising interest rate environment as well as dislocation in the term deposit market precipitated by the Russia/Ukraine conflict causing high demand by financial institutions for term deposits in Q1 2022. 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 $56 million in Q3 2022 (Q3 2021 - $179 million) and $314 million year to date 2022 (year to date 2021 - $582 million). The low interest rate environment and higher insured residential mortgage originations during 2021 had generated a high volume of securitizations. The decrease compared to the prior year was due to lower insured residential mortgage originations and sales of insured residential mortgage commitments, another funding source for our insured residential mortgage business, given much tighter securitization spreads.

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

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

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

For the Quarters Ended	September 30, 2022			June 30, 2022			September 30, 2021		
(in thousands except %)	Average Balance[1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$1,684,139	$ 7,949	1.89 %	$1,663,394	$ 7,598	1.84 %	$1,447,718	$ 7,478	2.07 %
Financial liabilities from securitization	1,701,259	6,214	1.45 %	1,683,637	5,633	1.33 %	1,468,811	5,222	1.42 %
Net securitized mortgage spread income [1]		$ 1,735			$ 1,965			$ 2,256	
Spread of securitized mortgages over liabilities [1]			0.44 %			0.51 %			0.65 %

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

For the Nine Months Ended September 30	2022			2021		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$ 1,651,788	$ 22,804	1.85 %	$ 1,341,688	$ 21,376	2.15 %
Financial liabilities from securitization	1,669,363	17,096	1.35 %	1,356,499	14,561	1.43 %
Net securitized mortgage spread income [1]		$ 5,708			$ 6,815	
Spread of securitized mortgages over liabilities [1]			0.50 %			0.72 %

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

In 2022, we have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates compared to 2021. Government of Canada bond yields have risen significantly in the latter half of 2021 and into 2022 as we have entered a rising interest rate environment.

Provision for (Recovery of) Credit Losses

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

(in thousands except basis points and %) For the Periods Ended	Q3 2022	Q2 2022	Change (%)	Q3 2021	Change (%)	YTD 2022	YTD 2021	Change (%)
Provision for (recovery of) impaired corporate mortgages								
Residential mortgages uninsured	$ (7)	$ (27)	74%	$ 22	(132%)	$ (20)	$ (73)	73%
	(7)	(27)	74%	22	(132%)	(20)	(73)	73%
Provision for (recovery of) performing corporate mortgages								
Residential mortgages insured	—	1	(100%)	—	n/a	1	(3)	133%
Residential mortgages uninsured	265	(427)	162%	(343)	177%	(952)	(239)	(298%)
Residential mortgages uninsured - completed inventory	57	(6)	1,050%	(149)	138%	(94)	(394)	76%
Construction loans	581	802	(28%)	351	66%	1,038	404	157%
Commercial loans								
Multi family residential	23	63	(63%)	13	77%	120	137	(12%)
Other commercial	(42)	(5)	(740%)	(17)	(147%)	(72)	(121)	40%
	884	428	107%	(145)	710%	41	(216)	119%
Other provisions (recoveries)	(21)	25	(184%)	1	(2,200%)	6	1	500%
Total corporate provision for (recovery of) credit losses	856	426	101%	(122)	802%	27	(288)	109%
Provision for (recovery of) performing securitized mortgages	3	4	(25%)	—	n/a	6	(20)	130%
Total provision for (recovery of) credit losses	$ 859	$ 430	100%	$ (122)	804%	$ 33	$ (308)	111%
Corporate mortgage portfolio data:								
Provision for (recovery of) credit losses, net	$ 877	$ 401	119%	$ (123)	813%	$ 21	$ (289)	107%
Net write offs	$ 11	$ —	n/a	$ 36	(69%)	$ 11	$ 37	(70%)
Net write offs (basis points)	0.2	—	n/a	0.9	(78%)	0.1	0.3	(67%)

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

We had a provision for credit losses on our corporate mortgage portfolio of $0.9 million in Q3 2022 compared to a recovery of credit losses of $0.1 million in Q3 2021. We had a provision for credit losses on our corporate mortgage portfolio of $27,000 year to date 2022 compared to a recovery of credit losses of $0.3 million year to date 2021. The provision was mainly due to changes in economic forecasts from uncertainty around inflation and the rising interest rate environment, as well as growth in our portfolio. Comparatively, 2021 economic forecasts were more optimistic amid vaccine roll-outs. The current inflationary environment and geopolitical conflicts have increased the level of uncertainty with respect to management's judgements and estimates including the probability weights assigned to each scenario, the impacts of monetary policy and the rising interest rate environment and its impact on macroeconomic indicators and the mortgage portfolio. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at September 30, 2022. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since September 30, 2022, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to September 30, 2022, will be reflected in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

We continue to monitor our portfolio in arrears on a regular basis to detect specific significant stress or deterioration.

All write-offs noted in the table above relate to the uninsured residential mortgages portfolio.

Operating Expenses

Table 10: Operating Expenses

(in thousands except %) For the Periods Ended	Q3 2022	Q2 2022	Change (%)	Q3 2021	Change (%)	YTD 2022	YTD 2021	Change (%)
Salaries and benefits	$ 5,044	$ 4,639	9%	$ 4,542	11%	$ 14,679	$ 13,737	7%
General and administrative	2,442	2,464	(1%)	1,946	25%	6,831	6,667	2%
	$ 7,486	**$ 7,103**	**5%**	**$ 6,488**	**15%**	**$ 21,510**	**$ 20,404**	**5%**

The increase in salaries and benefits in 2022 is primarily due to regular salary increases and additional resources to support increased growth and internal infrastructure and systems initiatives.

The increase in general and administrative expenses in 2022 is primarily due to higher professional fees and investments in new technology to further enhance our business operations and customer experience.

Taxable Income

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

Table 11: Taxable Income Reconciliation

(in thousands) For the Periods Ended	Q3 2022	Q3 2021	YTD 2022	YTD 2021
Consolidated net income for accounting purposes	$ 11,650	$ 12,990	$ 31,266	$ 48,292
Adjustments to calculate taxable income (loss):				
Reverse: Equity income from MCAP - accounting purposes	(8,236)	(5,606)	(19,743)	(19,207)
Add: MCAP taxable income (loss)	(23,284)	10,985	(12,771)	46,205
Reverse: Provision for (recovery of) credit losses [2]	864	(103)	50	(203)
Add: Amortization of upfront securitization program costs [3]	2,565	1,826	7,140	4,952
Deduct: Securitization program mortgage origination costs [3]	305	(2,501)	160	(7,823)
Add: Securitization program premium (discount)	(2,462)	(801)	(10,769)	(3,503)
Reverse: Net unrealized loss (gain) on securities [4]	5,005	(1,016)	13,817	(11,389)
Add: Capital gains (losses)	—	—	(285)	—
Reverse: Loss (income) earned in subsidiaries [5]	(1,447)	466	(4,510)	4,048
Deduct: Gain on dilution of MCAP [6]	—	—	—	(326)
Other items	164	(122)	521	(213)
Taxable Income (Loss)[1]	**$ (14,876)**	**$ 16,118**	**$ 4,876**	**$ 60,833**

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

The change in taxable income for Q3 2022 and year to date 2022 compared to Q3 2021 and year to date 2021 was primarily due to tax losses from MCAP and higher discounts on our securitization transactions. The tax losses from MCAP are timing differences only and arise as a result of the tax treatment on sales of loans into certain securitization programs. As a MIC, we pay out all of our taxable income to shareholders through dividends. At this time, we do not expect to have taxable income per share greater than our regular cash dividends per share.

Subsequent to quarter end, we executed an internal reorganization through a transfer of our equity investment in MCAP to a wholly-owned limited partnership. The reorganization is expected to increase MCAN's MIC asset capacity which will allow us to continue to grow and operate our business.

FINANCIAL POSITION

Assets

Table 12: Assets

(in thousands except %)	September 30 2022	June 30 2022	Change (%)	December 31 2021	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 37,942	$ 85,393	(56%)	$ 122,269	(69%)
Marketable securities	52,008	57,012	(9%)	62,693	(17%)
Mortgages	1,974,957	1,977,100	—%	1,806,146	9%
Non-marketable securities	93,302	83,777	11%	64,946	44%
Equity investment in MCAP Commercial LP	103,295	99,615	4%	96,186	7%
Deferred tax asset	1,453	2,038	(29%)	891	63%
Other assets	10,036	14,570	(31%)	9,323	8%
	2,272,993	**2,319,505**	**(2%)**	**2,162,454**	**5%**
Securitization Assets					
Cash held in trust	30,600	37,173	(18%)	53,148	(42%)
Mortgages	1,691,211	1,699,799	(1%)	1,583,697	7%
Other assets	9,589	9,878	(3%)	8,771	9%
	1,731,400	**1,746,850**	**(1%)**	**1,645,616**	**5%**
	$ 4,004,393	**$ 4,066,355**	**(2%)**	**$ 3,808,070**	**5%**

Our corporate and securitization assets increased compared to December 31, 2021 primarily due to origination volumes in our portfolios outpacing maturities. Compared to June 30, 2022, our securitization assets decreased mainly due to a higher amount of sales of insured residential mortgage commitments given the very tight and even negative securitization spreads.

In selecting residential construction projects to finance, we focus more on the affordable segments of the housing market, such as first time and move up homebuyers, characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas with a preference for proximity to transit. We focus on a diverse portfolio of predominantly first mortgage positions with 65-75% LTVs in our normal segment of lending. At September 30, 2022, the average outstanding construction loan balance was $7 million (June 30, 2022 - $7 million; December 31, 2021 - $8 million) with a maximum individual loan commitment of $40 million (June 30, 2022 - $40 million; December 31, 2021 - $40 million).

Securitized Mortgages

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

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

We securitized $56 million in Q3 2022 (Q3 2021 - $179 million) and $314 million year to date (year to date 2021 - $582 million) of insured residential mortgages through the market MBS program and CMB program. The decrease in securitization volumes is due to a higher amount of sales of our insured residential mortgage commitments given the very tight and even negative securitization spreads.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At September 30, 2022, we held $65 million of retained MBS on our balance sheet (June 30, 2022 - $62 million; December 31, 2021 - $51 million), which is included in the insured residential mortgage portfolio in corporate mortgages.

Table 13: Mortgage Summary

(in thousands except %)	September 30 2022	June 30 2022	Change (%)	December 31 2021	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 208,781	$ 220,885	(5%)	$ 196,595	6%
Uninsured	848,164	870,633	(3%)	783,061	8%
Uninsured - completed inventory	38,970	31,349	24%	49,431	(21%)
Construction loans	768,671	744,020	3%	684,298	12%
Commercial loans					
Multi family residential	92,518	92,392	—%	74,696	24%
Other commercial	17,853	17,821	—%	18,065	(1%)
	1,974,957	**1,977,100**	**—%**	**1,806,146**	**9%**
Securitized portfolio	**1,691,211**	**1,699,799**	**(1%)**	**1,583,697**	**7%**
	$ 3,666,168	**$ 3,676,899**	**—%**	**$ 3,389,843**	**8%**

We continue to be selective and will reposition our loan portfolio in terms of product composition, geographic mix and exposure as required to meet changing market conditions and align to our risk appetite. We have strong strategic partnerships and relationships and we maintain a high quality of underwriting. We have also enhanced our internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and increased underwriting capacity. The increase in our construction and commercial portfolio is due to our focus on growing this portfolio in selected markets, with our preferred borrowers and risk profile given they tend to provide higher yields. The net decrease in residential mortgages from last quarter is due to this rebalancing since they tend to provide lower yields compared to residential construction. The increase in residential mortgages from December 31, 2021 was primarily due to origination volumes outpacing maturities. Our securitized mortgage portfolio has increased from December 31, 2021 due to the impact of new securitization issuances buoyed by demand for our new insured adjustable rate residential mortgages in Q1 2022. The net decrease in our securitized portfolio from last quarter is due to a higher amount of sales of insured residential mortgage commitments given the very tight and even negative securitization spreads.

Figure 7: Total Corporate and Securitized Mortgage Portfolio (in thousands)

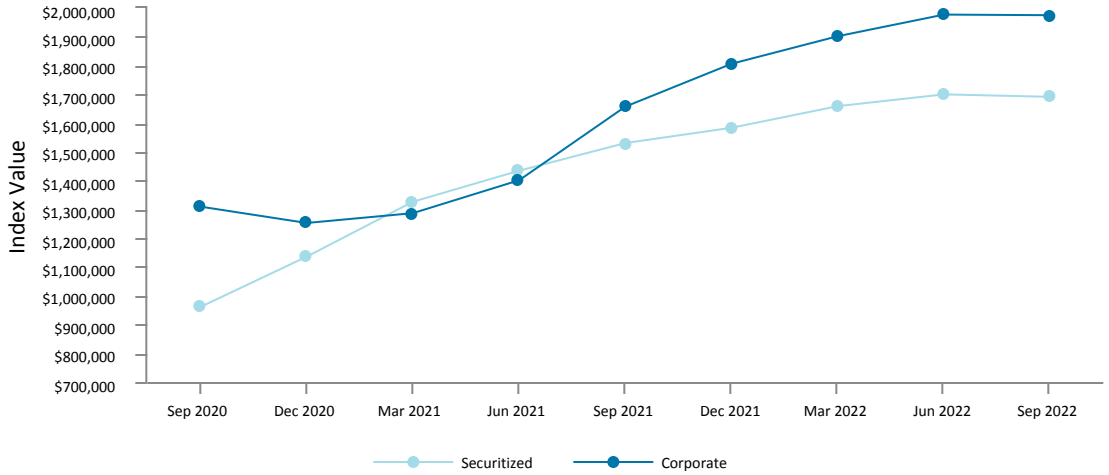
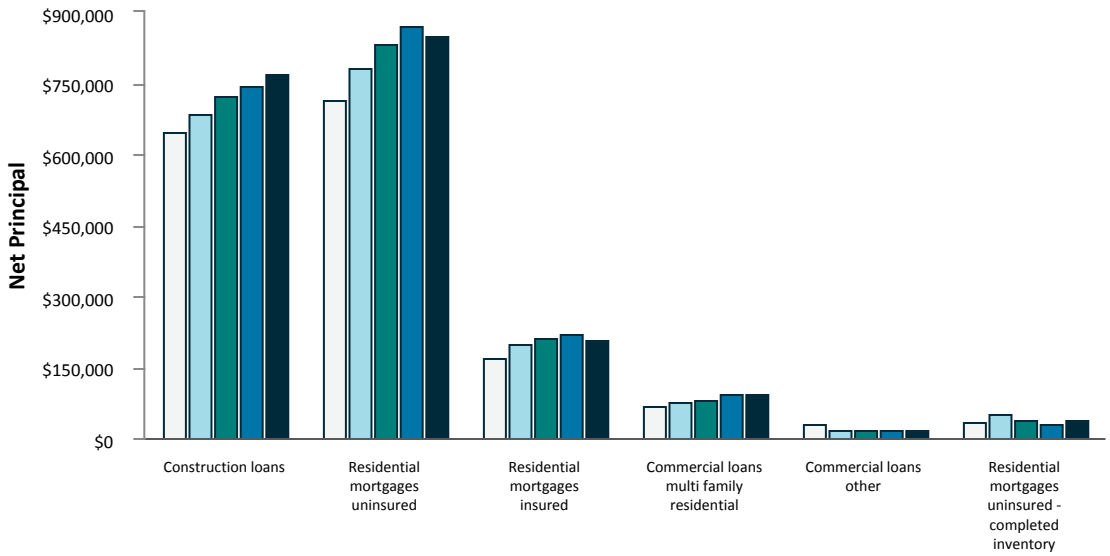


Figure 8: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Residential mortgages uninsured	Residential mortgages insured	Commercial loans multi family residential	Commercial loans other	Residential mortgages uninsured - completed inventory
Sep 30, 2021	$644,519 (39%)	$713,513 (43%)	$170,959 (10%)	$65,581 (4%)	$30,121 (2%)	$32,475 (2%)
Dec 31, 2021	$684,298 (38%)	$783,061 (43%)	$196,595 (11%)	$74,696 (4%)	$18,065 (1%)	$49,431 (3%)
Mar 31, 2022	$722,827 (38%)	$833,824 (44%)	$210,401 (11%)	$78,879 (4%)	$18,073 (1%)	$37,936 (2%)
Jun 30, 2022	$744,020 (38%)	$870,633 (43%)	$220,885 (11%)	$92,392 (5%)	$17,821 (1%)	$31,349 (2%)
Sep 30, 2022	$768,671 (39%)	$848,164 (42%)	$208,781 (11%)	$92,518 (5%)	$17,853 (1%)	$38,970 (2%)

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

Table 14: Mortgage Portfolio Geographic Distribution

	September 30, 2022		June 30, 2022		December 31, 2021	
	Corporate	Securitized	Corporate	Securitized	Corporate	Securitized
Ontario	59.3 %	87.3 %	62.5 %	87.4 %	62.2 %	86.6 %
British Columbia	28.5 %	3.3 %	26.0 %	3.3 %	27.8 %	3.4 %
Alberta	10.0 %	7.0 %	9.2 %	6.8 %	7.6 %	7.1 %
Atlantic Provinces	0.4 %	1.3 %	0.4 %	1.4 %	0.4 %	1.5 %
Quebec	1.3 %	0.5 %	1.4 %	0.5 %	1.7 %	0.7 %
Other	0.5 %	0.6 %	0.5 %	0.6 %	0.3 %	0.7 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 15: Arrears and Impaired Mortgages

(in thousands except %)	September 30 2022	June 30 2022	Change (%)	December 31 2021	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ —	$ 105	(100%)	$ 790	(100%)
Residential mortgages - uninsured	57	—	n/a	163	(65%)
	57	105	(46%)	953	(94%)
Securitized	174	629	(72%)	—	n/a
Total impaired mortgages	$ 231	$ 734	(69%)	$ 953	(76%)
Impaired corporate mortgage ratio [1]	— %	0.01 %	(0.01%)	0.05 %	(0.05%)
Impaired total mortgage ratio [1]	0.01 %	0.02 %	(0.01%)	0.03 %	(0.02%)
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 1,113	$ 1,236	(10%)	$ 849	31%
Residential mortgages - uninsured	11,514	8,672	33%	9,977	15%
Construction loans	25,165	—	n/a	—	n/a
Total corporate mortgage arrears	37,792	9,908	281%	10,826	249%
Total securitized mortgage arrears	2,842	3,397	(16%)	4,865	(42%)
Total mortgage arrears	$ 40,634	$ 13,305	205%	$ 15,691	159%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 6,614	$ 7,725	(14%)	$ 7,680	(14%)
Residential mortgages - uninsured	126,785	112,366	13%	99,090	28%
Residential mortgages - uninsured - completed inventory	—	—	n/a	3,449	(100%)
Construction loans	46,167	9,956	364%	17,570	163%
Commercial loans - multi-family residential	27,568	27,484	—%	27,346	1%
Commercial - other	—	16,570	(100%)	16,794	(100%)
	207,134	174,101	19%	171,929	20%
Stage 3					
Residential mortgages - insured	—	105	(100%)	790	(100%)
Residential mortgages - uninsured	57	—	n/a	163	(65%)
	57	105	(46%)	953	(94%)
Total stage 2 and 3 corporate mortgages	$ 207,191	$ 174,206	19%	$ 172,882	20%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 6,675	$ 5,791	15%	$ 6,634	1%
Allowance on impaired mortgages	8	—	n/a	13	(38%)
	6,683	5,791	15%	6,647	1%
Securitized - allowance on performing mortgages	10	7	43%	5	100%
Total allowance for credit losses	$ 6,693	$ 5,798	15%	$ 6,652	1%

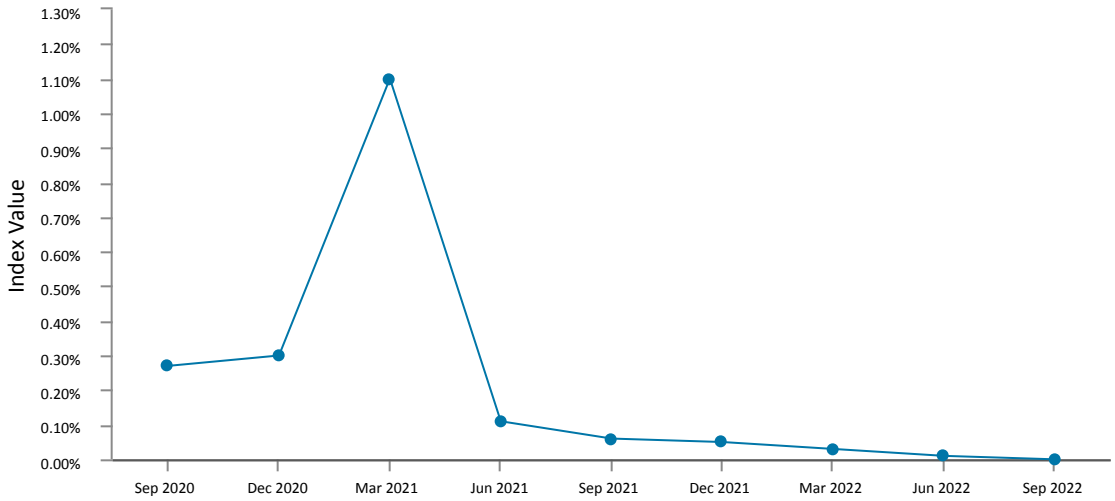
[1] *Considered to be a non-GAAP and other financial measure. For further details, refer to the "Non-GAAP and Other Financial Measures" section of this MD&A. Non-GAAP and other financial measures and ratios used in this document are not defined terms under IFRS and, therefore, may not be comparable to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

Arrears and Impaired Mortgage Summary

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

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

Figure 9: Impaired Corporate Mortgage Ratio[1]



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

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

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

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

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

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

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

Table 16: Residential Mortgages by Province at September 30, 2022

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 135,173	64.7 %	$ 760,870	85.9 %	$ 85	81.7 %	$1,475,892	87.3 %	$ 2,372,020	85.1 %
Alberta	56,986	27.3 %	30,315	3.4 %	19	18.3 %	118,816	7.0 %	206,136	7.4 %
British Columbia	7,414	3.6 %	70,436	7.9 %	—	— %	55,565	3.3 %	133,415	4.8 %
Quebec	3,194	1.5 %	17,797	2.0 %	—	— %	8,755	0.5 %	29,746	1.1 %
Atlantic Provinces	5,152	2.5 %	2,943	0.3 %	—	— %	22,700	1.3 %	30,795	1.1 %
Other	758	0.4 %	4,773	0.5 %	—	— %	9,483	0.6 %	15,014	0.5 %
Total	**$ 208,677**	**100.0 %**	**$ 887,134**	**100.0 %**	**$ 104**	**100.0 %**	**$1,691,211**	**100.0 %**	**$ 2,787,126**	**100.0 %**

Table 17: Residential Mortgages by Province at December 31, 2021

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

Table 18: Residential Mortgages by Amortization Period at September 30, 2022

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 148,635	$ 185,192	$ 501,210	$ 260,878	$ 1,095,915
	13.6 %	16.9 %	45.7 %	23.8 %	100.0 %
Securitized	$ 364,370	$ 1,263,374	$ 63,467	$ —	$ 1,691,211
	21.5 %	74.7 %	3.8 %	— %	100.0 %
Total	**$ 513,005**	**$ 1,448,566**	**$ 564,677**	**$ 260,878**	**$ 2,787,126**
	18.4 %	**51.9 %**	**20.3 %**	**9.4 %**	**100.0 %**

Table 19: Residential Mortgages by Amortization Period at December 31, 2021

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 Years	Total
Corporate	$ 137,700	$ 211,080	$ 475,910	$ 204,397	$ 1,029,087
	13.4 %	20.5 %	46.2 %	19.9 %	100.0 %
Securitized	$ 302,388	$ 1,268,238	$ 13,071	$ —	$ 1,583,697
	19.1 %	80.1 %	0.8 %	— %	100.0 %
Total	**$ 440,088**	**$ 1,479,318**	**$ 488,981**	**$ 204,397**	**$ 2,612,784**
	16.8 %	**56.6 %**	**18.7 %**	**7.8 %**	**100.0 %**

Table 20: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) For the Periods Ended	Q3 2022	Average LTV	Q3 2021	Average LTV	YTD 2022	Average LTV	YTD 2021	Average LTV
Ontario	$ 66,521	70.6%	$153,730	70.8%	$288,663	67.9%	$398,683	70.2%
Alberta	1,895	66.5%	6,562	69.1%	7,683	70.1%	25,948	70.3%
British Columbia	16,223	71.6%	10,078	72.3%	36,496	70.2%	18,532	69.5%
Quebec	82	52.8%	—	—%	4,432	52.8%	—	—%
Other	207	80.0%	377	76.0%	415	67.1%	649	73.1%
	$ 84,928	**70.7%**	**$170,747**	**70.8%**	**$337,689**	**68.0%**	**$443,812**	**70.2%**

Table 21: Average Mortgage LTV Ratios at Origination

	September 30 2022	December 31 2021
Corporate portfolio		
Residential mortgages		
Insured	66.8 %	72.4 %
Uninsured[1]	63.9 %	66.8 %
Uninsured - completed inventory	59.9 %	57.1 %
Construction loans		
Residential	64.7 %	64.2 %
Non-residential	64.7 %	64.7 %
Commercial loans		
Multi family residential	74.6 %	72.3 %
Other commercial	57.6 %	63.6 %
	64.9 %	66.3 %
Securitized portfolio	80.8 %	81.9 %
	72.2 %	**73.5 %**

[1] *MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 63.3% at September 30, 2022 (December 31, 2021 - 66.2%). Based on an industry index that incorporates current real estate values, the ratios would be 58.1% at September 30, 2022 (December 31, 2021 - 60.3%).*

Other Corporate Assets

Cash and Cash Equivalents

At September 30, 2022, our cash balance was $38 million (June 30, 2022 - $85 million; December 31, 2021 - $122 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices. See "Liquidity and Funding Risk" sub-section of this MD&A.

Marketable Securities

Marketable securities, consisting of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At September 30, 2022, the portfolio balance was $52 million (June 30, 2022 - $57 million; December 31, 2021 - $63 million). During 2022, we purchased $7 million and sold $4 million of REITs and we had $12 million of unrealized fair value losses as we began to see more recent declines in REIT prices from current geopolitical conflicts and a rising interest rate environment. During Q1 2022, one REIT in our portfolio had a mandatory corporate action resulting in privatization and as such we recognized a $1.8 million realized loss. While we expect continued volatility in the REIT market, we are invested for the long-term and we continue to realize the benefits of solid cash flows and distributions from these investments.

Non-Marketable Securities

At September 30, 2022, our non-marketable securities balance was $93 million (June 30, 2022 - $84 million; December 31, 2021 - $65 million). We have $86 million in remaining capital advances for non-marketable securities expected to fund mainly over the next five years. We are seeking further investments and expect to grow this component of our balance sheet over the mid to long term. Our non-marketable securities consist of the following:

KSHYF: We invest in the KSHYF, in which we have a 5.9% equity interest at September 30, 2022 (June 30, 2022 - 6.0%; December 31, 2021 - 6.2%). At September 30, 2022, the carrying value of our investment was $53 million (June 30, 2022 - $51 million; December 31, 2021 - $45 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At September 30, 2022, our total remaining commitment to the KSHYF was $35 million, consisting of $6 million of capital advances for the KSHYF and $29 million to support credit facilities throughout the life of the KSHYF.

Securitization Notes: During 2019, we invested $18 million in Class A Securitization Notes. At September 30, 2022, the carrying value of the Securitization Notes was $2 million (June 30, 2022 - $4 million; December 31, 2021 - $6 million) which reflects scheduled principal repayments. The issuer of the Securitization Notes is a wholly-owned subsidiary of MCAP. The Securitization Notes may have the right to future fee income from the renewals of a securitized insured mortgage portfolio. The expected final distribution date is no earlier than March 15, 2023.

KSSMF: We invest in KSSMF, in which we have a 1.4% partnership interest at September 30, 2022 (June 30, 2022 - 1.3%; December 31, 2021 - 0.9%). At September 30, 2022, the carrying value of our investment was $8 million (June 30, 2022 - $7 million; December 31, 2021 - $4 million) with an additional $7 million remaining commitment. KSSMF invests in a diversified portfolio of mortgage loans secured by Canadian residential and commercial real estate.

TAS LP 3 (“TAS”): We invest in TAS LP 3, in which we have a 9.7% partnership interest at September 30, 2022 (June 30, 2022 - 9.7%; December 31, 2021 - 9.7%). At September 30, 2022, the carrying value of our investment was $8 million (June 30, 2022 - $7 million; December 31, 2021 - $5 million) with an additional $2 million remaining commitment. TAS invests in, and develops, residential and mixed use properties.

TAS LP 3 Co-Invest LP (“TAS Co”): We invest in TAS Co, in which we have a 34.8% partnership interest at September 30, 2022 (June 30, 2022 - 34.8%; December 31, 2021 - 34.8%). At September 30, 2022, the carrying value of our investment was $4 million (June 30, 2022 - $4 million; December 31, 2021 - $3 million) with an additional $1 million remaining commitment. TAS Co has a 24% interest in its underlying investments of urban residential and mixed use properties that are being developed under repositioning plans.

Pearl Group Growth Fund LP (“Pearl”): We invest in Pearl, in which we have a 6.9% partnership interest at September 30, 2022 (June 30, 2022 - 6.9%; December 31, 2021 - 6.9%). At September 30, 2022, the carrying value of our investment was $2 million (June 30, 2022 - $2 million; December 31, 2021 - $2 million) with an additional $1 million remaining commitment. Pearl executes a value-add strategy by acquiring, redeveloping, entitling, leasing and project managing commercial properties in the Greater Toronto area.

Crown Realty V Limited Partnership (“Crown”): During Q1 2022, we invested in Crown representing a 7.7% partnership interest. At September 30, 2022, the carrying value of our investment was $9 million (June 30, 2022 - $9 million) with an additional $11 million remaining commitment. Crown acquires, leases, manages and repositions commercial real estate properties across Ontario.

Harbour Equity JV Development Fund VI (“Harbour”): During Q2 2022, we invested in Harbour representing a 12.5% partnership interest. At September 30, 2022, the carrying value of our investment was $2 million (June 30, 2022 - $10,000) with an additional $8 million remaining commitment. Harbour provides equity capital to real estate developers in joint ventures or co-ownership structures for ground up development of residential and mixed-use properties across Canada.

TAS Impact Development LP 4 (“TAS 4”): During Q3 2022, the Company invested in TAS 4 representing a 20.8% partnership interest. At September 30, 2022, the carrying value of our investment was $4 million with an additional $16 million remaining

commitment. TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive environmental, social and governance impacts.

Broccolini Limited Partnership No. 8 ("Broccolini"): During Q3 2022, the Company invested in Broccolini representing a 6.1% partnership interest. At September 30, 2022, the carrying value of our investment was $1 million with an additional $19 million remaining commitment. Broccolini manages real estate development funds primarily focused on ground up development of industrial, residential and mixed-use properties across Canada, with a focus on Ontario and Quebec.

Fiera Real Estate Development Fund IV, LP ("Fiera"): During Q3 2022, the Company committed $15 million to Fiera representing an 8.2% partnership interest. Fiera focuses on development and re-development of multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

Equity Investment in MCAP

MCAP is Canada's largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.94% equity interest in MCAP (June 30, 2022 - 13.94%; December 31, 2021 - 13.94%), which represents 4.0 million units held by MCAN at September 30, 2022 (June 30, 2022 - 4.0 million; December 31, 2021 - 4.0 million) of the 28.7 million total outstanding MCAP partnership units (June 30, 2022 - 28.7 million; December 31, 2021 - 28.7 million). The investment had a net book value of $103 million at September 30, 2022 (June 30, 2022 - $100 million; December 31, 2021 - $96 million). The net book value is not indicative of the fair market value of our equity interest in MCAP.

During Q3 2022, we received $4.6 million of unitholder distributions from MCAP (Q3 2021 - $4.1 million). For year to date 2022, we have received $12.6 million of unitholder distributions from MCAP (year to date 2021 - $13.0 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

Pursuant to the MCAP partnership agreement, the majority partner in MCAP has the right to acquire MCAN's entire partnership interest in MCAP at "fair market value", which would be determined by an independent valuator agreed upon by both parties. Any sale by MCAN of its units in MCAP pursuant to this majority partner right, could result in a taxable gain, which could be material.

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 22: Liabilities and Shareholders' Equity

(in thousands except %)	September 30 2022	June 30 2022	Change (%)	December 31 2021	Change (%)
Corporate Liabilities					
Term deposits	$ 1,744,096	$ 1,798,008	(3%)	$ 1,660,992	5%
Loans payable	125,978	118,063	7%	57,340	120%
Other loan payable to MSLP	—	—	n/a	41,205	(100%)
Other liabilities	9,803	8,215	19%	21,134	(54%)
	1,879,877	**1,924,286**	**(2%)**	**1,780,671**	**6%**
Securitization Liabilities					
Financial liabilities from securitization	1,681,765	1,701,568	(1%)	1,594,141	5%
	1,681,765	**1,701,568**	**(1%)**	**1,594,141**	**5%**
	3,561,642	**3,625,854**	**(2%)**	**3,374,812**	**6%**
Shareholders' Equity					
Share capital	355,874	353,854	1%	315,339	13%
Contributed surplus	510	510	—%	510	—%
Retained earnings	86,367	86,137	—%	117,409	(26%)
	442,751	**440,501**	**1%**	**433,258**	**2%**
	$ 4,004,393	**$ 4,066,355**	**(2%)**	**$ 3,808,070**	**5%**

Term Deposits

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

Loans Payable

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

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

Other loan payable to MSLP

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

Financial Liabilities from Securitization

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

Share Capital

Share capital activity may reflect new common shares issued through the DRIP, Executive Share Purchase Plan, special stock dividend and other share offerings and their related costs, as applicable. For further information, refer to the "Description of Capital Structure" section of this MD&A and Note 12 to the interim consolidated financial statements.

Retained Earnings

Retained earnings activity for Q3 2022 consists of net income of $11.7 million (Q3 2021 - $13.0 million) less dividends of $11.4 million (Q3 2021 - $9.4 million). Retained earnings activity for year to date 2022 consists of a net income of $31.3 million (year to date 2021 - $48.3 million) less dividends of $62.3 million (year to date 2021 - $48.2 million).

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 23: Income Tax Capital

(in thousands except ratios)

	September 30 2022	December 31 2021
Income tax assets		
Consolidated assets	$ 4,004,393	$ 3,808,070
Adjustment for assets in subsidiaries	(66,550)	(69,227)
Non-consolidated assets in MIC entity	3,937,843	3,738,843
Add: corporate mortgage allowances	6,670	6,626
Less: securitization assets [1]	(1,709,968)	(1,618,866)
Adjustments to equity investments in MCAP and subsidiaries	(63,518)	(32,278)
Other adjustments	5,624	(9,452)
	$ 2,176,651	$ 2,084,873
Income tax liabilities		
Consolidated liabilities	$ 3,561,642	$ 3,374,812
Adjustment for liabilities in subsidiaries	(82,804)	(91,799)
Non-consolidated liabilities in MIC entity	3,478,838	3,283,013
Less: securitization liabilities [1]	(1,679,909)	(1,592,457)
	$ 1,798,929	$ 1,690,556
Income tax capital	$ 377,722	$ 394,317
Income tax capital ratios		
Income tax assets to capital ratio	5.76	5.29
Income tax liabilities to capital ratio	4.76	4.29

[1] *The majority of securitization assets and liabilities on the balance sheet are excluded from income tax assets, liabilities and capital as they are derecognized for income tax purposes in accordance with the Tax Act.*

Regulatory Capital

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

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

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

At September 30, 2022, we were in compliance with our internal target minimum CET 1, Tier 1 and Total Capital to risk weighted asset and leverage ratios. We maintain prudent capital planning practices to ensure that we are adequately capitalized and continue to satisfy minimum standards and internal targets.

Table 24: Regulatory Capital [3]

(in thousands except %)

	September 30 2022	December 31 2021
OSFI Regulatory Ratios		
Share capital	$ 355,874	$ 315,339
Contributed surplus	510	510
Retained earnings	86,367	117,409
Deduction from equity investment in MCAP [1]	(58,956)	(52,734)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	641	1,258
Common Equity Tier 1 and Tier 1 Capital (A)	384,436	381,782
Tier 2 Capital	6,044	5,381
Total Capital (D)	$ 390,480	$ 387,163
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,004,393	$ 3,808,070
Less: deduction for equity investment in MCAP [1]	(58,956)	(52,734)
Other adjustments [2]	10,082	1,760
Total On-Balance Sheet Exposures	3,955,519	3,757,096
Mortgages and non-marketable securities funding commitments (50%)	350,487	279,255
Letters of credit (50%)	22,356	22,782
Total Off-Balance Sheet Items	372,843	302,037
Total Exposure/Regulatory Assets (B)	$ 4,328,362	$ 4,059,133
Leverage ratio (A / B)	8.88 %	9.41 %
Risk-weighted assets (C)	$ 2,095,038	$ 1,884,523
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	18.35 %	20.26 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	18.35 %	20.26 %
Total capital to risk-weighted assets ratio **(D / C)**	18.64 %	20.54 %

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

Table 25: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	September 30, 2022			December 31, 2021		
	Per Balance Sheet	Average Rate	Risk-Weighted Assets	Per Balance Sheet	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 37,942	25 %	$ 9,605	$ 122,269	20 %	$ 24,806
Cash held in trust	30,600	20 %	6,120	53,148	20 %	10,629
Marketable securities	52,008	100 %	52,008	62,693	100 %	62,693
Mortgages - corporate	1,974,957	62 %	1,225,162	1,806,146	62 %	1,111,356
Mortgages - securitized	1,691,211	6 %	94,501	1,583,697	6 %	89,723
Non-marketable securities	93,302	166 %	154,778	64,946	188 %	122,002
Equity investment in MCAP Commercial LP	103,295	43 %	44,339	96,186	45 %	43,452
Deferred tax asset	1,453	100 %	1,453	891	100 %	891
Other assets	19,625	100 %	19,625	18,094	100 %	18,096
			1,607,591			1,483,648
Off-Balance Sheet Items						
Letters of credit	44,713	50 %	22,357	45,564	50 %	22,782
Commitments	700,974	45 %	315,777	558,511	44 %	244,168
			338,134			266,950
Charge for operational risk [2]			149,313			133,925
Risk-Weighted Assets			**$ 2,095,038**			**$ 1,884,523**

[1] This measure has been calculated in accordance with OSFI's Capital Adequacy Requirements guidelines.
[2] We use the basic indicator approach for operational risk, which is equal to 15% of the previous three-year average of net investment income from corporate and securitized assets excluding provisions for credit losses multiplied by a factor of 12.5.

Other Capital Management Activity

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

RISK MANAGEMENT

Effective risk management and an established risk management framework support a strong risk and resilient culture, and help the Company provide sustainable growth and returns while maintaining an appropriate balance between risk and return. The Company's risk management framework is subject to constant evaluation in order to meet operational demands, regulatory requirements and industry best practices, and it is updated in alignment with our strategy and risk appetite. The Company's framework which is designed to identify, measure, monitor and report risks and vulnerabilities is outlined in the "Risk Management" section of the 2021 Annual MD&A.

Major Risk Types

For a complete discussion of major risk types to which the Company is exposed, refer to the "Risk Management" section of the 2021 Annual MD&A.

While economic uncertainty risks from the pandemic are receding, geopolitical risks from the Russia/Ukraine conflict and economic uncertainty and recessionary risk with persistent high inflation, much higher interest rates and continued supply chain pressures is increasing. Though the nature and extent of these risks may vary depending on circumstances, an increased level of uncertainty for economic growth and market volatility due to rising interest rates is impacting the demand and affordability of mortgages. Our inability to respond to changes effectively may have an adverse effect on our future results and operations.

Liquidity and Funding Risk

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

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

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

Stress testing is performed using multiple scenarios incorporating simultaneous impacts to the Company's funding sources and uses. MCAN's stress testing is designed to assess the viability of liquidity and funding channels, as well as contingency funding to remain within Board-approved liquidity risk limits. At September 30, 2022, the Company held sufficient funding and liquidity to meet all requirements under the stress test scenarios.

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

Asset-Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). At September 30, 2022, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

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

The Company maintained a secured demand revolver facility to meet its short-term obligations as required. Under the facility, there is a sublimit for issued letters of credit, which may be used to support the obligations of borrowers to municipalities in conjunction with construction loans. The facility limit is $220 million.

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

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

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

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

Table 26: Liquidity Analysis

At September 30, 2022						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Sources of liquidity						
Cash and cash equivalents	$ 37,942	$ —	$ —	$ —	$ —	$ 37,942
Marketable securities	52,008	—	—	—	—	52,008
Mortgages - corporate	419,975	901,703	474,459	178,358	462	1,974,957
Non-marketable securities	2,421	—	—	—	90,881	93,302
Other loans	2,617	—	—	—	—	2,617
	514,963	901,703	474,459	178,358	91,343	2,160,826
Uses of liquidity						
Term deposits	155,763	734,831	658,373	195,129	—	1,744,096
Loans payable	125,978	—	—	—	—	125,978
Other liabilities	4,613	774	1,679	1,956	781	9,803
	286,354	735,605	660,052	197,085	781	1,879,877
Net liquidity surplus (deficit)	**$ 228,609**	**$ 166,098**	**$ (185,593)**	**$ (18,727)**	**$ 90,562**	**$ 280,949**

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

Credit Risk

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

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

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

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

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

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

As part of our credit risk management process, we monitor our loan portfolio for early indicators of potential concern. The "monitored/arrears" category includes construction and commercial loans that may experience events such as slow sales, cost overruns or are located in geographic markets in which concerns have arisen. Loans in this category are included in stage 2. Considering factors such as borrower equity, portfolio loan to value ratios and project liquidity, at September 30, 2022, there

have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 5 to the interim consolidated financial statements.

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

Interest Rate Risk

Interest rate risk is the potential impact of changes in interest rates on our earnings and capital. Interest rate risk arises when our assets and liabilities, both on- and off-balance sheet, have mismatched repricing and maturity dates. Changes in interest rates where we have mismatched repricing and maturity dates may have an adverse effect on our financial condition and results of operations.

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at September 30, 2022 would have an estimated positive effect of $7.5 million (June 30, 2022 - positive effect of $6.7 million; December 31, 2021 - positive effect of $4.8 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at September 30, 2022 would have an estimated adverse effect of $7.5 million (June 30, 2022 - adverse effect of $6.5 million; December 31, 2021 - adverse effect of $2.3 million) to net income over the following twelve month period.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at September 30, 2022 and December 31, 2021 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest sensitive items include marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 27: Interest Rate Sensitivity at September 30, 2022

At September 30, 2022								
(in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$982,252	$203,657	$505,189	$209,332	$114,532	$ 358	$ 257,673	$ 2,272,993
Securitization	95,706	10,533	42,996	551,316	990,660	—	40,189	1,731,400
	1,077,958	214,190	548,185	760,648	1,105,192	358	297,862	4,004,393
Liabilities								
Corporate	125,978	155,763	734,831	658,373	195,128	—	9,804	1,879,877
Securitization	97,928	9,673	36,550	500,760	1,036,854	—	—	1,681,765
	223,906	165,436	771,381	1,159,133	1,231,982	—	9,804	3,561,642
Shareholders' Equity	—	—	—	—	—	—	442,751	442,751
GAP	**$854,052**	**$ 48,754**	**$(223,196)**	**$(398,485)**	**$(126,790)**	**$ 358**	**$ (154,693)**	**$ —**
YIELD SPREAD	**3.26 %**	**1.61 %**	**1.15 %**	**0.91 %**	**0.32 %**	**3.23 %**		

Table 28: Interest Rate Sensitivity at December 31, 2021

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

Regulatory Changes

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

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

Market Risk

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. These common shares are the only voting securities of MCAN. At September 30, 2022, there were 31,855,297 common shares outstanding (June 30, 2022 - 31,714,507; December 31, 2021 - 29,620,939). At November 10, 2022, there were 31,855,297 common shares outstanding.

We issued $2.0 million in new common shares in Q3 2022 (Q3 2021 - $1.4 million) and $7.4 million year to date 2022 ($5.8 million - year to date 2021) under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. The DRIP participation rate for the 2022 third quarter dividend was 17% (2022 second quarter - 17%; 2021 third quarter - 17%).

We issued $28.8 million in new common shares on March 31, 2022 for our 2022 first quarter special stock dividend to shareholders (with fractional shares paid in cash) at the weighted average trading price for the five days preceding the record date of $18.9326.

In 2021, we filed a Prospectus Supplement to our Base Shelf prospectus establishing an ATM Program to issue up to $30 million common shares to the public from time to time over a 2 year period at the market prices prevailing at the time of sale. The volume and timing of distributions under the ATM Program will be determined at our sole discretion. We began issuing shares under the ATM Program in Q1 2022. During Q3 2022, we sold 600 common shares at a weighted average price of $17.10 for gross and net proceeds of $11,000. Year to date 2022, we sold 236,600 common shares at a weighted average price of $17.88

for gross proceeds of $4.2 million and net proceeds of $4.1 million including $85,000 of commission paid to our agent and $30,000 of other share issuance costs under the ATM Program.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 29: Contractual Commitments

At September 30, 2022						
(in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 213,816	$ 212,668	$ 159,719	$ —	$ —	$ 586,203
Commitment - TAS	500	1,000	386	—	—	1,886
Commitment - TAS Co	—	500	750	—	—	1,250
Commitment - TAS 4	—	6,282	5,497	3,926	—	15,705
Commitment - Harbour	275	450	7,225	—	—	7,950
Commitment - KSSMF	1,125	3,375	2,250	—	—	6,750
Commitment - Pearl	—	1,489	—	—	—	1,489
Commitment - Crown	—	3,300	7,747	—	—	11,047
Commitment - Fiera	2,527	3,813	6,930	1,730	—	15,000
Commitment - Broccolini	1,400	4,300	10,300	2,000	1,000	19,000
Commitment - KSHYF	—	3,000	2,850	—	28,844	34,694
	$ 219,643	**$ 240,177**	**$ 203,654**	**$ 7,656**	**$ 29,844**	**$ 700,974**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At September 30, 2022, these derecognized securitized insured multi family mortgages totalled $71 million. For further information on our securitization activities, refer to Note 9 to the interim consolidated financial statements.

We provide letters of credit, which are not reflected on the interim consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 18 to the interim consolidated financial statements.

DIVIDENDS

On November 10, 2022, the Board declared a regular quarterly cash dividend of $0.36 per share to be paid on January 3, 2023 to shareholders of record as at December 15, 2022.

In order to take advantage of the tax benefits provided by the MIC status, we pay out all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. The Company has historically paid out regular dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations. At this time, we do not expect to have taxable income per share greater than our regular cash dividends per share.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended September 30, 2022 and September 30, 2021 and related party balances at September 30, 2022 and December 31, 2021 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 September 30, 2022, we had 127 team members (June 30, 2022 - 133; December 31, 2021 - 128).

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 2021 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At September 30, 2022, 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 the pandemic, we continue to have certain of our internal controls over financial reporting automated. There were no changes in our ICFR during the interim period ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our control framework.

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP Financial Measures

Net Corporate Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning corporate assets less cost of funding for our corporate mortgage portfolio. It is calculated as the difference between corporate mortgage interest and

term deposit interest and expenses as reported on the interim consolidated statements of income. A detailed calculation can also be found in Tables 1, 2, 4 and 5 of this MD&A.

Table 30: Net Corporate Mortgage Spread Income

(in thousands) **For the Periods Ended September 30**	**Q3 2022**	**Q3 2021**	**Change ($)**	**YTD 2022**	**YTD 2021**	**Change ($)**
Mortgage interest - corporate assets	$ 27,216	$ 19,072		$ 70,539	$ 51,387	
Term deposit interest and expenses	12,330	8,013		31,033	23,041	
Net Corporate Mortgage Spread Income	**$ 14,886**	**$ 11,059**	**$ 3,827**	**$ 39,506**	**$ 28,346**	**$ 11,160**

Securitized Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning securitized assets less cost of securitized liabilities for our securitized mortgage portfolio. It is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization as reported on the interim consolidated statements of income. A detailed calculation can also be found in Tables 7 and 8 of this MD&A.

Table 31: Net Securitized Mortgage Spread Income

(in thousands) **For the Periods Ended September 30**	**Q3 2022**	**Q3 2021**	**Change ($)**	**YTD 2022**	**YTD 2021**	**Change ($)**
Mortgage interest - securitized assets	$ 7,949	$ 7,478		$ 22,804	$ 21,376	
Interest on financial liabilities from securitization	6,214	5,222		17,096	14,561	
Net Securitized Mortgage Spread Income	**$ 1,735**	**$ 2,256**	**$ (521)**	**$ 5,708**	**$ 6,815**	**$ (1,107)**

Supplementary Financial Measures

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

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

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

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

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

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

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

GLOSSARY

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

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

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