MCAN Financial



MCAN FINANCIAL GROUP

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

MARCH 31, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

MCAN Mortgage Corporation is doing business as ("d/b/a") MCAN Financial Group ("MCAN", the "Company" or "we"). This Management's Discussion and Analysis of Operations ("MD&A") should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes for the quarter ended March 31, 2023 and the audited consolidated financial statements, accompanying notes and MD&A for the year ended December 31, 2022. These items and additional information regarding MCAN, including continuous disclosure materials such as the Annual Information Form are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.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 2022 remain substantially unchanged. Information has been presented as of May 8, 2023.

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

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

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

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

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

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

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

Reliance should not be placed on forward-looking information because it involves known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from anticipated future results expressed or implied by such forward-looking information. Factors that could cause actual results to differ materially from those set forth in the forward-looking information include, but are not limited to, the risk that any of the above opinions, estimates or assumptions are inaccurate and the other risks and uncertainties referred to in our Annual Information Form for the year ended December 31, 2022, this MD&A and our other public filings with the applicable Canadian regulatory authorities.

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

SELECTED FINANCIAL INFORMATION

Table 1: Financial Statement Highlights - Q1 2023

(in thousands except for per share amounts and %)					
For the Periods Ended	**Q1 2023**	**Q4 2022**	**Change (%)**	**Q1 2022**	**Change (%)**
Income Statement Highlights					
Mortgage interest - corporate assets [A]	$ 35,756	$ 30,747	16%	$ 20,508	74%
Term deposit interest and expenses [B]	$ 14,741	$ 13,189	12%	$ 8,518	73%
Net corporate mortgage spread income[1] [A-B]	$ 21,015	$ 17,558	20%	$ 11,990	75%
Equity income from MCAP Commercial LP	$ 8,003	$ 6,860	17%	$ 5,219	53%
Net gain on securities	$ 999	$ 1,735	(42%)	$ 1,189	(16%)
Net investment income - corporate assets	$ 30,622	$ 30,734	—%	$ 20,758	48%
Net investment income - securitization assets	$ 872	$ 838	4%	$ 1,115	(22%)
Net income	$ 23,277	$ 24,088	(3%)	$ 15,479	50%
Basic and diluted earnings per share	$ 0.67	$ 0.75	(11%)	$ 0.52	29%
Dividends per share - cash	$ 0.36	$ 0.36	—%	$ 0.36	—%
Dividends per share - stock	$ —	$ —	n/a	$ 0.97	(100%)
Next quarter's dividend per share - cash	$ 0.36				
Return on average shareholders' equity [1]	18.60 %	21.17 %	(2.57%)	14.19 %	4.41%
Taxable income per share [2]	$ 0.33	$ 1.11	(70%)	$ 0.35	(6%)
Yields					
Spread of corporate mortgages over term deposit interest and expenses [1]	3.78 %	3.32 %	0.46%	2.59 %	1.19%
Spread of securitized mortgages over liabilities [1]	0.39 %	0.39 %	—%	0.54 %	(0.15%)
Average term to maturity (in months)					
Mortgages - corporate	11.5	11.4	1%	13.8	(17%)
Term deposits	14.9	16.0	(7%)	17.7	(16%)
At	**March 31 2023**	**December 31 2022**	**Change (%)**	**March 31 2022**	**Change (%)**
Balance Sheet Highlights					
Total assets	$ 4,151,937	$ 4,078,676	2%	$ 3,999,647	4%
Mortgages - corporate	$ 2,036,744	$ 1,939,494	5%	$ 1,901,940	7%
Mortgages - securitized	$ 1,724,278	$ 1,751,303	(2%)	$ 1,658,839	4%
Total liabilities	$ 3,644,678	$ 3,589,366	2%	$ 3,557,802	2%
Shareholders' equity	$ 507,259	$ 489,310	4%	$ 441,845	15%
Capital Ratios					
Income tax assets to capital ratio [2]	5.02	4.93	2%	5.53	(9%)
CET 1 & Tier 1 capital ratio [4]	19.59 %	19.60 %	—%	19.32 %	0.27%
Total capital ratio [4]	19.81 %	19.83 %	(0.02%)	19.57 %	0.24%
Leverage ratio [3]	9.94 %	9.83 %	0.11%	8.96 %	0.98%
Credit Quality					
Impaired mortgage ratio (corporate) [1]	1.92 %	1.66 %	0.26%	0.03 %	1.89%
Impaired mortgage ratio (total) [1]	1.05 %	0.89 %	0.16%	0.02 %	1.03%
Mortgage Arrears					
Corporate	$ 54,873	$ 54,430	1%	$ 9,981	450%
Securitized	4,096	3,439	19%	4,124	(1%)
Total	$ 58,969	$ 57,869	2%	$ 14,105	318%
Common Share Information (end of period)					
Number of common shares outstanding	34,788	34,306	1%	31,373	11%
Book value per common share [1]	$ 14.58	$ 14.26	2%	$ 14.08	4%
Common share price - close	$ 15.00	$ 15.00	—%	$ 17.85	(16%)
Market capitalization	$ 521,820	$ 514,590	1%	$ 560,008	(7%)

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

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

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

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

Table 2: Financial Statement Highlights - Quarterly

(in thousands except per share amounts, % and where indicated)	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Income Statement Highlights								
Mortgage interest - corporate assets [A]	$35,756	$30,747	$27,216	$22,815	$20,508	$20,436	$19,072	$16,543
Term deposit interest and expenses [B]	$14,741	$13,189	$12,330	$10,185	$ 8,518	$ 8,389	$ 8,013	$ 7,472
Net corporate mortgage spread income[1] [A-B]	$21,015	$17,558	$14,886	$12,630	$11,990	$12,047	$11,059	$ 9,071
Equity income from MCAP Commercial LP	$ 8,003	$ 6,860	$ 8,236	$ 6,288	$ 5,219	$ 6,246	$ 5,606	$ 6,859
Net gain (loss) on securities	$ 999	$ 1,735	$(5,092)	$(9,906)	$ 1,189	$ 3,374	$ 1,016	$ 6,453
Net investment income - corporate assets	$30,622	$30,734	$18,845	$ 9,468	$20,758	$21,875	$18,976	$24,390
Net investment income - securitization assets	$ 872	$ 838	$ 877	$ 1,068	$ 1,115	$ 1,408	$ 1,443	$ 1,570
Net income	$23,277	$24,088	$11,650	$ 4,137	$15,479	$16,070	$12,990	$19,378
Basic and diluted earnings per share	$ 0.67	$ 0.75	$ 0.37	$ 0.13	$ 0.52	$ 0.57	$ 0.47	$ 0.73
Dividends per share - cash	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.34	$ 0.34	$ 0.34
Dividends per share - stock	$ —	$ —	$ —	$ —	$ 0.97	$ —	$ —	$ —
Return on average shareholders' equity [1]	18.60 %	21.17 %	10.52 %	3.75 %	14.19 %	15.39 %	13.22 %	21.28 %
Taxable income per share [2]	$ 0.33	$ 1.11	$ (0.47)	$ 0.30	$ 0.35	$ 0.32	$ 0.57	$ 0.89
Spreads								
Spread of corporate mortgages over term deposit interest and expenses [1]	3.78 %	3.32 %	2.83 %	2.50 %	2.59 %	2.70 %	2.77 %	2.89 %
Spread of securitized mortgages over liabilities [1]	0.39 %	0.39 %	0.44 %	0.51 %	0.54 %	0.62 %	0.65 %	0.72 %
Average term to maturity (in months)								
Mortgages - corporate	11.5	11.4	12.9	13.9	13.8	13.0	13.9	12.8
Term deposits	14.9	16.0	17.1	17.7	17.7	18.5	19.9	19.6
Balance Sheet Highlights ($ million)								
Total assets	$ 4,152	$ 4,079	$ 4,004	$ 4,066	$ 4,000	$ 3,808	$ 3,604	$ 3,305
Mortgages - corporate	$ 2,037	$ 1,939	$ 1,975	$ 1,977	$ 1,902	$ 1,806	$ 1,657	$ 1,401
Mortgages - securitized	$ 1,724	$ 1,751	$ 1,691	$ 1,700	$ 1,659	$ 1,584	$ 1,531	$ 1,435
Total liabilities	$ 3,645	$ 3,589	$ 3,562	$ 3,626	$ 3,558	$ 3,375	$ 3,210	$ 2,916
Shareholders' equity	$ 507	$ 489	$ 443	$ 441	$ 442	$ 433	$ 394	$ 389
Capital Ratios								
Income tax assets to capital ratio [2]	5.02	4.93	5.76	5.53	5.53	5.29	5.50	5.05
CET 1 & Tier 1 capital ratios [4]	19.59 %	19.60 %	18.35 %	18.82 %	19.32 %	20.26 %	19.45 %	21.91 %
Total capital ratio [4]	19.81 %	19.83 %	18.64 %	19.09 %	19.57 %	20.54 %	19.73 %	22.24 %
Leverage ratio [3]	9.94 %	9.83 %	8.88 %	8.82 %	8.96 %	9.41 %	8.86 %	9.59 %
Credit Quality								
Impaired mortgage ratio (corporate) [1]	1.92 %	1.66 %	0.00 %	0.01 %	0.03 %	0.05 %	0.06 %	0.11 %
Impaired mortgage ratio (total) [1]	1.05 %	0.89 %	0.01 %	0.02 %	0.02 %	0.03 %	0.04 %	0.07 %
Mortgage Arrears								
Corporate	$54,873	$54,430	$37,792	$ 9,908	$ 9,981	$10,826	$ 8,794	$ 8,968
Securitized	4,096	3,439	2,842	3,397	4,124	4,865	3,818	7,359
Total	$58,969	$57,869	$40,634	$13,305	$14,105	$15,691	$12,612	$16,327
Common Share Information (end of period)								
Number of common shares outstanding	34,788	34,306	31,855	31,715	31,373	29,621	27,646	27,560
Book value of common share [1]	$ 14.58	$ 14.26	$ 13.90	$ 13.89	$ 14.08	$ 14.63	$ 14.26	$ 14.13
Common share price - close	$ 15.00	$ 15.00	$ 14.57	$ 16.75	$ 17.85	$ 17.23	$ 18.00	$ 17.29
Market capitalization ($ million)	$ 522	$ 515	$ 464	$ 531	$ 560	$ 510	$ 498	$ 477

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

Quarterly Trends

- In 2021, the main drivers to net income were related to the ongoing pandemic impacts including a lower interest rate environment and a recovery in the fair value of our REIT portfolio following the initial onset of the pandemic. In 2022, we saw a rising interest rate environment and generally unrealized losses in our REIT portfolio. In Q1 2023, we mostly saw a stabilization in interest rates and some recovery in our REIT portfolio as the Bank of Canada paused interest rate hikes. Other factors include higher average corporate mortgage portfolio balances from net originations, higher spreads of corporate mortgages over term deposit interest and expenses mainly from rising interest rates on our floating rate construction portfolio, and stable equity income from our investment in MCAP since 2021.

- At the end of 2021 to mid-2022, taxable income had generally been reducing or negative and was mainly impacted by lower taxable income from MCAP. This had been partially offset by higher income from our core business. In Q4 2022, we executed an internal reorganization through a transfer of our equity investment in MCAP to a wholly-owned limited partnership which increased our taxable income. In Q1 2023, our taxable income is mainly driven by growth in our core business partially offset by taxable losses from MCAP. The tax losses from MCAP are timing differences only and arise as a result of the tax treatment on sales of their loans into certain securitization programs.

- The spread of corporate mortgages over term deposit interest and expenses had been declining until Q3 2022. Through the latter half of 2021 and first half of 2022, continued market competition had kept mortgage rates low in our residential mortgage portfolio, while increased demand by financial institutions for term deposit funding in the wake of the Russia/Ukraine conflict and demand by deposit customers for higher rates due to anticipated and actual Bank of Canada rate increases had kept term deposit rates elevated, causing a decline in the spread. Since Q3 2022, the rising interest rate environment has increased rates in our floating rate residential construction portfolio above their floor rates and our greater focus on changing the laddering of the duration of our term deposits 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.

- We have seen spreads decline on securitizations as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields have risen significantly since 2021. As a result, we had reduced our securitization volumes in 2022 and Q1 2023. We participate in this market opportunistically.

- Common Equity Tier 1 (“CET 1”), Tier 1 Capital and Total Capital to risk-weighted assets ratio reductions are due to our growing risk-weighted assets compared to our capital base. The Company successfully initiated three capital raises by way of rights offerings in June 2021, December 2021 and December 2022. These offerings raised $53 million of capital in 2021 and $34 million in 2022. In 2022 and Q1 2023, we also raised $4 million and $0.1 million, respectively, of capital through our at-the-market equity program (“ATM Program”). Our Dividend Reinvestment Program (“DRIP”) has provided us with a reliable source of capital maintenance each quarter and we have seen an increase in participation beginning in Q4 2022.

- Mortgage arrears have varied on a quarterly basis given the nature of the 1-30 day arrears. In Q3 2022 to Q1 2023, the increase in arrears is mainly due to construction and commercial mortgages that we expect will either be brought current or where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

BUSINESS OVERVIEW AND OUTLOOK

We focus over the long term on growing our business and shareholder returns. We believe that our long-term strategy will continue to serve us well though we also consider the current market conditions in the execution of that strategy. Over the short to mid term, our focus is on maintaining solid net interest margin and investing in our core business within our capital requirements and risk appetite, as well as continuing to invest in our infrastructure and process improvements. We believe that we are a prudent and disciplined 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.

Economic Outlook

Economic growth has been better than expected despite the aggressive interest rate hikes by the Bank of Canada; however, changes to policy interest rates impact the economy with substantial lags and the outcome is still uncertain on the Canadian economy. Higher interest rates are having their intended effect, including inflation expectations moderating and labour shortages becoming less intense. With 425 bps of interest rate hikes since early 2022, most economists believe that at least a mild recession is probable as inflation is still high and higher debt payments should reduce consumer spending in the latter half of 2023. However, given most Canadians are not exposed to variable mortgage payments and job losses are expected to be mild, the stresses of a mild recession may be manageable. We also expect continued uncertainty around current geopolitical conflicts as well as financial stability concerns in the global banking system, given recent U.S. bank failures. Many Canadian economists believe that the Bank of Canada's overnight rate will remain at 4.5% for the remainder of the year with any potential interest rate cuts not until 2024. That being said, we are starting to hear that there may be a potential for reduced rates later in 2023. Most economists expect slowing growth in Canadian GDP and our unemployment rate to increase but still remain low. A continued low unemployment rate may mitigate the severity or length of any recession. We expect inflation and interest rates to continue to be the dominant concern in 2023.

Housing Market Outlook

Higher interest rates are strong headwinds cooling housing demand as housing affordability continues to worsen in all provincial markets. Most economists are expecting average home prices to decrease further in the short term; however, this price correction will have minimal impact on housing affordability given high borrowing costs and a potential mild recession. In the long term, we believe that expected cuts to interest rates and the continued supply-demand imbalance will provide upward pressure on home prices particularly in and around our core markets of (i) the Greater Toronto area; (ii) the Capital region; and (iii) the Greater Vancouver area. Further, robust immigration rates will keep lifting housing demand. Housing affordability (including housing supply) continues to be a critical issue for all levels of government and in all provinces where we do business with the current federal budget acknowledging that a lack of affordable housing is having a negative effect on the Canadian economy. Even with current government action, 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, lack of new construction technologies, etc.) that limit how many homes can be built in the short term.

Business Outlook

We believe that our business is well structured with its focus on multiple facets of the Canadian residential real estate market, giving us some flexibility in terms of income generation and allowing us to balance out volatility that we may experience at certain points and in certain areas of our business. Higher sustained interest rates as well as the risk of a mild recession will continue to create some headwinds for the remainder of the year for our MCAN Home division which manages volumes in our residential lending business, our MCAN Capital division which manages our REIT portfolio, and our MCAN Wealth division which manages our term deposits. That said, we have positive momentum in other parts of our business, such as our construction lending business which benefits from floating interest rates, and renewal and retention volumes in our uninsured residential mortgages, and we believe that the housing market will ultimately remain strong given lack of supply 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 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 more affordable housing projects near transit corridors around key urban markets. We will remain nimble, however, in dealing with any market changes or opportunities that may arise in the short term, with a focus on continuing to protect our net interest margin. We will also continue to place an emphasis on investing in our business infrastructure and process improvements in order to help drive efficiencies and future growth.

MCAN Capital Division

Our MCAN Capital division manages our construction and commercial lending business, as well as our investments in REITs and real estate-based development and loan funds. Over the next year, we will continue to deploy our capital within our construction and commercial lending business and fund our real estate-based development fund commitments. Notwithstanding headwinds in the housing market from the higher interest rate environment, we expect continued high demand for more affordable housing, which is our focus generally with our investments and construction and commercial loans. We therefore expect a continued solid pipeline for our residential construction lending business. We will also continue to benefit from the higher interest rates as this portfolio of loans is almost entirely at floating rates. Although there continues to be construction zoning site delays as well as the aforementioned housing market headwinds, the vast majority of our loans are progressing towards completion and the few that have stalled are being actively managed to either be brought current or we expect to recover all past due interest and principal. We continue to very closely monitor our portfolio and the market in general and we will continue to enhance our credit management practices in the context of the market. As well, the cost of construction has increased due to inflationary pressures in the cost of building materials and labour and there continues to be a shortage of skilled labour within the construction industry. All these factors have, and may continue to have, an impact on the timing of repayments as loans remain outstanding longer; however, they have not changed the overall expected success of these construction projects or the performance of the loans within this portfolio. With that in mind, we will be carefully managing the run-off in our construction loan book from maturities and repayments expected in the second half of the year. We will also look to strengthen existing relationships and seek new partners for investment and lending opportunities. Our philosophy within our MCAN Capital division is to apply a prudent approach to our underwriting criteria in line with our risk appetite, with a focus on well-located and affordable residential products, near transit corridors, with experienced borrowers and developers where we have existing relationships. We will continue to remain vigilant in our underwriting and loan management practices.

MCAN Home Division

Our MCAN Home division manages our residential lending business. Given the higher interest rate environment, our risk management, credit monitoring and assessment activities will continue to have a heightened focus in operating our business. We currently have a portfolio with a strong credit profile and a minimal level of arrears. Given the expectation of only a mild recession and a small change in unemployment noted above, we expect arrears to be manageable in the short term. Residential mortgages tend to provide comparatively lower yields given their risk profile. That said, we have seen spreads improve over the last several months, particularly in our uninsured residential mortgages, as interest rates have increased and we have focused on proactively protecting our net interest margins. We have been experiencing and expect to continue to experience, strong renewals in our uninsured residential mortgages given the higher interest rate environment, as the Office of the Superintendent of Financial Institutions Canada's ("OSFI") minimum qualifying rate for borrowers applying for new mortgages remains in place. OSFI is proposing several debt serviceability measures with a view to enhancing the credit quality of residential mortgages and underwriting practices of federally regulated lenders, including additional measures to the minimum qualifying rate. If

enacted, these regulatory measures will likely act as a headwind to the housing and mortgage market in the latter half of the year. Based on the current economic and housing market outlook, we will continue to focus on protecting our net interest margins within our capital requirements during this time of uncertainty. We will also look to add new products in 2023 to further broaden our offering to our customers. We remain dedicated to continuously improving our service for our borrowers and the broker community, and as such, we will continue to invest in our current and new systems and business infrastructure to further enhance our service experience. We are also focused on increasing our mortgage lending in the Alberta and British Columbia urban markets and may look to expand in other markets within Canada. We will continue to keep abreast of the many changes in the market, the regulatory environment and in our portfolios that could impact our business or that could create opportunities in line with our risk appetite.

MCAN Wealth Division

Our MCAN Wealth division manages our term deposit business. We employ leverage and fund our business by issuing GICs that are eligible for CDIC deposit insurance that are sourced through a network of independent brokers and financial agents. We have seen higher term deposit rates amid a higher interest rate environment. We typically see the term deposit market impacted first and immediately by higher interest rates, compared to residential mortgages that these term deposits fund given commitments for residential mortgages are done in advance. In the short term there will continue to be volatility in the Government of Canada yield curve and therefore volatility in pricing in the term deposit market. In the mid term, we expect to see term deposit rates stabilize and even decrease as the likelihood for interest rate cuts becomes more clear. Given current and expected interest rates, we continue to look for opportunities to realign the laddering of the duration of our term deposits relative to our corporate mortgage portfolio and utilize our hedging strategies to minimize interest rate risk. We will continue to expand our broker network and look for other channels to source term deposits. We expect to invest in our current and new systems and business infrastructure to drive efficiencies and we are focused on a digital strategy, process improvements and eventually new product offerings within our term deposit operations.

We are expanding and maturing our capital markets, investor relations and funding strategies over the long term to continue our growth. That growth will be dependent on capital availability and therefore the strength of capital markets or existing shareholder demand for our shares. We have successfully deployed our capital raised from our December 2022 shareholder rights offering and we will continue to use our ATM program when it makes sense. MCAN's management and Board are committed to proactively and effectively managing and evolving all our strategies, business activities and team into the future, regardless of market conditions. Our targeted average annual growth in corporate assets over the long term is 10%; however, we expect to remain focused on protecting our bottom line and preserving capital over corporate asset growth in the short term, given the current uncertain economic environment.

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

HIGHLIGHTS

Financial Performance

- Net income totalled $23.3 million in Q1 2023, an increase of $7.8 million (50%) from net income of $15.5 million in Q1 2022. Results for the first quarter of 2023 were mainly impacted by higher net corporate mortgage spread income from a higher interest rate environment and growth in our portfolio.

- Earnings per share totalled $0.67 in Q1 2023, an increase of $0.15 (29%) from earnings per share of $0.52 in Q1 2022.

- Return on average shareholders' equity[1] of 18.60% in Q1 2023, an increase from 14.19% in Q1 2022.

- Net corporate mortgage spread income[1] increased by $9.0 million from Q1 2022. The net corporate mortgage spread income increased due to a higher average corporate mortgage portfolio balance from our mortgage portfolio growth and an increase in the spread of corporate mortgages over term deposit interest and expenses. The increase in the spread of corporate mortgages over term deposit interest and expenses is due to a larger increase in our average mortgage rates compared to our average term deposit rates. The increase in our average mortgage rates is primarily due to the impact of the higher rate environment on our mostly floating rate residential construction loans. On the term deposit side, we have had a greater focus on changing the laddering of the duration of our term deposits given the higher interest rate environment, therefore resulting in the smaller increase in our average term deposit rates.

- Net securitized mortgage spread income[1] decreased by $0.4 million from Q1 2022. The net securitized mortgage spread income decreased due to a lower spread of securitized mortgages over liabilities partially offset by a higher average securitized mortgage portfolio balance from insured residential mortgage originations. 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 a rising interest rate environment.

- Provision for credit losses on our corporate mortgage portfolio of $1.2 million in Q1 2023 was mainly due to one commercial loan where an asset recovery program will be initiated and we expect to recover all past due principal and interest. This was partially offset by more favourable provincial outlook and assumptions for our loans in Alberta, as well as improving economic forecasts from lower inflation and job growth. In Q1 2022, we had a recovery of credit losses of $1.3 million mainly due to improved economic forecasts as we recovered from the pandemic partially offset by growth in our portfolio and uncertainty around inflation.

- Equity income from MCAP Commercial LP ("MCAP") totalled $8.0 million in Q1 2023, an increase of $2.8 million (53%) from $5.2 million in Q1 2022, which was primarily due to (i) higher servicing and administration revenue from higher assets under management; (ii) higher investment revenue from higher average mortgage rates; (iii) a decrease in origination and processing costs due to lower funding volumes; and (iv) higher financial instrument gains resulting from hedge gains, lower fair value losses and lower hedge costs. These were partially offset by (i) lower mortgage origination and processing fees from lower commitment and whole loan sales; (ii) higher securitization expenses; and (iii) higher interest expenses on warehousing and repo facilities from higher interest rates.

- In Q1 2023, we recorded a $1.0 million unrealized fair value gain on securities from the impact on REIT prices of improving economic forecasts and the Bank of Canada pausing interest rate hikes compared to the previous quarter. During Q1 2022, we recorded (i) a $3.0 million unrealized fair value gain from the impact on REIT prices of improved economic forecasts at that time as we recovered from the pandemic; and (ii) a $1.8 million realized fair value loss on one REIT in our portfolio that had a mandatory corporate action resulting in privatization. We expect continued volatility in the REIT market. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

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 $2.39 billion at March 31, 2023, a net increase of $102 million (4%) from December 31, 2022.

- Corporate mortgage portfolio totalled $2.04 billion at March 31, 2023, a net increase of $97 million (5%) from December 31, 2022.

- Construction and commercial portfolios totalled $963 million at March 31, 2023, a net increase of $33 million (4%) from December 31, 2022. Our construction portfolio totalled $856 million at March 31, 2023, a net increase of $31 million (4%) from December 31, 2022. In Q1 2023, the positive movement in the construction and commercial portfolios is attributed to net originations of $119 million in new construction and commercial mortgages, partially offset by maturities and repayments.

- Uninsured residential mortgage portfolio totalled $848 million at March 31, 2023, a net increase of $20 million (2%) from December 31, 2022. Uninsured residential mortgage originations were $63 million in Q1 2023, a decrease of $57 million (47%) from Q1 2022. We actively managed origination volumes in order to protect our net interest margins and our bottom line since the second half of 2022. Volumes were also slower in the first part of Q1 2023 as a result of general market conditions, with many Canadians electing not to participate in the housing market given higher rates and inflation, and uncertainty on further Bank of Canada rate hikes. However, we have seen an increase in our uninsured residential mortgage renewals with $112 million in Q1 2023 compared to $79 million in Q1 2022 as we worked with our borrowers to ease the impact on them from the current interest rate environment and mortgage stress tests.

- Insured residential mortgage originations were $68 million in Q1 2023, a decrease of $113 million (62%) from Q1 2022. Insured residential mortgage originations include $12 million of insured residential mortgage commitments originated and sold in Q1 2023 under an agreement with MCAP Securities Limited Partnership, a wholly owned subsidiary of MCAP, compared to $33 million in Q1 2022. We launched our insured adjustable rate residential mortgage product last year. Unlike traditional insured variable rate mortgages, payments on our insured adjustable rate residential mortgages increase or adjust as interest rates rise with no changes to loan amortization. We also underwrite our insured adjustable rate mortgages for credit quality accordingly and our borrowers expect their payments under this new product to change as interest rates rise. Insured residential mortgage securitization volumes were $11 million in Q1 2023, a decrease of $126 million (92%) from Q1 2022. We decreased our insured residential mortgage originations and securitization volumes in favour of selling our insured residential mortgage commitments given extremely tight and even negative securitization spreads in the market in the first part of Q1 2023. Overall, total origination volumes (including commitments sold) were lower as a result of the higher interest rate environment. We use various channels in funding the insured residential mortgage portfolio, in the context of market conditions and net contributions over the life of the mortgages, in order to support our overall business.

- We have a derivative and hedging program to manage our interest rate risk. We enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to reduce our net income volatility related to changes in interest rates.

Dividend

- The Board declared a second quarter regular cash dividend of $0.36 per share to be paid June 30, 2023 to shareholders of record as of June 15, 2023. As a Mortgage Investment Corporation (“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 expect our regular cash dividends for 2023 will be

approximately equal to our taxable income, and therefore we do not expect to distribute a special stock dividend in 2024 relating to 2023 taxable income.

Credit Quality

- Impaired corporate mortgage ratio[1] was 1.92% at March 31, 2023 compared to 1.66% at December 31, 2022. At March 31, 2023, we have two construction loans, one commercial loan and one uninsured - completed inventory mortgage that are impaired. Asset recovery programs are being initiated for all of our impaired loans and we expect to recover all past due principal and interest.

- Impaired total mortgage ratio[1] was 1.05% at March 31, 2023 compared to 0.89% at December 31, 2022. The increase at March 31, 2023 is due to one commercial mortgage and one uninsured - completed inventory mortgage. Asset recovery programs are being initiated for all of our impaired loans and we expect to recover all past due principal and interest.

- Arrears total mortgage ratio[1] was 1.57% at March 31, 2023 compared to 1.57% at December 31, 2022.

- Net write-offs were $nil (0.0 basis points of the average corporate portfolio) in Q1 2023 compared to $nil (0.0 basis points) in Q1 2022.

- Average loan to value ratio ("LTV") of our uninsured residential mortgage portfolio based on an industry index of current real estate values was 64.7% at March 31, 2023 compared to 62.1% at December 31, 2022.

Capital

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

- 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 are determined at our sole discretion. During Q1 2023, we sold 8,300 common shares at a weighted average price of $15.03 for gross proceeds of $125,000 and net proceeds of $83,000 including $2,500 of commission paid to our agent and $39,000 of other share issuance costs under the ATM Program.

- We issued $6.9 million in new common shares through the DRIP in Q1 2023 compared to $3.4 million in new common shares in Q1 2022. The DRIP participation rate was 29% for the Q1 2023 dividend (Q1 2022 - 17%).

- The income tax assets to capital ratio[3] was 5.02 at March 31, 2023 compared to 4.93 at December 31, 2022.

- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios[2] were 19.59% at March 31, 2023 compared to 19.60% at December 31, 2022. Total Capital to risk-weighted assets ratio[2] was 19.81% at March 31, 2023 compared to 19.83% at December 31, 2022.

- The leverage ratio[2] was 9.94% at March 31, 2023 compared to 9.83% at December 31, 2022.

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

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

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

RESULTS OF OPERATIONS

Table 3: Net Income

(in thousands except for per share amounts and %)					
	Q1	Q4	Change	Q1	Change
For the Quarters Ended	**2023**	**2022**	**(%)**	**2022**	**(%)**
Net Investment Income - Corporate Assets					
Mortgage interest	$ 35,756	$ 30,747	16%	$ 20,508	74%
Equity income from MCAP Commercial LP	8,003	6,860	17%	5,219	53%
Non-marketable securities	2,222	2,318	(4%)	1,560	42%
Marketable securities	927	876	6%	966	(4%)
Fees	571	870	(34%)	584	(2%)
Interest on cash and other income	1,029	675	52%	117	779%
Net gain on securities	999	1,735	(42%)	1,189	(16%)
Gain on dilution of investment in MCAP Commercial LP	—	1,726	(100%)	—	n/a
	49,507	**45,807**	**8%**	**30,143**	**64%**
Term deposit interest and expenses	14,741	13,189	12%	8,518	73%
Mortgage expenses	1,801	1,568	15%	1,554	16%
Interest on loans payable	1,158	1,407	(18%)	558	108%
Other financial expenses	—	—	n/a	10	(100%)
Provision for (recovery of) credit losses	1,185	(1,091)	209%	(1,255)	194%
	18,885	**15,073**	**25%**	**9,385**	**101%**
	30,622	**30,734**	**—%**	**20,758**	**48%**
Net Investment Income - Securitization Assets					
Mortgage interest	9,068	8,607	5%	7,257	25%
Other securitization income	390	284	37%	66	491%
	9,458	**8,891**	**6%**	**7,323**	**29%**
Interest on financial liabilities from securitization	7,501	7,005	7%	5,249	43%
Mortgage expenses	1,085	1,059	2%	960	13%
Recovery of credit losses	—	(11)	100%	(1)	100%
	8,586	**8,053**	**7%**	**6,208**	**38%**
	872	**838**	**4%**	**1,115**	**(22%)**
Operating Expenses					
Salaries and benefits	5,297	4,928	7%	4,996	6%
General and administrative	2,768	2,199	26%	1,925	44%
	8,065	**7,127**	**13%**	**6,921**	**17%**
Net income before income taxes	23,429	24,445	(4%)	14,952	57%
Provision for (recovery of) income taxes	152	357	(57%)	(527)	(129%)
Net Income	**$ 23,277**	**$ 24,088**	**(3%)**	**$ 15,479**	**50%**
Basic and diluted earnings per share	$ 0.67	$ 0.75	(11%)	$ 0.52	29%
Dividends per share - cash	$ 0.36	$ 0.36	—%	$ 0.36	—%
Dividends per share - stock	$ —	$ —	n/a	$ 0.97	(100%)

Net Investment Income - Corporate Assets

Mortgage Interest Income

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

For the Quarters Ended	March 31, 2023			December 31, 2022			March 31, 2022		
(in thousands except %)	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Residential mortgages									
Insured	$ 158,417	$ 1,341	3.40 %	$ 178,524	$ 1,450	3.23 %	$ 188,453	$ 857	2.00 %
Uninsured	832,005	10,927	5.26 %	830,097	9,638	4.63 %	799,004	7,387	3.71 %
Uninsured - completed inventory	36,311	777	8.98 %	37,462	779	8.25 %	42,564	596	5.67 %
Construction loans									
Residential	845,606	20,520	9.25 %	789,666	16,783	8.43 %	695,369	10,375	6.05 %
Non residential	—	—	— %	4,970	109	8.70 %	4,992	88	7.18 %
Commercial loans									
Multi family residential	100,995	2,049	8.22 %	97,144	1,853	7.56 %	70,321	880	5.51 %
Other	6,310	142	9.13 %	2,609	135	6.53 %	18,073	325	7.30 %
Mortgages - corporate portfolio	$1,979,644	$ 35,756	7.05 %	$1,940,472	$ 30,747	6.27 %	$1,818,776	$ 20,508	4.59 %
Term deposit interest and expenses [2]	1,777,461	14,741	3.27 %	1,719,440	13,189	2.95 %	1,666,109	8,518	2.00 %
Net corporate mortgage spread income [1]		$ 21,015			$ 17,558			$ 11,990	
Spread of corporate mortgages over term deposit interest and expenses [1]			3.78 %			3.32 %			2.59 %
Average term to maturity (months)									
Mortgages - corporate	11.5			11.4			13.8		
Term deposits	14.9			16.0			17.7		

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

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

Table 5: Mortgage Originations

(in thousands except %) For the Quarters Ended	Q1 2023	Q4 2022	Change (%)	Q1 2022	Change (%)
Originations					
Residential mortgages - insured fixed [2]	$ 59,914	$ 69,167	(13%)	$ 95,708	(37%)
Residential mortgages - insured adjustable rate [2]	8,260	19,566	(58%)	84,980	(90%)
Residential mortgages - uninsured	62,961	48,462	30%	119,813	(47%)
Residential mortgages - uninsured completed inventory [1]	9,291	286	3,149%	286	3,149%
Residential construction [1]	115,647	117,444	(2%)	88,728	30%
Non-residential construction [1]	—	—	n/a	27	(100%)
Commercial [1]	3,675	5,745	(36%)	13,255	(72%)
	$ 259,748	**$ 260,670**	**—%**	**$ 402,797**	**(36%)**

[1] *Construction, commercial and completed inventory originations represent all advances on loans.*

[2] *Includes insured residential mortgage commitments sold to MSLP that the Company originated.*

Overview

For Q1 2023, the increase in the spread of corporate mortgages over term deposit interest and expenses from Q4 2022 and Q1 2022 was mainly attributable to the rising interest rate environment's impact on floating rates on residential construction loans that are now well above their floor rates. In Q1 2023 compared to Q4 2022 and Q1 2022, we also saw residential mortgage rates more than exceeding the pace of increase in our average term deposit rates as we continued to make a conscious effort to focus on residential lending spreads. Continued market competition had kept the movement in residential mortgage rates low

in the first half of 2022. Meanwhile, deposit customers sought higher rates due to actual and expected Bank of Canada policy interest rate increases. Average term deposit rates for the quarter have increased due to new originations at higher current rates and the maturity of lower-rate term deposits. That said, we have been actively managing our interest rate risk during this period of higher interest rates by changing the laddering of the duration of our term deposits relative to our corporate mortgage portfolio.

Residential Mortgage Lending

Residential mortgages provide comparatively lower yields given their risk profile, with uninsured residential mortgages providing higher yields than insured residential mortgages. We opportunistically invest in our residential uninsured completed inventory portfolio which often migrate from our own construction book. For the quarter, higher average rates despite slightly lower overall average balances contributed to a higher corporate mortgage interest compared to Q4 2022 and Q1 2022.

Total origination volumes in Q1 2023 and Q4 2022 on our residential mortgages were lower compared to Q1 2022. The economic environment and its impact on the housing market and borrowers, has caused a slowdown in origination volumes. As well, we have had a more purposeful focus on protecting our net interest margin over quantity of originations. However, we have seen an increase in our uninsured residential mortgage renewals with $112 million in Q1 2023 compared to $79 million in Q1 2022 as we worked with our borrowers to ease the impact on them from the current interest rate environment and mortgage stress tests.

Our insured adjustable rate residential mortgage product also saw a slowdown due to the same reasons noted above. 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. We originated and sold $12 million in commitments in Q1 2023 (Q1 2022 - $33 million) under this agreement. The reason for the lower volume of commitments sold is the same as for our residential mortgage originations noted above.

We securitize our insured residential mortgages opportunistically through the CMHC National Housing Act (“NHA”) Mortgage-Backed Securities (“MBS”) program. Our Q1 2023 residential mortgage securitization volumes were $11 million compared to $137 million in Q1 2022. Insured residential mortgage originations and securitization volumes declined as a result of (i) market slowdown in the demand for insured mortgages as a result of the higher interest rate environment; and (ii) our preference to sell our insured residential loans at the commitment stage given extremely tight and even negative securitization spreads. 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 from the higher interest rate environment for the quarter mainly contributed to a higher corporate mortgage interest compared to prior periods.

Some projects have experienced construction delays due to labour shortages and cost overruns from higher interest costs, the inflationary environment and ongoing supply chain issues as a result of geopolitical conflicts, which has led to some loan extension and amendment requests. To date, projects continue to progress toward completion. In Q1 2023, the increase in arrears is mainly due to three construction and commercial mortgages where asset recovery programs are initiated and we expect to recover all past due principal and interest. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years. Our prudent underwriting approach requires satisfactory borrower liquidity, guarantor net worth and presale requirements as applicable to the respective markets.

Mortgage renewal rights

Through our origination platform, we retain the renewal rights to internally originated residential mortgages that are held as corporate or securitized mortgages or have been sold to third parties and derecognized from the interim consolidated balance sheet. At maturity, we have the right to renew these mortgages, which we believe will contribute to future income including renewal income. At March 31, 2023, we had the renewal rights to $2.7 billion of residential mortgages (December 31, 2022 - $2.6 billion).

Equity Income from MCAP

In Q1 2023, MCAP's origination volumes were $4.1 billion, a decrease from $6.3 billion in Q1 2022. At February 28, 2023 (we account for MCAP on a one-month lag basis), MCAP had $154.1 billion of assets under management compared to $153.7 billion at November 30, 2022 and $146.6 billion at February 28, 2022. Equity income from MCAP totalled $8.0 million in Q1 2023, an increase of $2.8 million from $5.2 million in Q1 2022. For Q1 2023, the increase in equity income from MCAP was primarily due to (i) higher servicing and administration revenue from higher assets under management; (ii) higher investment revenue from higher average mortgage rates; (iii) a decrease in origination and processing costs due to lower funding volumes; and (iv) higher financial instrument gains resulting from hedge gains, lower fair value losses and lower hedge costs. These were partially offset by (i) lower mortgage origination and processing fees from lower commitment and whole loan sales; (ii) higher securitization expenses; and (iii) higher interest expenses on warehousing and repo facilities from higher interest rates.

We recognize equity income from MCAP on a one-month lag such that our 2023 equity income from MCAP is based on MCAP's net income for the quarter ended February 28, 2023. For further information on our equity investment in MCAP, refer to the "Equity Investment in MCAP" sub-section of the "Financial Position" section of this MD&A.

Non-Marketable Securities

KingSett High Yield Fund ("KSHYF"): We received distribution income of $1.9 million in Q1 2023 (Q1 2022 - $1.3 million). The distribution yield[1] on this portfolio was 14.95% in Q1 2023 compared to 11.87% in Q1 2022.

KingSett Senior Mortgage Fund LP ("KSSMF"): We received distribution income of $0.3 million in Q1 2023 (Q1 2022 - $0.1 million). The distribution yield[1] on this portfolio was 9.97% in Q1 2023 compared to 9.61% in Q1 2022.

MCAP RMBS Issuer Corporation Class A securitization notes (the "Securitization Notes"): We received principal and interest of $1.0 million in Q1 2023 (Q1 2022 - $1.4 million), representing a distribution yield[1] of 8%. The final distribution date was March 15, 2023 and we received all scheduled principal and interest repayments over the life of the Securitization Notes.

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

Marketable Securities

Marketable securities income consists primarily of distributions from the REIT portfolio. The distribution yield[1] on this portfolio was 6.50% in Q1 2023 (Q1 2022 - 6.13%). For the quarter, the higher distribution yield is mainly due to the decline in fair value since this time last 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 Q1 2023, we recorded a $1.0 million unrealized fair value gain on securities from the impact on REIT prices of improving economic forecasts and the Bank of Canada pausing interest rate hikes compared to the previous quarter. During Q1 2022, we recorded (i) a $3.0 million unrealized fair value gain from the impact on REIT prices of improved economic forecasts at that time as we recovered from the pandemic; and (ii) a $1.8 million realized fair value loss on one REIT in our portfolio that had a mandatory corporate action resulting in privatization. We expect continued volatility in the REIT market. We are long term investors and 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 compared to Q4 2022 and Q1 2022 was mostly due to a higher average term deposits balance and higher average term deposit rates. In Q1 2022, term deposit rates increased due to dislocation in the term deposit market precipitated by the Russia/Ukraine conflict causing high demand by financial institutions for term deposits. During Q2 2022 to Q1 2023, term deposit rates also increased along with the rising interest rate environment which impacted rates on our new term deposit originations. Term deposit expenses include costs related to insurance, operating infrastructure and administration.

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

Net Investment Income - Securitization Assets

Net investment income from securitization assets relates to our participation in the market MBS program and the Canada Housing Trust ("CHT") Canada Mortgage Bonds ("CMB") program. Our total new securitization volumes were $11 million in Q1 2023 (Q1 2022 - $137 million). 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 our focus on protecting our net mortgage interest due to much tighter securitization spreads.

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

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

For the Quarters Ended	March 31, 2023			December 31, 2022			March 31, 2022		
(in thousands except %)	Average Balance[1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]	Average Balance [1]	Interest Income	Average Rate [1]
Mortgages - securitized portfolio	$1,723,003	$ 9,068	2.12 %	$1,706,239	$ 8,607	2.01 %	$1,606,982	$ 7,257	1.82 %
Financial liabilities from securitization [2]	1,731,910	7,501	1.73 %	1,717,942	7,005	1.62 %	1,622,325	5,249	1.28 %
Net securitized mortgage spread income [1]		$ 1,567			$ 1,602			$ 2,008	
Spread of securitized mortgages over liabilities [1]			0.39 %			0.39 %			0.54 %

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

In Q1 2023 and Q4 2022, we have seen spreads decline on securitizations compared to Q1 2022 as a result of a decline in the spread of Government of Canada bond yields versus our mortgage rates. Government of Canada bond yields rose significantly in 2022 as we entered a rising interest rate environment.

Derivatives and Hedging

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

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

At March 31, 2023, the Company had derivative financial instruments outstanding with net unrealized fair value gains of $0.2 million recognized in the consolidated statements of comprehensive income. During Q1 2023, we also recognized a net realized loss on our derivative transactions of $0.1 million (Q4 2022 - $0.2 million) in the consolidated statements of comprehensive income.

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

Provision for (Recovery of) Credit Losses

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

(in thousands except basis points and %) For the Quarters Ended	Q1 2023	Q4 2022	Change (%)	Q1 2022	Change (%)
Provision for (recovery of) impaired corporate mortgages					
Residential mortgages					
Uninsured	11	41	(73%)	14	(21%)
Commercial loans					
Other commercial	1,598	—	n/a	—	n/a
	1,609	41	3,824%	14	11,393%
Provision for (recovery of) performing corporate mortgages					
Residential mortgages					
Insured	—	(1)	100%	—	n/a
Uninsured	(84)	(10)	(740%)	(790)	89%
Uninsured - completed inventory	(58)	(51)	(14%)	(145)	60%
Construction loans	(178)	(1,170)	85%	(345)	48%
Commercial loans					
Multi family residential	(76)	92	(183%)	34	(324%)
Other commercial	(26)	14	(286%)	(25)	(4%)
	(422)	(1,126)	63%	(1,271)	67%
Other provisions (recoveries)	(2)	(6)	67%	2	(200%)
Total corporate provision for (recovery of) credit losses	1,185	(1,091)	209%	(1,255)	194%
Provision for (recovery of) performing securitized mortgages	—	(11)	100%	(1)	100%
Total provision for (recovery of) credit losses	$ 1,185	$ (1,102)	208%	$ (1,256)	194%
Corporate mortgage portfolio data:					
Provision for (recovery of) credit losses, net	$ 1,187	$ (1,085)	209%	$ (1,257)	194%
Net write offs	$ —	$ 4	(100%)	$ —	n/a
Net write offs (basis points)	—	0.1	(100%)	—	n/a

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

We had a provision for credit losses on our corporate mortgage portfolio of $1.2 million in Q1 2023 compared to a recovery of credit losses of $1.3 million in Q1 2022. The provision for credit losses in Q1 2023 was mainly due to one commercial loan where an asset recovery program will be initiated and we expect to recover all past due principal and interest. This was partially offset by more favourable provincial outlook and assumptions for our loans in Alberta, as well as improving economic forecasts from lower inflation and job growth. In Q1 2022, we had a recovery of credit losses mainly due to improved economic forecasts as we recovered from the pandemic partially offset by growth in our portfolio and uncertainty around inflation. The current inflationary and higher interest rate environment 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 on macroeconomic indicators and the mortgage portfolio. These judgments and uncertainties have been made or assessed with reference to the facts, projections and other circumstances at March 31, 2023. IFRS 9, *Financial Instruments* ("IFRS 9") does not permit the use of hindsight in measuring provisions for credit losses. Since March 31, 2023, forecasts around these uncertainties have continued to evolve. Any new forward-looking information subsequent to March 31, 2023, will be reflected

in the measurement of provisions for credit losses in future periods, as appropriate. This may add significant variability to provisions for credit losses in future periods.

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

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

Operating Expenses

Table 8: Operating Expenses

(in thousands except %) **For the Quarters Ended**	**Q1 2023**	**Q4 2022**	**Change (%)**	**Q1 2022**	**Change (%)**
Salaries and benefits	$ 5,297	$ 4,928	7%	$ 4,996	6%
General and administrative	2,768	2,199	26%	1,925	44%
	$ 8,065	**$ 7,127**	**13%**	**$ 6,921**	**17%**

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

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

Taxable Income

The table below provides a reconciliation between consolidated net income (loss) for accounting purposes and non-consolidated taxable income (loss). Taxable income is calculated in accordance with the Tax Act. In order to take advantage of the tax benefits of 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 9: Taxable Income Reconciliation

(in thousands) **For the Quarters Ended March 31**	**2023**	**2022**
Consolidated net income for accounting purposes	$ 23,277	$ 15,479
Adjustments to calculate taxable income (loss):		
Reverse: Equity income from MCAP - accounting purposes	(8,003)	(5,219)
Add: MCAP taxable income (loss)	(4,234)	7,068
Reverse: Provision for (recovery of) credit losses [2]	(262)	(1,269)
Add: Amortization of upfront securitization program costs [3]	2,722	2,183
Deduct: Securitization program mortgage origination costs [3]	(641)	99
Add: Securitization program premium (discount)	(124)	(4,444)
Reverse: Net unrealized loss (gain) on securities [4]	(999)	(1,189)
Add: Capital gains (losses)	—	(285)
Reverse: Loss (income) earned in subsidiaries [5]	(546)	(2,259)
Other items	125	98
Taxable Income (Loss)[1]	**$ 11,315**	**$ 10,262**

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

The change in taxable income for Q1 2023 compared to Q1 2022 was primarily due to taxable losses from MCAP. 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 expect our regular cash dividends for 2023 will be approximately equal to our taxable income, and therefore we do not expect to distribute a special stock dividend in 2024 relating to 2023 taxable income.

FINANCIAL POSITION

Assets

Table 10: Assets

(in thousands except %)	March 31 2023	December 31 2022	Change (%)	March 31 2022	Change (%)
Corporate Assets					
Cash and cash equivalents	$ 66,621	$ 78,210	(15%)	$ 131,637	(49%)
Marketable securities	54,741	53,743	2%	67,013	(18%)
Mortgages	2,036,744	1,939,494	5%	1,901,940	7%
Non-marketable securities	101,782	97,228	5%	71,637	42%
Equity investment in MCAP Commercial LP	109,167	106,168	3%	97,218	12%
Deferred tax asset	912	1,095	(17%)	1,334	(32%)
Derivative financial instruments	231	—	n/a	—	n/a
Other assets	15,154	7,182	111%	9,972	52%
	2,385,352	**2,283,120**	**4%**	**2,280,751**	**5%**
Securitization Assets					
Cash held in trust	32,978	34,531	(4%)	50,101	(34%)
Mortgages	1,724,278	1,751,303	(2%)	1,658,839	4%
Other assets	9,329	9,722	(4%)	9,956	(6%)
	1,766,585	**1,795,556**	**(2%)**	**1,718,896**	**3%**
	$ 4,151,937	**$ 4,078,676**	**2%**	**$ 3,999,647**	**4%**

Our total corporate assets increased compared to December 31, 2022 and March 31, 2022 primarily due to origination volumes in our portfolios outpacing maturities. Compared to December 31, 2022, our securitization assets decreased mainly due to lower insured residential mortgage originations as a result of (i) market slowdown in the demand for insured mortgages as a result of the higher interest rate environment; and (ii) our preference to sell our insured residential loans at the commitment stage given extremely 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. These segments are characterized by affordable price points, lower price volatility and steady sales volumes based on continued family formation and migration primarily in major urban markets and their surrounding areas in proximity to transit. We focus on a diverse portfolio of predominantly first mortgage positions with 65-75% LTVs in our normal segment of lending. At March 31, 2023, the average outstanding construction loan balance was $9 million (December 31, 2022 - $8 million) with a maximum individual loan commitment of $40 million (December 31, 2022 - $40 million).

Securitized Mortgages

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

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

As previously mentioned, insured residential mortgage originations and securitization volumes declined in Q1 2023 due to the higher interest rate environment which impacted demand for insured mortgages, as well as our preference to sell insured mortgages at the commitment stage versus securitizing them given the extremely tight and even negative securitization spreads that we experienced for most of Q1 2023.

During Q1 2023, we securitized $11 million (Q1 2022 - $137 million) of MBS through the market MBS program and CMB program.

We may issue market MBS through the NHA MBS program and retain the underlying MBS security for liquidity purposes rather than selling the MBS to a third party. At March 31, 2023, we held $109 million of retained MBS on our balance sheet (December 31, 2022 - $63 million), which is included in the insured residential mortgage portfolio in corporate mortgages.

Table 11: Mortgage Summary

(in thousands except %)	March 31 2023	December 31 2022	Change (%)	March 31 2022	Change (%)
Corporate portfolio					
Residential mortgages					
Insured	$ 187,218	$ 144,569	30%	$ 210,401	(11%)
Uninsured	848,342	828,540	2%	833,824	2%
Uninsured - completed inventory	38,060	36,680	4%	37,936	—%
Construction loans	856,165	825,126	4%	722,827	18%
Commercial loans					
Multi family residential	102,114	98,238	4%	78,879	29%
Other commercial	4,845	6,341	(24%)	18,073	(73%)
	2,036,744	**1,939,494**	**5%**	**1,901,940**	**7%**
Securitized portfolio	**1,724,278**	**1,751,303**	**(2%)**	**1,658,839**	**4%**
	$ 3,761,022	**$ 3,690,797**	**2%**	**$ 3,560,779**	**6%**

Table 12: Corporate Mortgage Portfolio Continuity for the Quarter Ended March 31, 2023

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 144,569**	**$ 828,540**	**$ 36,680**	**$ 825,126**	**$ 104,579**	**$ 1,939,494**
Originations[1]	82,822	158,918	9,291	115,251	3,675	369,957
Payments and prepayments	(2,059)	(4,898)	(8,043)	(87,118)	(21)	(102,139)
Maturities	(15,415)	(134,870)	—	—	—	(150,285)
Securitizations	(10,950)	—	—	—	—	(10,950)
Sale of commitments to MCAP	(12,405)	—	—	—	—	(12,405)
Capitalization and amortization of fees	656	652	132	2,906	(1,274)	3,072
Balance, end of the period	**$ 187,218**	**$ 848,342**	**$ 38,060**	**$ 856,165**	**$ 106,959**	**$ 2,036,744**

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

Table 13: Corporate Mortgage Portfolio Continuity for the Quarter Ended March 31, 2022

(in thousands)	Residential Mortgages					
	Insured	Uninsured	Uninsured - completed inventory	Construction loans	Commercial loans	Total
Balance, beginning of the period	**$ 196,580**	**$ 783,075**	**$ 49,431**	**$ 684,297**	**$ 92,761**	**$ 1,806,144**
Originations[1]	203,500	181,418	610	88,755	13,255	487,538
Payments and prepayments	(2,029)	(5,846)	(12,288)	(51,242)	(9,032)	(80,437)
Maturities	(18,627)	(125,951)	—	—	—	(144,578)
Securitizations	(136,368)	—	—	—	—	(136,368)
Sale of commitments to MCAP	(32,880)	—	—	—	—	(32,880)
Capitalization and amortization of fees	225	1,128	183	1,017	(32)	2,521
Balance, end of the period	**$ 210,401**	**$ 833,824**	**$ 37,936**	**$ 722,827**	**$ 96,952**	**$ 1,901,940**

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

We continue to be selective and will reposition our loan portfolio in terms of product composition, geographic mix and exposure as required to meet changing market conditions and align to our risk appetite. We have strong strategic partnerships and relationships and we maintain a high quality of underwriting. We have also enhanced our internal sales and marketing capabilities, strengthened relationships and customer service with the broker community and increased underwriting capacity. We continue to focus on our construction and commercial portfolio growing it in selected markets, with our preferred borrowers and risk profile given they tend to provide higher yields compared to our residential mortgages.

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

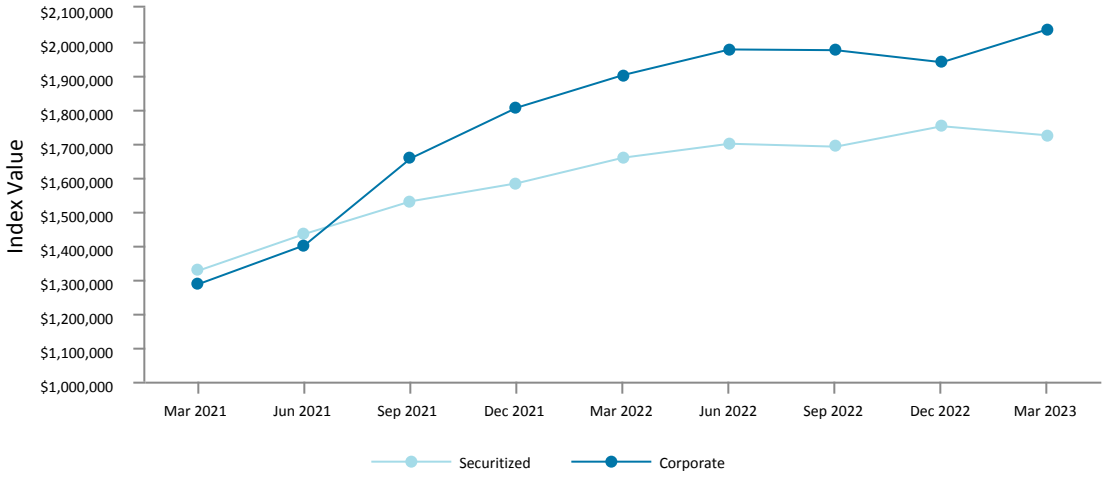
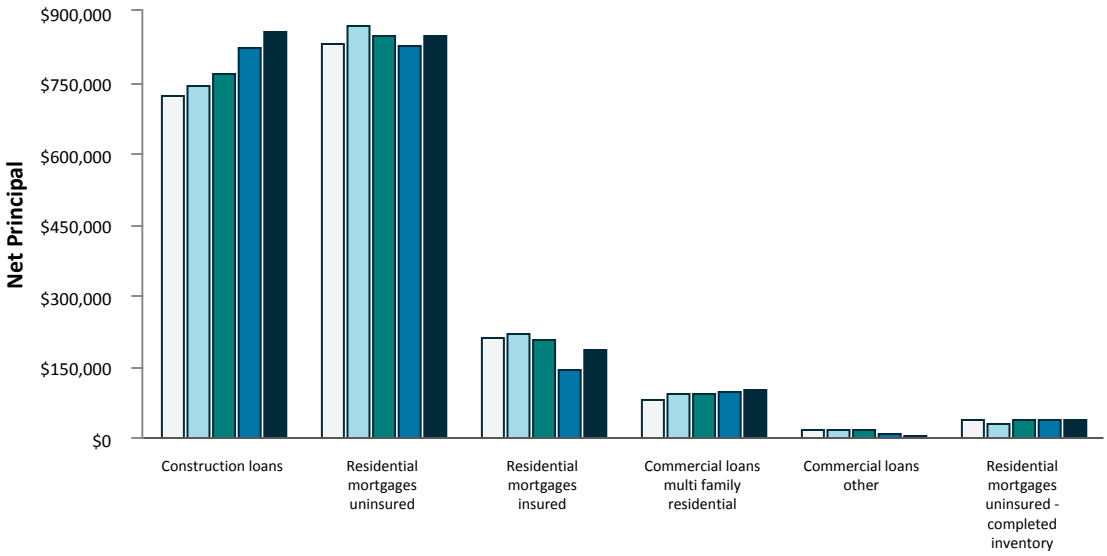


Figure 2: Corporate Mortgage Portfolio Composition by Product Type (in thousands)



	Construction loans	Residential mortgages uninsured	Residential mortgages insured	Commercial loans multi family residential	Commercial loans other	Residential mortgages uninsured - completed inventory
Mar 31, 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%)
Dec 31, 2022	$825,126 (43%)	$828,540 (43%)	$144,569 (7%)	$98,238 (5%)	$6,341 (0%)	$36,680 (2%)
Mar 31, 2023	$856,165 (42%)	$848,342 (42%)	$187,218 (9%)	$102,114 (5%)	$4,845 (0%)	$38,060 (2%)

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

Table 14: Mortgage Portfolio Geographic Distribution

	March 31, 2023		December 31, 2022	
	Corporate	Securitized	Corporate	Securitized
Ontario	57.3 %	86.5 %	57.6 %	86.4 %
British Columbia	30.7 %	3.3 %	29.4 %	3.3 %
Alberta	9.9 %	8.0 %	11.0 %	8.0 %
Atlantic Provinces	0.4 %	1.3 %	0.3 %	1.3 %
Quebec	1.1 %	0.4 %	1.2 %	0.5 %
Other	0.6 %	0.5 %	0.5 %	0.5 %
	100.0 %	**100.0 %**	**100.0 %**	**100.0 %**

Credit Quality

Table 15: Arrears and Impaired Mortgages

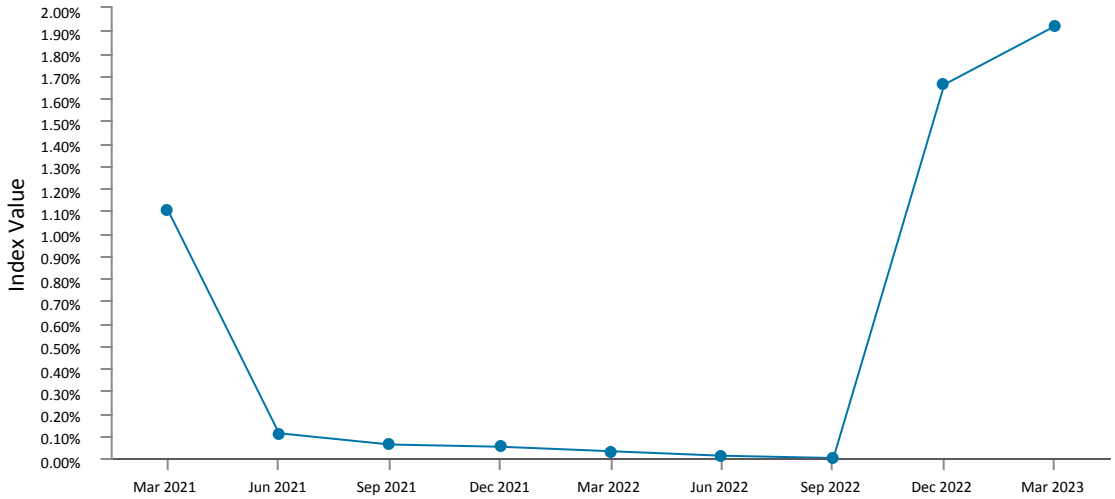
(in thousands except %)	March 31 2023	December 31 2022	Change (%)	March 31 2022	Change (%)
Impaired mortgages					
Corporate					
Residential mortgages - insured	$ 473	$ —	n/a	$ 162	192%
Residential mortgages - uninsured	499	186	168%	411	21%
Residential mortgages - uninsured - completed inventory	2,577	—	n/a	—	n/a
Construction loans	32,088	32,085	—%	—	n/a
Commercial loans - other	3,482	—	n/a	—	n/a
	39,119	32,271	21%	573	6,727%
Securitized	195	550	(65%)	103	89%
Total impaired mortgages	$ 39,314	$ 32,821	20%	$ 676	5,716%
Impaired corporate mortgage ratio [1]	1.92 %	1.66 %	0.26%	0.03 %	1.89%
Impaired total mortgage ratio [1]	1.05 %	0.89 %	0.16%	0.02 %	1.03%
Mortgage arrears					
Corporate					
Residential mortgages - insured	$ 870	$ 511	70%	$ 1,503	(42%)
Residential mortgages - uninsured	15,856	14,177	12%	8,478	87%
Residential mortgages - uninsured - completed inventory	2,577	2,577	—%	—	n/a
Construction loans	32,088	32,085	—%	0	n/a
Commercial loans - other	3,482	5,080	(31%)	—	n/a
Total corporate mortgage arrears	54,873	54,430	1%	9,981	450%
Total securitized mortgage arrears	4,096	3,439	19%	4,124	(1%)
Total mortgage arrears	$ 58,969	$ 57,869	2%	$ 14,105	318%
Staging analysis - corporate portfolio					
Stage 2					
Residential mortgages - insured	$ 8,119	$ 5,157	57%	$ 6,881	18%
Residential mortgages - uninsured	154,584	132,934	16%	103,938	49%
Residential mortgages - uninsured - completed inventory	—	2,577	(100%)	—	n/a
Construction loans	9,780	7,341	33%	13,345	(27%)
Commercial loans - multi-family residential	39,721	27,406	45%	27,412	45%
Commercial loans - other	—	5,080	(100%)	16,811	(100%)
	212,204	180,495	18%	168,387	26%
Stage 3					
Residential mortgages - insured	473	—	n/a	162	192%
Residential mortgages - uninsured	499	186	168%	411	21%
Residential mortgages - uninsured - completed inventory	2,577	—	n/a	—	n/a
Construction loans	32,088	32,085	—%	—	n/a
Commercial loans - other	3,482	—	n/a	—	n/a
	39,119	32,271	21%	573	6,727%
Total stage 2 and 3 corporate mortgages	$ 251,323	$ 212,766	18%	$ 168,960	49%
Allowance for credit losses					
Corporate					
Allowance on performing mortgages	$ 5,127	$ 5,549	(8%)	$ 5,363	(4%)
Allowance on impaired mortgages	1,658	49	3,284%	27	6,041%
	6,785	5,598	21%	5,390	26%
Securitized - allowance on performing mortgages	—	—	n/a	3	(100%)
Total allowance for credit losses	$ 6,785	$ 5,598	21%	$ 5,393	26%

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

Arrears and Impaired Mortgage Summary

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

Figure 3: 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, 2023, the increase in impaired mortgages compared to March 31, 2022, is mainly due to two construction mortgages, one commercial mortgage, and one uninsured - completed inventory mortgage where we have initiated asset recovery programs. We expect to recover all past due interest and principal on these loans. We have a strong track record with our asset recovery program should the need arise. Our realized loan losses on our construction portfolio have been negligible in the last 10 years.

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

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

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

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

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

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

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

Table 16: Residential Mortgages by Province at March 31, 2023

(in thousands except %)	Corporate						Securitized			
	Insured	%	Uninsured	%	HELOCs	%	Insured	%	Total	%
Ontario	$ 137,835	73.7 %	$ 759,863	85.7 %	$ 74	81.3 %	$1,490,684	86.5 %	$ 2,388,456	85.4 %
Alberta	34,934	18.7 %	27,119	3.1 %	17	18.7 %	138,560	8.0 %	200,630	7.2 %
British Columbia	4,341	2.3 %	77,175	8.7 %	—	— %	57,631	3.3 %	139,147	5.0 %
Quebec	3,392	1.8 %	14,785	1.7 %	—	— %	7,344	0.4 %	25,521	0.9 %
Atlantic Provinces	4,508	2.4 %	2,729	0.3 %	—	— %	21,592	1.3 %	28,829	1.0 %
Other	2,117	1.1 %	4,731	0.5 %	—	— %	8,467	0.5 %	15,315	0.5 %
Total	**$ 187,127**	**100.0 %**	**$ 886,402**	**100.0 %**	**$ 91**	**100.0 %**	**$1,724,278**	**100.0 %**	**$ 2,797,898**	**100.0 %**

Table 17: Residential Mortgages by Province at December 31, 2022

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

Table 18: Residential Mortgages by Amortization Period at March 31, 2023

(in thousands except %)	Up to 20 Years	>20 to 25 Years	>25 to 30 Years	>30 to 35 Years	Total
Corporate	$ 136,147	$ 221,274	$ 431,412	$ 284,787	$ 1,073,620
	12.7 %	20.6 %	40.2 %	26.5 %	100.0 %
Securitized	$ 448,906	$ 1,269,007	$ 6,365	$ —	$ 1,724,278
	26.0 %	73.6 %	0.4 %	— %	100.0 %
Total	**$ 585,053**	**$ 1,490,281**	**$ 437,777**	**$ 284,787**	**$ 2,797,898**
	20.9 %	**53.3 %**	**15.6 %**	**10.2 %**	**100.0 %**

Table 19: Residential Mortgages by Amortization Period at December 31, 2022

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

Table 20: Average LTV Ratio for Uninsured Residential Mortgage Originations

(in thousands except %) For the Quarters Ended	Q1 2023	Average LTV	Q1 2022	Average LTV
Ontario	$ 53,994	70.8%	$109,719	66.2%
Alberta	2,324	67.7%	2,659	71.0%
British Columbia	15,934	67.8%	7,721	72.9%
	$ 72,252	**70.0%**	**$120,099**	**66.7%**

Table 21: Average LTV Ratios at Origination by Mortgage Portfolio

	March 31 2023	December 31 2022
Corporate portfolio		
Residential mortgages		
Insured	70.7 %	68.0 %
Uninsured[1]	63.5 %	63.1 %
Uninsured - completed inventory	60.5 %	56.6 %
Construction loans		
Residential	65.3 %	65.7 %
Commercial loans		
Multi family residential	74.6 %	74.6 %
Other commercial	62.1 %	62.1 %
	65.4 %	65.0 %
Securitized portfolio	80.0 %	80.1 %
	72.1 %	**72.2 %**

[1] *MCAN's corporate uninsured residential mortgage portfolio (including completed inventory loans) is secured with a weighted average LTV at origination of 63.3% at March 31, 2023 (December 31, 2022 - 65.6%). Based on an industry index that incorporates current real estate values, the ratio would be 64.7% at March 31, 2023 (December 31, 2022 - 62.1%).*

Other Corporate Assets

Cash and Cash Equivalents

At March 31, 2023, our cash balance was $67 million (December 31, 2022 - $78 million). As part of liquidity management, we align our liquidity position to our liquidity and funding requirements. Cash and cash equivalents, which include cash balances with banks and overnight term deposits, provide liquidity to meet maturing term deposits and new mortgage funding commitments. We actively manage our cash and cash equivalents in the context of our prudent liquidity and cash management practices. See "Liquidity and Funding Risk" sub-section of this MD&A.

Marketable Securities

Marketable securities, consisting of REITs, provide additional liquidity at yields in excess of cash and cash equivalents. We actively manage our portfolio, as appropriate. At March 31, 2023, the portfolio balance was $55 million (December 31, 2022 - $54 million). The increase is due to unrealized fair value gains from the impact on REIT prices of improving economic forecasts and the Bank of Canada pausing interest rate hikes compared to the previous quarter. We expect continued volatility in the REIT market. We are long term investors and continue to realize the benefits of solid cash flows and distributions from these investments.

Non-Marketable Securities

At March 31, 2023, our non-marketable securities balance was $102 million (December 31, 2022 - $97 million). We have $76 million in remaining capital advances for non-marketable securities expected to fund mainly over the next five years. Our non-marketable securities consist of the following:

KSHYF: We invest in KSHYF in which we have a 6.0% equity interest (December 31, 2022 - 5.9%). At March 31, 2023, the carrying value of our investment was $54 million (December 31, 2022 - $53 million). The KSHYF invests in mortgages secured by real estate including mezzanine, subordinate and bridge mortgages. At March 31, 2023, our total remaining commitment to the KSHYF was $34 million, consisting of an additional $5 million of capital advances for the KSHYF and $29 million to support credit facilities throughout the life of the KSHYF.

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

KSSMF: We invest in KSSMF in which we have a 1.8% partnership interest (December 31, 2022 - 1.5%). At March 31, 2023, the carrying value of our investment was $12 million (December 31, 2022 - $9 million), with an additional $3 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 representing a 9.7% partnership interest (December 31, 2022 - 9.7%). At March 31, 2023, the carrying value of our investment was $9 million (December 31, 2022 - $9 million), with an additional $1 million remaining commitment. TAS invests in, and develops, residential and mixed use properties with a focus on assets that drive environmental and social impacts.

TAS LP 3 Co-Invest LP (“TAS Co”): We invest in TAS Co representing a 34.8% partnership interest (December 31, 2022 - 34.8%). At March 31, 2023, the carrying value of our investment was $4 million (December 31, 2022 - $4 million), with an additional $1 million remaining commitment. TAS Co has an approximately 17.5% to 24% interest in its underlying investments of urban residential and mixed use properties that are being developed under repositioning plans with a focus on environmental and social impacts.

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

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

Harbour Equity JV Development Fund VI (“Harbour”): We invest in Harbour representing a 12.1% partnership interest (December 31, 2022 - 12.1%). At March 31, 2023, the carrying value of our investment was $2 million (December 31, 2022 - $2 million) 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”): We invest in TAS 4 representing a 16.6% partnership interest (December 31, 2022 - 17.6%). At March 31, 2023, the carrying value of our investment was $2 million (December 31, 2022 - $2 million) with an additional $18 million remaining commitment. TAS 4 acquires urban residential, mixed-use development and repositioning properties with a focus on developing and repositioning assets that drive environmental and social impacts.

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

Fiera Real Estate Development Fund IV, LP ("Fiera"): We invest in Fiera representing a 6.5% partnership interest (December 31, 2022 - 7.1%). At March 31, 2023, the carrying value of our investment was $5 million (December 31, 2022 - $4 million) with an additional $10 million remaining commitment. Fiera focuses on development and re-development of multi-residential, industrial, office and retail properties, located in growing major Canadian urban markets.

Equity Investment in MCAP

We have a strategic investment in MCAP, which is Canada's largest independent mortgage finance company serving many institutional investors and over 400,000 homeowners. We hold a 13.83% equity interest in MCAP (December 31, 2022 - 13.65%), which represents 4.0 million units held by MCAN at March 31, 2023 (December 31, 2022 - 4.0 million) of the 28.9 million total outstanding MCAP partnership units (December 31, 2022 - 29.3 million). The investment had a net book value of $109 million at March 31, 2023 (December 31, 2022 - $106 million). The net book value is not indicative of the fair market value of our equity interest in MCAP.

During Q1 2023, we received $5.0 million of unitholder distributions from MCAP (Q1 2022 - $4.2 million). As we account for this investment using the equity method, the receipt of distributions reduces the carrying value of the investment in MCAP.

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

Other Securitization Assets

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

Liabilities and Shareholders' Equity

Table 22: Liabilities and Shareholders' Equity

(in thousands except %)	March 31 2023	December 31 2022	Change (%)	March 31 2022	Change (%)
Corporate Liabilities					
Term deposits	$ 1,897,534	$ 1,819,830	4%	$ 1,782,887	6%
Loans payable	31,816	6,532	387%	107,337	(70%)
Other liabilities	7,577	22,616	(66%)	9,164	(17%)
	1,936,927	**1,848,978**	**5%**	**1,899,388**	**2%**
Securitization Liabilities					
Financial liabilities from securitization	1,707,751	1,740,388	(2%)	1,658,414	3%
	1,707,751	**1,740,388**	**(2%)**	**1,658,414**	**3%**
	3,644,678	**3,589,366**	**2%**	**3,557,802**	**2%**
Shareholders' Equity					
Share capital	396,931	389,986	2%	347,968	14%
Contributed surplus	510	510	—%	510	—%
Retained earnings	109,833	98,990	11%	93,367	18%
Accumulated other comprehensive income	(15)	(176)	(91%)	—	n/a
	507,259	**489,310**	**4%**	**441,845**	**15%**
	$ 4,151,937	**$ 4,078,676**	**2%**	**$ 3,999,647**	**4%**

Term Deposits

Our primary source of funding for our corporate operations is the issuance of term deposits that are eligible for CDIC deposit insurance. We source term deposits through a broker distribution network across Canada consisting of third party deposit agents and financial advisors. Deposits cannot be cashed prior to maturity or paid on demand except in the event of the death of a depositor or financial hardship. We believe that our term deposits provide a reliable low-cost funding source that can be

strategically matched against the corporate mortgage portfolio. The role of term deposits in managing liquidity and funding risk is discussed in the "Liquidity and Funding Risk" sub-section of the "Risk Management" section of this MD&A.

Loans Payable

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

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

Financial Liabilities from Securitization

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

Share Capital

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

Retained Earnings

Retained earnings activity for Q1 2023 consists of net income of $23.3 million (Q1 2022 - $15.5 million) less dividends of $12.4 million (Q1 2022 - $39.5 million).

Accumulated Other Comprehensive Income

Beginning in Q4 2022, we began to enter into Government of Canada bond forward contracts to hedge interest rate risk arising from the impact of (i) movements in interest rates between the time insured residential mortgages are funded and the time that these mortgages are securitized; and (ii) movements in interest rates between the time term deposit funding is forecasted to be required and the time that the actual funding occurs. Achieving hedge accounting allows us to reduce our net income volatility related to changes in interest rates. In Q1 2023, we had net realized fair value losses of $0.1 million and unrealized fair value gains of $0.2 million on our derivative transactions recognized in accumulated other comprehensive income. For further information, refer to the "Derivatives and Hedging" sub-section of this MD&A and Note 11 to the interim consolidated financial statements.

CAPITAL MANAGEMENT

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

Income Tax Capital

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

Table 23: Income Tax Capital

(in thousands except ratios)

	March 31 2023	December 31 2022
Income tax assets		
Consolidated assets	$ 4,151,937	$ 4,078,676
Adjustment for assets in subsidiaries	7,577	29,833
Non-consolidated assets in MIC entity	4,159,514	4,108,509
Add: corporate mortgage allowances	5,283	5,545
Less: securitization assets [1]	(1,733,722)	(1,768,828)
Adjustments to equity investments in MCAP and subsidiaries	(54,136)	(41,090)
Other adjustments	2,165	4,064
	$ 2,379,104	$ 2,308,200
Income tax liabilities		
Consolidated liabilities	$ 3,644,678	$ 3,589,366
Adjustment for liabilities in subsidiaries	(33,601)	(11,537)
Non-consolidated liabilities in MIC entity	3,611,077	3,577,829
Less: securitization liabilities [1]	(1,705,549)	(1,738,216)
	$ 1,905,528	$ 1,839,613
Income tax capital	$ 473,576	$ 468,587
Income tax capital ratios		
Income tax assets to capital ratio	5.02	4.93
Income tax liabilities to capital ratio	4.02	3.93

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

Regulatory Capital

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

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

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

At March 31, 2023, 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 %)

	March 31 2023	December 31 2022
OSFI Regulatory Ratios		
Share capital	$ 396,931	$ 389,986
Contributed surplus	510	510
Retained earnings	109,833	98,990
Accumulated other comprehensive income	(15)	(176)
Deduction from equity investment in MCAP [1]	(58,441)	(57,201)
Eligible Stage 1 and Stage 2 mortgage allowances [3]	—	357
Common Equity Tier 1 and Tier 1 Capital (A)	448,818	432,466
Tier 2 Capital	5,127	5,192
Total Capital (D)	$ 453,945	$ 437,658
Total Exposure/Regulatory Assets		
Consolidated assets	$ 4,151,937	$ 4,078,676
Less: deduction for equity investment in MCAP [1]	(58,441)	(57,201)
Other adjustments [2]	4,868	2,994
Total On-Balance Sheet Exposures	4,098,364	4,024,469
Mortgages and non-marketable securities funding commitments (50%)	394,878	352,069
Letters of credit (50%)	22,365	23,994
Total Off-Balance Sheet Items	417,243	376,063
Total Exposure/Regulatory Assets (B)	$ 4,515,607	$ 4,400,532
Leverage ratio (A / B)	9.94 %	9.83 %
Risk-weighted assets (C)	$ 2,291,149	$ 2,206,580
Regulatory Capital Ratios		
Common Equity Tier 1 capital to risk-weighted assets ratio **(A / C)**	19.59 %	19.60 %
Tier 1 capital to risk-weighted assets ratio **(A / C)**	19.59 %	19.60 %
Total capital to risk-weighted assets ratio **(D / C)**	19.81 %	19.83 %

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

Table 25: Regulatory Risk-Weighted Assets [1]

(in thousands except %)	March 31, 2023			December 31, 2022		
	Amounts	Average Rate	Risk-Weighted Assets	Amounts	Average Rate	Risk-Weighted Assets
On-Balance Sheet Assets						
Cash and cash equivalents	$ 66,621	21 %	$ 14,298	$ 78,210	21 %	$ 16,241
Cash held in trust	32,978	20 %	6,596	34,531	20 %	6,906
Marketable securities	54,741	100 %	54,741	53,743	100 %	53,743
Mortgages - corporate	2,036,744	65 %	1,326,883	1,939,494	66 %	1,279,396
Mortgages - securitized	1,724,278	5 %	94,315	1,751,303	6 %	96,599
Non-marketable securities	101,782	172 %	174,561	97,228	179 %	174,338
Equity investment in MCAP Commercial LP	109,167	46 %	50,726	106,168	46 %	48,967
Deferred tax asset	912	100 %	912	1,095	100 %	1,095
Other assets	24,483	100 %	24,483	16,904	100 %	16,904
Derivative Financial Instruments	231	— %	—	—	— %	—
	4,151,937		1,747,515	4,078,676		1,694,189
Off-Balance Sheet Items						
Letters of credit	44,731	50 %	22,366	47,988	50 %	23,994
Commitments	789,757	44 %	351,383	704,139	47 %	330,109
Derivative Financial Instruments	49,631	1 %	322	—	— %	—
			374,071			354,103
Charge for operational risk [2]			169,563			158,288
Risk-Weighted Assets			**$ 2,291,149**			**$ 2,206,580**

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

Other Capital Management Activity

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

RISK MANAGEMENT

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

Major Risk Types

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

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

Liquidity and Funding Risk

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

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

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

Stress testing is performed using multiple scenarios incorporating simultaneous impacts to the Company's funding sources and uses. MCAN's stress testing is designed to assess the viability of liquidity and funding channels, as well as contingency funding to remain within Board-approved liquidity risk limits. At March 31, 2023, the Company held sufficient funding and liquidity to meet all requirements under the stress test scenarios.

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

Asset-Liability Committee ("ALCO"), which is comprised of management, is accountable for liquidity management oversight. On a monthly basis, or more frequently as required, ALCO reviews the Company's funding and liquidity risk profile, including funding strategies, performance against established liquidity risk limits, stress testing and contingency funding plan status. Results of the monitoring of liquidity risk are reported to the Board and any exceptions or breach of key limits are immediately reported by ALCO to the Enterprise Risk Management and Compliance Committee ("ERM&CC"). At March 31, 2023, the Company was in full compliance with the LRMF, key liquidity risk limits and regulatory requirements.

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

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

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

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

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

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

Table 26: Liquidity Analysis

At March 31, 2023 (in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Sources of liquidity						
Cash and cash equivalents	$ 66,621	$ —	$ —	$ —	$ —	$ 66,621
Marketable securities	54,741	—	—	—	—	54,741
Mortgages - corporate	345,071	1,038,456	521,653	120,129	11,435	2,036,744
Non-marketable securities	—	—	—	—	101,782	101,782
Derivative Financial Instruments	231	—	—	—	—	231
Other loans	2,406	—	—	—	—	2,406
	469,070	1,038,456	521,653	120,129	113,217	2,262,525
Uses of liquidity						
Term deposits	289,091	741,634	671,655	195,154	—	1,897,534
Loans payable	31,816	—	—	—	—	31,816
Other liabilities	3,560	620	1,859	1,538	—	7,577
	324,467	742,254	673,514	196,692	—	1,936,927
Net liquidity surplus (deficit)	**$ 144,603**	**$ 296,202**	**$ (151,861)**	**$ (76,563)**	**$ 113,217**	**$ 325,598**

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 March 31, 2023, there have been no indications at the portfolio level of potential loss of principal in excess of the allowances for credit losses recorded for mortgages in stage 1 and 2. These collective allowances are based on forward-looking economic assumptions and other factors discussed in Note 5 to the interim consolidated financial statements.

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

Interest Rate Risk

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

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

An immediate and sustained parallel 1% increase to market interest rates on interest-bearing financial instruments at March 31, 2023 would have an estimated positive effect of $7.3 million (December 31, 2022 - positive effect of $8.3 million) to net income over the following twelve month period. An immediate and sustained parallel 1% decrease to market interest rates at March 31, 2023 would have an estimated adverse effect of $7.1 million (December 31, 2022 - adverse effect of $8.3 million) to net income over the following twelve month period.

The following tables present the assets and liabilities of the Company by interest rate sensitivity at March 31, 2023 and December 31, 2022 and do not incorporate mortgage and loan prepayments. This analysis is subject to significant change in subsequent periods based on changes in customer preferences and in the application of asset/liability management policies. Floating rate assets and liabilities are immediately sensitive to changing interest rates while other assets are sensitive to changing interest rates periodically, either as they mature or as contractual repricing events occur. Non-interest sensitive items include marketable securities, equity investment in MCAP and other assets and liabilities. Yield spread represents the difference between the weighted average interest rate of the assets and liabilities in a certain category.

Table 27: Interest Rate Sensitivity at March 31, 2023

At March 31, 2023								
(in thousands except %)	Floating Rate	Within 3 Months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Non Interest Sensitive	Total
Assets								
Corporate	$1,059,288	$189,684	$497,765	$233,708	$112,067	$ 11,084	$ 281,756	$ 2,385,352
Securitization	140,500	8,968	60,058	880,519	634,233	—	42,307	1,766,585
	1,199,788	198,652	557,823	1,114,227	746,300	11,084	324,063	4,151,937
Liabilities								
Corporate	31,816	289,091	741,634	671,655	195,154	—	7,577	1,936,927
Securitization	138,509	2,717	55,364	840,465	670,696	—	—	1,707,751
	170,325	291,808	796,998	1,512,120	865,850	—	7,577	3,644,678
Shareholders' Equity	—	—	—	—	—	—	507,259	507,259
GAP	**$1,029,463**	**$(93,156)**	**$(239,175)**	**$(397,893)**	**$(119,550)**	**$ 11,084**	**$ (190,773)**	**$ —**
YIELD SPREAD	**4.57 %**	**0.96 %**	**1.87 %**	**0.65 %**	**0.03 %**	**4.57 %**		

Table 28: Interest Rate Sensitivity at December 31, 2022

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

Market Risk

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

DESCRIPTION OF CAPITAL STRUCTURE

Our authorized share capital consists of an unlimited number of common shares with no par value. At March 31, 2023, there were 34,788,442 common shares outstanding (December 31, 2022 - 34,305,704). At May 8, 2023, there were 34,804,642 common shares outstanding.

We issued $6.9 million in new common shares in Q1 2023 (Q1 2022 - $3.4 million) under the DRIP, which has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN.

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. During Q1 2023, we sold 8,300 common shares at a weighted average price of $15.03 for gross proceeds of $125,000 and net proceeds of $83,000 including $2,500 of commission paid to our agent and $39,000 of other share issuance costs under the ATM Program.

For additional information related to share capital, refer to Note 13 to the interim consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

Table 29: Contractual Commitments

At March 31, 2023 (in thousands)	Within 3 months	> 3 Months to 1 Year	> 1 to 3 Years	> 3 to 5 Years	> 5 Years	Total
Mortgage funding commitments	$ 397,163	$ 229,808	$ 58,346	$ —	$ —	$ 685,317
Commitment - TAS	500	387	—	—	—	887
Commitment - TAS Co	175	325	750	—	—	1,250
Commitment - TAS 4	—	8,177	5,497	3,926	—	17,600
Commitment - Harbour	—	4,175	2,500	1,000	—	7,675
Commitment - KSSMF	3,375	—	—	—	—	3,375
Commitment - Pearl	—	1,255	—	—	—	1,255
Commitment - Crown	—	3,300	7,747	—	—	11,047
Commitment - Fiera	—	4,354	4,203	—	1,500	10,057
Commitment - Broccolini	1,000	5,000	8,600	2,000	1,000	17,600
Commitment - KSHYF	1,000	3,000	850	—	28,844	33,694
	$ 403,213	**$ 259,781**	**$ 88,493**	**$ 6,926**	**$ 31,344**	**$ 789,757**

We retain mortgage servicing obligations relating to securitized insured multi family mortgages where balance sheet derecognition has been achieved. At March 31, 2023, these derecognized securitized insured multi family mortgages totalled $70 million. For further information on our securitization activities, refer to Note 9 to the interim consolidated financial statements.

We provide letters of credit, which are not reflected on the interim consolidated balance sheet, for the purpose of supporting developer obligations to municipalities in conjunction with residential construction loans. If the developer defaults in its obligation to the municipalities, the municipalities may draw on the letters of credit, in which case we are obligated to fund the letters of credit. For further information, refer to Note 19 to the interim consolidated financial statements.

DIVIDENDS

On May 8, 2023, the Board declared a regular quarterly cash dividend of $0.36 per share to be paid on June 30, 2023 to shareholders of record as at June 15, 2023.

In order to take advantage of the tax benefits provided by the MIC status, we pay out all of MCAN's non-consolidated taxable income to shareholders through dividends. As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are taxed as interest income to shareholders. We are able to pay capital gains dividends, which would be taxed as capital gains to shareholders. Dividends paid to foreign investors may be subject to withholding taxes. The Company has historically paid out regular dividends in cash but has the option to pay out its dividends in the form of cash or shares. In the event of a significant increase in taxable income relative to accounting income, the Company may look to pay out a combination of regular dividends in the form of cash and special dividends in the form of shares. This is consistent with our dividend policy and our obligations as a MIC, while at the same time providing a cost effective source of capital for the Company to support future growth and business operations. At this time, we expect our regular cash dividends for 2023 will be approximately equal to our taxable income, and therefore we do not expect to distribute a special stock dividend in 2024 relating to 2023 taxable income.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions for the quarters ended March 31, 2023 and March 31, 2022 and related party balances at March 31, 2023 and December 31, 2022 are discussed in Notes 8 and 18 to the interim consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

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

Information on the financial statement classification and amounts of income, expenses, gains and losses associated with financial instruments are located in the "Results of Operations" and "Financial Position" sections of this MD&A. Information on

the determination of the fair value of financial instruments is located in the "Critical Accounting Estimates and Judgments" section of this MD&A.

PEOPLE

At March 31, 2023, we had 130 team members (December 31, 2022 - 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 2022 Annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At March 31, 2023, the CEO and CFO of MCAN, with the assistance of the Company's Disclosure Committee comprised of members of management, have designed disclosure controls and procedures to provide reasonable assurance that (i) material information relating to MCAN is made known to the CEO and CFO and (ii) information required to be disclosed by us in reports we file or submit is recorded, processed, summarized and reported within the time periods specified in securities legislation, and have designed Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There were no changes in our ICFR during the interim period ended March 31, 2023 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. Calculations can also be found in Tables 1, 2, and 4 of this MD&A.

Table 30: Net Corporate Mortgage Spread Income

(in thousands) **For the Periods Ended March 31**	**2023**	**2022**	**Change ($)**
Mortgage interest - corporate assets	$ 35,756	$ 20,508	
Term deposit interest and expenses	14,741	8,518	
Net Corporate Mortgage Spread Income	**$ 21,015**	**$ 11,990**	**$ 9,025**

Securitized Mortgage Spread Income
Non-GAAP financial measure that is an indicator of net interest profitability of income-earning securitized assets less cost of securitized liabilities for our securitized mortgage portfolio. It is calculated as the difference between securitized mortgage interest and interest on financial liabilities from securitization as reported on the interim consolidated statements of income. Calculations can also be found in Table 6 of this MD&A.

Table 31: Net Securitized Mortgage Spread Income

(in thousands) **For the Periods Ended March 31**	**2023**	**2022**	**Change ($)**
Mortgage interest - securitized assets	$ 9,068	$ 7,257	
Interest on financial liabilities from securitization	7,501	5,249	
Net Securitized Mortgage Spread Income	**$ 1,567**	**$ 2,008**	**$ (441)**

Supplementary Financial Measures

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

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

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

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

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

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

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

GLOSSARY

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

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

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