



MCAN MORTGAGE CORPORATION ANNOUNCES Q1 2020 RESULTS

Toronto, Ontario - May 12, 2020. MCAN Mortgage Corporation ("MCAN", the "Company" or "we") (TSX: "MKP") reported a net loss of \$9.7 million (\$0.40 loss per share) for the first quarter ended March 31, 2020, a decrease of 168% from net income of \$14.3 million (\$0.60 earnings per share) in the first quarter of 2019. In the first quarter of 2020, we recorded a \$15.7 million net loss on securities compared to an \$8.0 million net gain on securities in the first quarter of 2019, due primarily to fair value changes in our real estate investment trust ("REIT") portfolio. The net loss on securities in Q1 2020 negatively impacted earnings per share by \$0.65, while the net gain on securities in Q1 2019 positively impacted earnings per share by \$0.34. The Board of Directors (the "Board") declared a second quarter dividend of \$0.34 per share on May 12, 2020 to be paid June 30, 2020 to shareholders of record as of June 15, 2020.

Highlights

Business and Financial Update

- Corporate assets totalled \$1.43 billion at March 31, 2020, an increase of \$64 million (5%) from December 31, 2019.
- Corporate mortgage portfolio totalled \$1.19 billion at March 31, 2020, an increase of \$99 million (9%) from December 31, 2019.
- Uninsured single family portfolio totalled \$396 million at March 31, 2020, an increase of \$13 million (3%) from December 31, 2019.
- Uninsured single family originations were \$52 million in Q1 2020, a decrease of \$5 million (9%) from Q4 2019 and a decrease of \$11 million (18%) from Q1 2019.
- Insured single family originations were \$100 million in Q1 2020, an increase of \$40 million (67%) from Q4 2019 and an increase of \$61 million (160%) from Q1 2019.
- Securitization volumes totalled \$95 million in Q1 2020, a decrease of \$9 million (8%) from \$104 million in Q4 2019 and an increase of \$67 million (235%) from \$28 million in Q1 2019. Securitization volumes in Q1 2020 consisted of \$80 million of insured single family mortgages (Q4 2019 - \$104 million; Q1 2019 - \$28 million) and \$15 million of insured multi family mortgages (Q4 2019 - \$nil; Q1 2019 - \$nil). Securitization maturities continue to exceed new securitization volumes in Q1 2020, resulting in a 4% decrease from Q4 2019.
- Construction and commercial portfolios totalled \$590 million at March 31, 2020, an increase of \$39 million (7%) from December 31, 2019.
- Net corporate mortgage spread income¹ increased by \$0.8 million from Q1 2019. The net corporate mortgage spread income¹ increased due to a higher average corporate mortgage portfolio balance¹ of \$1.14 billion in Q1 2020 compared to \$971 million in Q1 2019. This increase was partially offset by a reduction in the spread of corporate mortgages over term deposit interest¹ to 2.62% in Q1 2020 from 2.73% in Q1 2019. The decrease in the spread of corporate mortgages over term deposit interest¹ is due to a portfolio mix with a greater proportion of single family to construction and commercial loans, continued market competition, and increases to term deposit funding and related costs.
- The provision for credit losses on our corporate mortgage portfolio increased by \$1.8 million from Q1 2019. The increase in the provision for credit losses on our corporate mortgage portfolio reflects projected macroeconomic scenarios and economic inputs along with qualitative adjustments. Key judgments include the speed and shape of economic recovery and the impact of government stimulus. These judgments have been made with reference to the facts, projections and other circumstances as of March 31, 2020, based on information available as of that date. IFRS 9 does not permit the use of hindsight in measuring provisions for credit losses. Since March 31, 2020, forecasts around the impact of COVID-19 on the economy and the timing of recovery have continued to evolve. Any changes in forward-looking information subsequent to March 31, 2020, 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.
- Effective January 1, 2020, the Company sold its investment in the Crown Realty II Limited Partnership core fund units for \$33 million, representing the fair value as at December 31, 2019.
- Equity income from MCAP Commercial LP ("MCAP") totalled \$3.4 million in Q1 2020, an increase of \$0.8 million (34%) from \$2.6 million in Q1 2019, which was due to higher net interest income on securitized mortgages, mortgage origination fees and net investment revenue less interest expense, partially offset by higher financial instrument losses in MCAP.
- Since the third quarter of 2019, proceeds of disposition in our REIT portfolio totalled \$16 million and effective January 1, 2020, we sold our position in the Crown Realty II Limited Partnership core fund, realizing a further \$33 million in sale proceeds, resulting in total real estate equity sales of \$49 million. These dispositions helped set up the Company for future investment opportunities, providing us with both liquidity and capital.
- Return on average shareholders' equity¹ of (11.84)% for 2020 year to date, a decrease of 30.20% from 18.36% in 2019.

CEO Commentary

"In the first quarter, MCAN's business continued the strong momentum we achieved in 2019, successfully growing our assets while enhancing our risk profile and capital positions. During the quarter, we also continued to recycle capital with the disposition of our investment in the core units of the Crown Realty II Limited Partnership LP," said Karen Weaver, President and Chief Executive Officer. "Since the impact of the COVID-19 pandemic began to be felt in mid-March, the Company has and is continuing to manage its business and invest in line with our long term strategy. We are also pursuing opportunities to invest in marketable and non marketable securities which may arise during the year as a result of market volatility and broader impacts to the economy as a result of COVID-19. We entered the COVID-19 crisis with a strong capital position and will remain vigilant in the execution of all business matters with heightened focus, given the nature and extent of the crisis and its impact on the economy and the Canadian consumer. We are grateful for the health of our workforce and their families and appreciate the continuing support of the Board as we continue to guide MCAN's business through the COVID-19 pandemic."

Credit Quality

- The impaired corporate mortgage ratio¹ was 0.39% at March 31, 2020 compared to 0.32% at December 31, 2019.
- The impaired total mortgage ratio¹ was 0.28% at March 31, 2020 compared to 0.23% at December 31, 2019.
- Total mortgage arrears¹ were \$36 million at March 31, 2020 compared to \$16 million at December 31, 2019.
- Net write-offs were \$69,000 (2.4 basis points) of the average corporate portfolio in Q1 2020 compared to \$23,000 (0.9 basis points) in Q1 2019. All write-offs relate to the uninsured single family mortgage portfolio.
- Average loan to value ratio of our uninsured single family portfolio based on an industry index of current real estate values was 61.5% at March 31, 2020 compared to 64.0% at December 31, 2019.

Capital

- We manage our capital and asset balances based on the regulations and limits of both the *Income Tax Act* (Canada) (the "Tax Act") and the Office of the Superintendent of Financial Institutions ("OSFI").
- Common Equity Tier 1 ("CET 1") and Tier 1 Capital to risk-weighted assets ratios^{1,2} were 21.80% at March 31, 2020 compared to 22.52% at December 31, 2019. Total Capital to risk-weighted assets ratio^{1,2} was 22.17% at March 31, 2020 compared to 22.52% at December 31, 2019.
- The leverage ratio¹ was 11.70% at March 31, 2020 compared to 12.58% at December 31, 2019.
- The income tax assets to capital ratio¹ was 5.03 at March 31, 2020 compared to 4.93 at December 31, 2019.
- We issued 204,894 new common shares through the Dividend Reinvestment Program ("DRIP") in Q1 2020 compared to 241,920 new common shares in Q1 2019. The DRIP participation rate was 17% for the 2020 first quarter dividend (2019 first quarter - 26%).

¹ Considered to be a "Non-IFRS Measure". For further details, refer to the "Non-IFRS Measures" section of this news release.

² Effective March 31, 2020, the total capital ratio includes Tier 2 capital comprising Stage 1 and Stage 2 allowances on our mortgage portfolio. Further, in accordance with OSFI's transitional arrangements for capital treatment of expected loss provision, a portion of Stage 1 and Stage 2 allowances that would otherwise be included in Tier 2 capital are included in CET 1 capital. The adjustment to CET 1 capital will be measured each quarter as the increase in Stage 1 and Stage 2 allowances relative to December 31, 2019. The increase is subject to a scaling factor that will decrease over time and is currently set at 70% in fiscal 2020, 50% in fiscal 2021 and 25% in fiscal 2022. Prior period ratios have not been restated.

Outlook

Market Outlook

The Canadian economy, market and the world as we knew it in early March took a dramatic turn due to the COVID-19 pandemic. The impact on the Canadian economy has been further magnified by the recent collapse in oil prices. Leading up to this, the Canadian markets where we do business were strong, with an affordable housing shortage, strong employment and were experiencing a positive impact from growing immigration.

We do not know how COVID-19 will evolve and whether the gradual reopening of the economy will cause further waves of infections and subsequently, further retraction. A return to full operations across all economic sectors is not anticipated until there is a vaccine that is effective and widely disseminated globally. As a result, the return to normalization of economic activity is expected to be protracted over an extended period of time and will encompass continuing restrictions on the conduct of business and normal day to day life of Canadians.

Business Outlook

We conduct our business activities in the context of the market, economic outlook, demand for housing, asset quality and financial health of the Canadian economy. Since mid-March, the Company has been focused on managing all of its business activities in the context of the COVID-19 pandemic and the new economic, business and daily living environment in Canada. We efficiently mobilized to remote operations within one week and have since then been executing our business effectively.

While we have observed reduced sales activity in the housing market, which may impact mortgage origination volumes, it remains early in the pandemic and assessment of the impact will depend on many factors including the effectiveness of government and regulatory action. We believe that our strategy will continue to serve us well in the crisis. We are a prudent and disciplined lender and investor and have strong relationships with our brokers, borrowers, servicers and strategic partners. We continue to see deal flow in all our product lines, as well as loan repayments from completed construction projects. Our business activities will continue, with enhanced focus on all key lending metrics given the heightened uncertainty.

Single Family

The Canadian housing markets, particularly in Vancouver, Toronto and Ottawa, were very active leading up to the implementation of emergency government containment measures across Canada in mid-March. While social distancing protocols changed and slowed the real estate sale process immediately, these activities did not stop. Certainly, many buyers and sellers are sidelined due to employment and other uncertainties, but for many, these activities continue. We expect new mortgage volumes relating to purchases to decline across our targeted markets. However, given that the duration of uninsured single family mortgages is short, activity relating to refinances and renewals is expected to become the key driver of business activity.

In these unprecedented times, we are committed to working with our borrowers on a case-by-case basis to provide effective alternatives that help them manage the challenges they are facing due to COVID-19. This support includes payment deferrals of up to six months on existing mortgages for those who are eligible. We continue to be prudent in our approach to income confirmation and assessing creditworthiness over the long term. We are focused on keeping abreast of all changes in the market that could negatively impact our business or that could create opportunities in line with our risk appetite.

Construction and Commercial Business

While we expect some construction site delays and a slowdown in sales activity for a period of time, our construction project finance loans are progressing forward without major delays or credit issues in the markets where we do business. We have seen some slowdowns in interior unit finishing due to social distancing protocols and workplace safety rules. Furthermore, certain municipal staff inspections have been delayed. These delays may impact the timing of repayments; however, they have not changed the overall expected outcome of the project success or loan performance at this time.

We entered this pandemic with strong underlying demand for new residential units in Toronto and Vancouver. We expect to see some change in demand in 2020 that may continue forward and we will pivot our business accordingly. We will continue to apply our prudent approach to underwriting criteria in line with our risk appetite with a focus on well-located and affordable residential product with experienced borrowers where we have existing relationships.

The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on the scope and duration of the crisis and the overall effectiveness of actions that are taken by various governmental agencies. Together, they will impact the speed at which the economy rebounds and the timeline to recovery. Currently, all impacts are uncertain and are systemic to the country. MCAN's management and Board are committed to proactively and effectively managing the Company's strategy, business activities and team through the pandemic into the future. We remain optimistic and support the actions taken by the government and regulators as we believe that to date, they are positive for the economy, consumers and our business.

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

Dividend Reinvestment Plan

The DRIP is a program that has historically provided MCAN with a reliable source of new capital and existing shareholders an opportunity to acquire additional shares at a discount to market value. Under the DRIP, dividends paid to shareholders are automatically reinvested in common shares issued out of treasury at the weighted average trading price for the five days preceding such issue less a discount of 2% until further notice from MCAN. For further information on how to enroll in the DRIP, please refer to the Management Information Circular dated March 13, 2020 or visit our website at www.mcanmortgage.com/investors/regulatory-filings/.

Non-IFRS Measures

The following metrics are considered to be Non-IFRS measures and are defined in the “Non-IFRS Measures” section of the 2020 first quarter MD&A: Return on Average Shareholders’ Equity, Net Corporate Mortgage Spread Income, Spread of Corporate Mortgages over Term Deposit Interest, Average Corporate Mortgage Portfolio Balance, Impaired Mortgage Ratios, Mortgage Arrears, Common Equity Tier 1, Tier 1, Tier 2 and Total Capital Ratios, Leverage Ratio and Income Tax Assets to Capital Ratio.

Further Information

Complete copies of the Company’s Q1 2020 Quarterly Report will be filed on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com and on the Company’s website at www.mcanmortgage.com.

MCAN is a public company listed on the Toronto Stock Exchange under the symbol MKP and is a reporting issuer in all provinces and territories in Canada. MCAN also qualifies as a mortgage investment corporation (“MIC”) under the Tax Act.

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

As a MIC, we are entitled to deduct the dividends that we pay to shareholders from our taxable income. Regular dividends are treated as interest income to shareholders for income tax purposes. We are also able to pay capital gains dividends, which would be treated as capital gains to shareholders for income tax purposes. Dividends paid to foreign investors may be subject to withholding taxes. To meet the MIC criteria, 67% of our non-consolidated assets measured on a tax basis are required to be held in cash or cash equivalents and residential mortgages.

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

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A CAUTION ABOUT FORWARD-LOOKING INFORMATION AND STATEMENTS

This news release contains forward-looking information within the meaning of applicable Canadian securities laws. All information contained in this news release, other than statements of current and historical fact, is forward-looking information. All of the forward-looking information in this news release 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 news release includes, among others, statements and assumptions with respect to:

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

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

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

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

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:

- global market activity and trade policies;
- levels of foreign investment in Canada and its real estate market;
- worldwide demand for and related impact on oil and other commodity prices;
- changes in climate and environmental policies;

- changes in government and economic policy;
- changes in general economic, real estate and other conditions;
- the effects of global health pandemics on the Canadian economy and globally and the Company's business, including the impact of COVID-19
- changes in interest rates;
- changes in Canada Mortgage Bonds ("CMB") and mortgage-backed securities ("MBS") spreads and swap rates;
- MBS and mortgage prepayment rates;
- mortgage rate and availability changes;
- adverse legislation or regulation, including recent changes implemented by OSFI and the potential for higher capital and liquidity requirements for real estate lending;
- availability of CMB and MBS issuer allocation;
- digital and technology evolution and disruptions;
- confidence levels of consumers;
- our ability to raise capital and term deposits on favourable terms;
- our debt and leverage;
- competitive conditions in the homebuilding industry, including product and pricing pressures;
- our ability to retain our executive officers and other employees;
- the success of the business underlying our investments in MCAP, marketable securities and non-marketable securities;
- our exposure to litigation;
- our ability to respond to and reposition ourselves within a changing market;
- our relationships with third-party mortgage originators and servicers;
- changes in operations within our equity investments; and
- additional risks and uncertainties, many of which are beyond our control, referred to in this news release 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 news release 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.