



## **CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS UNAUDITED**

**JUNE 30, 2019**

| <b>TABLE OF CONTENTS</b>                                                       | <b>PAGE</b> |
|--------------------------------------------------------------------------------|-------------|
| <b>Condensed Consolidated Interim Financial Statements</b>                     |             |
| Condensed Consolidated Interim Statements of Financial Position                | <b>2</b>    |
| Condensed Consolidated Interim Statements of Operations                        | <b>3</b>    |
| Condensed Consolidated Interim Statements of Comprehensive Income              | <b>4</b>    |
| Condensed Consolidated Interim Statements of Changes in Equity                 | <b>5</b>    |
| Condensed Consolidated Interim Statements of Cash Flows                        | <b>6</b>    |
| <b>Notes to the Condensed Consolidated Interim Financial Statements</b>        |             |
| Note 1 – Corporate information                                                 | <b>7</b>    |
| Note 2 – Basis of preparation and significant accounting policies              | <b>8</b>    |
| Note 3 – Cash and cash equivalents, restricted cash, and marketable securities | <b>12</b>   |
| Note 4 – Prime single-family mortgage sale activity                            | <b>12</b>   |
| Note 5 – Mortgages under administration                                        | <b>14</b>   |
| Note 6 – Non-securitized mortgages and loans                                   | <b>14</b>   |
| Note 7 – Provisions and allowances for credit losses                           | <b>17</b>   |
| Note 8 – Securitization activity                                               | <b>19</b>   |
| Note 9 – Deposits                                                              | <b>23</b>   |
| Note 10 – Other interest income, fee income, and other income                  | <b>24</b>   |
| Note 11 – Corporate reorganization and restructuring charges                   | <b>24</b>   |
| Note 12 – Other assets                                                         | <b>25</b>   |
| Note 13 – Accounts payable and accrued liabilities                             | <b>26</b>   |
| Note 14 – Loans payable                                                        | <b>26</b>   |
| Note 15 – Commitments and contingencies                                        | <b>27</b>   |
| Note 16 – Financial instruments                                                | <b>27</b>   |
| Note 17 – Financial risk management                                            | <b>30</b>   |
| Note 18 – Share capital and share-based compensation                           | <b>30</b>   |
| Note 19 – Related party transactions                                           | <b>32</b>   |
| Note 20 – Capital management                                                   | <b>33</b>   |
| Note 21 – Net earnings per share                                               | <b>34</b>   |
| Note 22 – Interest rate sensitivity                                            | <b>35</b>   |
| Note 23 – Discontinued operations and non-controlling interest                 | <b>36</b>   |
| Note 24 – Subsequent events                                                    | <b>36</b>   |

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**AS AT JUNE 30, 2019, MARCH 31, 2019 AND DECEMBER 31, 2018**  
(In thousands of Canadian dollars) Unaudited

|                                          | Notes | June 30,<br>2019<br>\$ | March 31,<br>2019<br>\$ | December 31,<br>2018<br>\$ |
|------------------------------------------|-------|------------------------|-------------------------|----------------------------|
| <b>Assets</b>                            |       |                        |                         |                            |
| Cash and cash equivalents                | 3     | 26,429                 | 33,277                  | 65,018                     |
| Restricted cash                          | 3     | 4,071                  | 18,112                  | 9,656                      |
| Marketable securities                    | 3     | 23,266                 | 23,112                  | 22,692                     |
| Non-securitized mortgages and loans      | 6     | 654,232                | 675,636                 | 564,778                    |
| Securitized mortgage loans               | 8     | 100,228                | 104,799                 | 123,362                    |
| Deferred placement fees receivable       | 4     | 46,490                 | 46,985                  | 48,670                     |
| Prepaid portfolio insurance              | 4     | 70,041                 | 72,533                  | 75,285                     |
| Other assets                             | 12    | 62,563                 | 42,570                  | 34,704                     |
| <b>Total assets</b>                      |       | <b>987,320</b>         | <b>1,017,024</b>        | <b>944,165</b>             |
| <b>Liabilities</b>                       |       |                        |                         |                            |
| Deposits                                 | 9     | 694,193                | 720,757                 | 638,710                    |
| Loans payable                            | 14    | 4,141                  | 4,207                   | 4,274                      |
| Securitization liabilities               | 8     | 101,100                | 107,180                 | 125,472                    |
| Accounts payable and accrued liabilities | 13    | 53,422                 | 55,064                  | 44,334                     |
| Deferred income tax liabilities          |       | 43,721                 | 43,166                  | 43,507                     |
| <b>Total liabilities</b>                 |       | <b>896,577</b>         | <b>930,374</b>          | <b>856,297</b>             |
| <b>Shareholders' equity</b>              |       |                        |                         |                            |
| Share capital                            | 18    | 243,417                | 243,417                 | 243,417                    |
| Contributed surplus                      |       | 63,591                 | 63,412                  | 63,282                     |
| Accumulated other comprehensive income   |       | 702                    | 586                     | 278                        |
| Retained earnings (deficit)              |       | (209,875)              | (213,673)               | (212,017)                  |
| <b>Total shareholders' equity</b>        |       | <b>97,835</b>          | <b>93,742</b>           | <b>94,960</b>              |
| Non-controlling interest                 | 23    | (7,092)                | (7,092)                 | (7,092)                    |
| <b>Total equity</b>                      |       | <b>90,743</b>          | <b>86,650</b>           | <b>87,868</b>              |
| <b>Total liabilities and equity</b>      |       | <b>987,320</b>         | <b>1,017,024</b>        | <b>944,165</b>             |

Commitments and contingencies 15

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**  
(In thousands of Canadian dollars, except per share data) Unaudited

|                                                                                                | Notes | Three months ended June 30, |                | Six months ended June 30, |                |
|------------------------------------------------------------------------------------------------|-------|-----------------------------|----------------|---------------------------|----------------|
|                                                                                                |       | 2019                        | 2018           | 2019                      | 2018           |
|                                                                                                |       | \$                          | \$             | \$                        | \$             |
| <b>Revenue</b>                                                                                 |       |                             |                |                           |                |
| Gain on sale of mortgages                                                                      |       | 31,616                      | 29,728         | 54,099                    | 52,002         |
| Acquisition costs                                                                              |       | (19,013)                    | (15,890)       | (33,366)                  | (28,250)       |
| <b>Net gain on sale of mortgages</b>                                                           | 4     | <b>12,603</b>               | <b>13,838</b>  | <b>20,733</b>             | <b>23,752</b>  |
| Interest income - non-securitized assets                                                       |       | 9,260                       | 4,924          | 17,900                    | 8,516          |
| Interest expense - deposits and other                                                          |       | (5,183)                     | (2,768)        | (10,110)                  | (4,958)        |
| Net interest income - non-securitized assets                                                   |       | 4,077                       | 2,156          | 7,790                     | 3,558          |
| Provision for credit losses                                                                    | 7     | (192)                       | (140)          | (418)                     | (126)          |
| Net interest income - non-securitized                                                          |       | 3,885                       | 2,016          | 7,372                     | 3,432          |
| Interest income - securitized mortgages                                                        |       | 715                         | 1,346          | 1,519                     | 2,728          |
| Interest expense - securitization liabilities                                                  |       | (589)                       | (1,087)        | (1,257)                   | (2,200)        |
| Net interest income - securitized mortgages                                                    |       | 126                         | 259            | 262                       | 528            |
| <b>Total net interest income</b>                                                               |       | <b>4,011</b>                | <b>2,275</b>   | <b>7,634</b>              | <b>3,960</b>   |
| <b>Fee and other income</b>                                                                    | 10    | <b>1,390</b>                | <b>928</b>     | <b>2,973</b>              | <b>922</b>     |
| <b>Total revenue</b>                                                                           |       | <b>18,004</b>               | <b>17,041</b>  | <b>31,340</b>             | <b>28,634</b>  |
| <b>Expenses</b>                                                                                |       |                             |                |                           |                |
| Salaries and benefits                                                                          |       | 8,612                       | 8,157          | 16,669                    | 15,886         |
| Selling, general and administrative expenses                                                   |       | 5,078                       | 5,670          | 10,327                    | 11,298         |
| Restructuring costs                                                                            | 11    | -                           | -              | 2,138                     | -              |
| <b>Total expenses</b>                                                                          |       | <b>13,690</b>               | <b>13,827</b>  | <b>29,134</b>             | <b>27,184</b>  |
| <b>Income before fair value adjustments</b>                                                    |       | <b>4,314</b>                | <b>3,214</b>   | <b>2,206</b>              | <b>1,450</b>   |
| Fair value adjustments                                                                         |       | -                           | 2,479          | -                         | 2,857          |
| <b>Income before income taxes</b>                                                              |       | <b>4,314</b>                | <b>5,693</b>   | <b>2,206</b>              | <b>4,307</b>   |
| Income tax expense                                                                             |       | 516                         | 1,097          | 64                        | 851            |
| <b>Net income before discontinued operations</b>                                               |       | <b>3,798</b>                | <b>4,596</b>   | <b>2,142</b>              | <b>3,456</b>   |
| Income (loss) from discontinued operations                                                     | 23    | -                           | -              | -                         | -              |
| <b>Net income</b>                                                                              |       | <b>3,798</b>                | <b>4,596</b>   | <b>2,142</b>              | <b>3,456</b>   |
| Net income attributable to non-controlling interest                                            | 23    | -                           | 1,290          | -                         | 1,515          |
| <b>Net income attributable to shareholders</b>                                                 |       | <b>3,798</b>                | <b>3,306</b>   | <b>2,142</b>              | <b>1,941</b>   |
| <b>Basic and diluted earnings per share</b>                                                    |       |                             |                |                           |                |
| Continuing operations                                                                          | 21    | 0.03                        | 0.03           | 0.02                      | 0.02           |
| Discontinued operations                                                                        |       | 0.00                        | 0.00           | 0.00                      | 0.00           |
| <b>Basic and diluted earnings per share</b>                                                    |       | <b>0.03</b>                 | <b>0.03</b>    | <b>0.02</b>               | <b>0.02</b>    |
| <b>Weighted average number of common shares outstanding (in thousands) - basic and diluted</b> |       | <b>122,184</b>              | <b>122,184</b> | <b>122,184</b>            | <b>122,184</b> |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**  
(In thousands of Canadian dollars) Unaudited

|                                                                 | Three months ended June 30, |       | Six months ended June 30, |       |
|-----------------------------------------------------------------|-----------------------------|-------|---------------------------|-------|
|                                                                 | 2019                        | 2018  | 2019                      | 2018  |
|                                                                 | \$                          | \$    | \$                        | \$    |
| <b>Net income</b>                                               | <b>3,798</b>                | 4,596 | <b>2,142</b>              | 3,456 |
| <b>Other comprehensive income</b>                               |                             |       |                           |       |
| Net unrealized gains due to changes in fair value of securities | 154                         | -     | 574                       | -     |
| Income tax expense                                              | 38                          | -     | 150                       | -     |
| <b>Net other comprehensive income</b>                           | <b>116</b>                  | -     | <b>424</b>                | -     |
| <b>Comprehensive income</b>                                     | <b>3,914</b>                | 4,596 | <b>2,566</b>              | 3,456 |
| <b>Comprehensive income attributable to:</b>                    |                             |       |                           |       |
| Shareholders                                                    | 3,914                       | 3,306 | 2,566                     | 1,941 |
| Non-controlling interest                                        | -                           | 1,290 | -                         | 1,515 |
| <b>Comprehensive income</b>                                     | <b>3,914</b>                | 4,596 | <b>2,566</b>              | 3,456 |

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018**  
(In thousands of Canadian dollars) Unaudited

|                                                             | Attributable to shareholders of the Company |                     |                                |                                                  |                            |                                       |                |
|-------------------------------------------------------------|---------------------------------------------|---------------------|--------------------------------|--------------------------------------------------|----------------------------|---------------------------------------|----------------|
|                                                             | Share capital<br>(Note 18)                  | Contributed surplus | Retained earnings<br>(deficit) | Accumulated other<br>comprehensive income (loss) | Total shareholders' equity | Non-controlling interest<br>(Note 23) | Total equity   |
|                                                             | \$                                          | \$                  | \$                             | \$                                               | \$                         | \$                                    | \$             |
| <b>Balance - December 31, 2017</b><br><b>- under IAS 39</b> | 243,417                                     | 61,920              | (167,175)                      | -                                                | 138,162                    | (6,050)                               | 132,112        |
| Impact of adopting IFRS 9<br>at January 1, 2018             | -                                           | -                   | (53)                           | -                                                | (53)                       | -                                     | (53)           |
| <b>Balance - January 1, 2018</b><br><b>- under IFRS 9</b>   | 243,417                                     | 61,920              | (167,228)                      | -                                                | 138,109                    | (6,050)                               | 132,059        |
| Comprehensive income                                        | -                                           | -                   | 1,941                          | -                                                | 1,941                      | 1,515                                 | 3,456          |
| Share-based compensation                                    | -                                           | 713                 | -                              | -                                                | 713                        | -                                     | 713            |
| Net reduction in non-controlling<br>interest investment     | -                                           | -                   | -                              | -                                                | -                          | (2,557)                               | (2,557)        |
| <b>Balance - June 30, 2018</b>                              | <b>243,417</b>                              | <b>62,633</b>       | <b>(165,287)</b>               | <b>-</b>                                         | <b>140,763</b>             | <b>(7,092)</b>                        | <b>133,671</b> |
| <b>Balance - December 31, 2018</b>                          | <b>243,417</b>                              | <b>63,282</b>       | <b>(212,017)</b>               | <b>278</b>                                       | <b>94,960</b>              | <b>(7,092)</b>                        | <b>87,868</b>  |
| Net income                                                  | -                                           | -                   | 2,142                          | -                                                | 2,142                      | -                                     | 2,142          |
| Other comprehensive income,<br>net of tax                   | -                                           | -                   | -                              | 424                                              | 424                        | -                                     | 424            |
| Share-based compensation                                    | -                                           | 309                 | -                              | -                                                | 309                        | -                                     | 309            |
| <b>Balance - June 30, 2019</b>                              | <b>243,417</b>                              | <b>63,591</b>       | <b>(209,875)</b>               | <b>702</b>                                       | <b>97,835</b>              | <b>(7,092)</b>                        | <b>90,743</b>  |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018**  
(In thousands of Canadian dollars) Unaudited

|                                                        | Three months ended June 30, |                | Six months ended June 30, |                 |
|--------------------------------------------------------|-----------------------------|----------------|---------------------------|-----------------|
|                                                        | 2019                        | 2018           | 2019                      | 2018            |
|                                                        | \$                          | \$             | \$                        | \$              |
| <b>Operating activities</b>                            |                             |                |                           |                 |
| Income from continuing operations                      | 3,798                       | 4,596          | 2,142                     | 3,456           |
| <i>Non-cash items</i>                                  |                             |                |                           |                 |
| Deferred income taxes                                  | 516                         | 1,095          | 64                        | 851             |
| Foreign exchange on loans payable                      | (66)                        | 65             | (133)                     | 149             |
| Depreciation and amortization                          | 600                         | 604            | 1,264                     | 1,096           |
| Unrealized holding gains - liquid instruments          | 587                         | -              | (14)                      | -               |
| Fair value adjustments                                 | -                           | (1,189)        | -                         | (1,342)         |
| Provision for credit losses                            | 192                         | 140            | 418                       | 126             |
| Share-based compensation                               | 179                         | 401            | 309                       | 713             |
| Other losses                                           | -                           | 22             | 92                        | 386             |
| <i>Changes in assets and liabilities</i>               |                             |                |                           |                 |
| Restricted cash                                        | 14,041                      | (22,383)       | 5,585                     | 599             |
| Non-securitized mortgage loans                         | 20,625                      | (105,007)      | (89,858)                  | (200,896)       |
| Securitized mortgage loans                             | 4,571                       | 11,096         | 23,134                    | 21,026          |
| Deferred placement fees receivable                     | 495                         | 143            | 2,180                     | 1,301           |
| Prepaid portfolio insurance                            | 2,492                       | 1,967          | 5,244                     | 3,321           |
| Other assets                                           | (20,330)                    | (10,106)       | (28,731)                  | (9,183)         |
| Deposits                                               | (26,564)                    | 98,731         | 55,483                    | 188,244         |
| Securitization liabilities                             | (6,080)                     | (10,009)       | (24,372)                  | (20,098)        |
| Restructuring accruals                                 | (548)                       | (3,917)        | (4,759)                   | (4,865)         |
| Other accounts payable and accrued liabilities         | (771)                       | 28,692         | 14,491                    | 2,976           |
| Cash used in continuing operations                     | (6,263)                     | (5,059)        | (37,461)                  | (12,140)        |
| Cash provided by discontinued operations               | -                           | 339            | -                         | 339             |
| Cash used in operating activities                      | (6,263)                     | (4,720)        | (37,461)                  | (11,801)        |
| <b>Investing activities</b>                            |                             |                |                           |                 |
| Purchase of capital assets                             | (132)                       | (1,237)        | (372)                     | (2,517)         |
| Purchase of intangible assets                          | (130)                       | (127)          | (130)                     | (269)           |
| Proceeds from sale of artwork                          | -                           | 22             | 18                        | 22              |
| Cash used in investing activities                      | (262)                       | (1,342)        | (484)                     | (2,764)         |
| <b>Financing activities</b>                            |                             |                |                           |                 |
| Payment of lease liabilities                           | (323)                       | -              | (644)                     | -               |
| Repayments of loans payable                            | -                           | -              | -                         | (28)            |
| Cash used in financing activities                      | (323)                       | -              | (644)                     | (28)            |
| <b>Decrease in cash and cash equivalents</b>           | <b>(6,848)</b>              | <b>(6,062)</b> | <b>(38,589)</b>           | <b>(14,593)</b> |
| <b>Cash and cash equivalents - beginning of period</b> | <b>33,277</b>               | <b>80,883</b>  | <b>65,018</b>             | <b>89,414</b>   |
| <b>Cash and cash equivalents - end of period</b>       | <b>26,429</b>               | <b>74,821</b>  | <b>26,429</b>             | <b>74,821</b>   |
| <b>Supplementary information</b>                       |                             |                |                           |                 |
| <i>Cash paid and received during the period</i>        |                             |                |                           |                 |
| Interest received                                      | 10,093                      | 6,051          | 19,105                    | 10,870          |
| Interest paid                                          | 3,686                       | 1,931          | 6,106                     | 3,788           |
| Income taxes paid (tax refunds received)               | -                           | -              | -                         | -               |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**STREET CAPITAL GROUP INC.**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(In thousands of Canadian dollars, except per share data, or where specified) Unaudited**

**1. Corporate information**

Street Capital Group Inc. ("Street Capital" or "the Company") is a public corporation traded on the Toronto Stock Exchange under the ticker symbol "SCB". The Company was incorporated in the province of Ontario in 1979. The address of its registered office is 1 Yonge Street, Suite 2401, Toronto, Ontario, M5E 1E5.

The Company's principal operations are as a mortgage lending business through its operating subsidiary, Street Capital Bank of Canada ("Street Capital Bank" or "the Bank", formerly "Street Capital Financial Corporation"). It operates as Street Capital Bank of Canada in English and Street Capital Banque du Canada in French. The Bank's head office is located in Toronto. The origination and sale of prime insurable mortgages remains the Bank's primary business, although during 2017 its operations expanded to include deposit taking and on-balance sheet mortgage lending.

The condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on August 1, 2019.

**Acquisition Proposal for Street Capital Group Inc.**

On June 14, 2019, as announced on June 17, 2019, the Company entered into a definitive arrangement agreement with RFA Capital Holdings Inc. ("RFA"), pursuant to which RFA will acquire all of the issued and outstanding common shares of the Company for \$0.68 per share in cash by way of a plan of arrangement (the "Arrangement") under the *Business Corporations Act (Ontario)*. The Arrangement is subject to customary closing conditions, including receipt of Street Capital shareholder approvals, court approval, and regulatory approvals. A special meeting (the "Meeting") of Street Capital shareholders to consider, and if determined advisable, approve the Arrangement, has been scheduled for August 16, 2019. The record date for determining the shareholders entitled to receive notice of, and to vote at, the Meeting was the close of business on July 8, 2019.

The proposed transaction with RFA is the culmination of a thorough review of strategic alternatives available to the Company that was undertaken by the Board of Directors of the Company (the "Board"), commencing in early 2019. As part of the strategic review, the Board, with the assistance of its financial and legal advisors, reviewed a variety of alternatives designed to strengthen the capital position of the Company and position the business for long term, sustainable growth.

These alternatives included the continued pursuit of the Company's current standalone business plan, various capital raising alternatives, and the sale of the Company or certain assets of the Company. At the conclusion of its review, the Board authorized the Company and its financial advisor to commence a confidential, targeted process to solicit proposals with respect to the sale of the Company, the sale of certain assets of the Company, or an investment in treasury capital with a commitment to delivering ongoing financial strength (the "Process").

As part of the Process, the Company received indications of interest from several parties relating to each of the transaction alternatives for which it was soliciting proposals, including a non-binding proposal from RFA regarding an acquisition of all of the issued and outstanding common shares.

Following its review of the proposals received, and after giving consideration to all the strategic alternatives available to the Company at that time, and to meeting the needs of all its stakeholders, the Board determined that a sale of the Company was in the best interests of the Company and ultimately determined to pursue a transaction with RFA.

Please see the *Business Profile* section of the Company's Management's Discussion and Analysis ("MD&A") for the Three and Six Months Ended June 30, 2019, for discussion of the transaction with RFA.

## **2. Basis of preparation and significant accounting policies**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board (the "IASB"), and therefore do not include all information presented in full annual financial statements. These unaudited condensed consolidated interim financial statements should therefore be read in conjunction with the Company's audited consolidated financial statements as at, and for the year ended, December 31, 2018. Except as discussed below, under *Changes in, and adoption of, accounting policies*, the accounting policies that the Company applied in its annual audited consolidated financial statements as at, and for the year ended, December 31, 2018 have not changed. These policies are disclosed in Note 3 of those financial statements, to which reference should be made in reading these unaudited condensed consolidated interim financial statements.

The Company's functional and presentation currency is Canadian dollars.

Certain items in the comparative audited consolidated financial statements and the comparative unaudited condensed consolidated interim financial statements have been reclassified from statements previously presented. This is to ensure conformity with the presentation of the Q2 2019 unaudited condensed consolidated interim financial statements.

### **Principles of consolidation**

The unaudited condensed consolidated interim financial statements include the assets, liabilities and results of operations of the Company and its consolidated subsidiaries, which are entities over which the Company has control. Control exists when the Company has exposure to variable returns from its investment in the investee, along with the power, directly or indirectly, to govern the financial and operating policies of the investee so as to affect its returns. Non-controlling interests in the equity and results of the Company's subsidiaries are shown separately in the unaudited condensed consolidated interim statement of changes in shareholders' equity. Intercompany balances and transactions among the Company and its subsidiaries are eliminated on consolidation.

### **Changes in, and adoption of, accounting policies**

#### **IFRS 16**

Effective January 1, 2019, the Company adopted *IFRS 16 – Leases* ("IFRS 16"), which supersedes *IAS 17 – Leases* ("IAS 17") and its interpretive guidance. Please see the Company's Q1 2019 unaudited condensed consolidated interim financial statements, which are available on the Company's website and on [sedar.com](http://sedar.com), for details of the Company's adoption of IFRS 16.

The Company reports its right of use assets and lease liabilities as components of Other Assets and Accounts Payable and Accrued Liabilities, respectively, in its consolidated statement of financial

position. Lease liabilities include the net present value of fixed payments, discounted using the Company's incremental borrowing rate. Right of use assets are measured at the amount of the initial lease liability and adjusted for prepaid lease payments, initial direct costs and restoration costs, if applicable. Each lease payment is allocated between the liability and the financing cost. The financing cost is charged to profit or loss over the lease period, producing a constant periodic rate of interest on the remaining balance of the liability for each period. This amount is included as interest expense in the Company's Selling, General and Administration expenses in the consolidated statement of operations. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis and is also included in depreciation expense in Selling, General and Administrative expenses.

### **Use of judgment and estimates**

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain. These affect the reported amounts of assets and liabilities, including disclosure of contingent assets and liabilities, at the financial statements date, as well as the reported amounts of revenues and expenses during the reporting period. Key areas of such judgment and estimation include: amount of allowance for credit losses; valuation of mortgages and other loans receivable (including estimates such as duration factors on deferred placement fees receivable); the amount of variable mortgage broker compensation; the amount of trailer commission on certain products that will be paid in future periods; the useful life and residual value of certain assets including prepaid portfolio insurance, retained interest on Canada Mortgage Bond ("CMB") securitizations and intangible assets; valuation of lease liabilities and associated right of use assets; valuation of securities and other investments; and accounting for deferred income taxes.

Management reviews its estimates, assumptions and judgments on an ongoing basis, and at least quarterly. Changes to estimates and assumptions may therefore affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses, and comprehensive income, during the reporting period. Additionally, actual results could differ from those estimates under different assumptions and conditions.

### **Credit losses and non-impaired loans**

#### **(i) Allowances and provisions**

The determination of the Company's expected credit losses ("ECLs") is a complex calculation that depends on several highly related variables, and it is subject to significant management judgment. As such, it is sensitive to changes in the key variables:

- changes in the credit quality of an individual borrower and/or individual mortgage loan;
- changes in the forward-looking macroeconomic variables used in the Company's ECL models, and particularly in the variables that the Company deems to be most correlated with changes in credit quality;
- changes in the design of the models that the Company uses to model ECLs; and
- migrations of mortgage loans between stages.

These variables are discussed in more detail in Note 3 of the Company's 2018 annual audited consolidated financial statements.

## ***(ii) Impairment***

Loans are considered impaired when they are contractually 90 days in arrears, or when the Company is no longer assured of timely collection of the full amount of principal and interest, which requires judgment of indicators of impairment.

## ***Valuation of assets and liabilities***

The measurement of deferred placement fees receivable represents management's best estimate of expected future cash flows. It therefore requires significant judgment with respect to assumptions about the duration of the underlying assets on which the fees are based, particularly assumptions relating to prepayment rates of the underlying mortgages.

The reported value of prepaid portfolio insurance at each reporting date represents management's best estimate of both the duration and the future value of the asset. It therefore requires significant management judgment with respect to assumptions about prepayment and renewal behaviors of the underlying insured mortgages.

The measurement of the retained interest on a multi-unit CMB securitization represents management's best estimate of expected future cash flows. Although the mortgage term is fixed and closed to prepayment, the amount recorded as a receivable requires judgment with respect to assumptions about the discount factors applied to measure the value of the cash flows.

The reported values of intangible assets and capital assets represent management's best estimate of their fair values at acquisition, less accumulated amortization. The amortization period of intangible assets and capital assets corresponds to management's best estimate of their useful lives. Goodwill is determined as part of a business combination and is the residual amount that results from management's best estimate of the fair values of the acquired assets and liabilities.

The reported value of lease liabilities and right of use assets are subject to estimations and judgements including lease terms and discount rates.

The reported values of securities and other investments represent management's best estimate of their fair values at a given reporting date. In the case of publicly traded securities, the fair value is the published market value.

## ***Variable mortgage broker compensation***

The Company has various broker compensation programs in place, some of which are based on a broker's volume of business over the entire fiscal year. At each balance sheet date, management must exercise judgement in determining and recording the amount of compensation that will be payable.

## ***Loyalty program renewal commissions***

The Company has an obligation to pay trailer commissions on certain mortgage renewals, subject to conditions relating to both brokers and customers. At each balance sheet date, management must exercise judgement in estimating the actual liability that will be payable, including consideration of prepayment rates and the discount rate used to determine the present value of the liability.

## ***Variable employee compensation***

The Company's employees, including its officers and senior managers, have a significant portion of their compensation "at risk", since it is linked to both the Company's financial performance and the

achievement of personal objectives. Management must regularly evaluate the factors contributing to variable employee compensation and exercise judgement in its estimation of the amount that will be payable.

### ***Income taxes***

The determination of the Company's deferred income tax assets and liabilities requires significant management judgment, as the recognition is dependent on management's projection of future taxable profits and the tax rates expected to be in effect in the periods in which the assets are realized or the liabilities are settled.

### ***Derecognition***

A significant portion of the Company's operations involves the transfer of mortgage loans to third parties, through either whole loan sales or participation in securitization programs. Management therefore must apply significant judgment with respect to its accounting policies related to derecognition of the transferred mortgage loans. This judgment is particularly required with respect to the evaluation of the extent of the Company's continuing involvement with, and/or exposure to, the risks and rewards of the loans.

In the case of whole loan sales of prime insurable or uninsurable mortgages, management has determined that it has transferred substantially all of the risks and rewards of ownership of the mortgage loans to the purchaser, and it therefore derecognizes the mortgage loans.

In cases where the Company securitizes and sells multi-unit residential securities ("MURS") through the CMB program, the associated mortgages are recognized on the Company's balance sheet only to the extent of the Company's continuing involvement in the mortgages. This is limited to a retained interest associated with the future cash flows, and the obligations and rights associated with servicing the mortgages. Management's judgment is that the risks and rewards of the loans are fully transferred to third parties, because a) the loans are closed to prepayment, and there is no prepayment risk associated with either the retained interest or loan servicing, and b) the Company enters into arrangements with third parties to manage interest rate risk associated with the CMB seller swap. The loans are therefore effectively derecognized when securitized and sold. At times, the Company may securitize MURS that are in excess of the Company's allotment under the CMB program. These surplus mortgages are therefore recognized on the Company's balance sheet as mortgage loans receivable. Because the Company intends to sell these mortgages, and any collection of principal and interest is incidental, they are classified as debt instruments at fair value through profit and loss, and adjusted to fair value at each reporting date.

In cases where the Company securitizes prime single-family residential mortgage loans through the National Housing Act Mortgage Backed Securities ("NHA MBS") program, management's judgment is that the Company retains some risks, particularly prepayment risk, rather than transferring significantly all of the associated risks and rewards of ownership. The loans are therefore not derecognized upon sale of the MBS. However, when the Company engages in transactions involving the sale of the net interest receivable on these MBS ("I/O strip transactions"), the effect of the I/O strip transactions is to transfer the Company's remaining risks and rewards of ownership to the purchaser, in return for a guaranteed cash flow to be received over the remaining mortgage term. The Company is then able to derecognize these mortgages in a similar manner as for its whole loan sales, as described above.

### Future accounting changes

The Company is not aware of any future changes in accounting standards that are expected to have a material impact on its financial position and results of operations.

### 3. Cash and cash equivalents, restricted cash, and marketable securities

The Company had the following cash and cash equivalents, restricted cash, and marketable securities as at June 30, 2019, March 31, 2019 and December 31, 2018:

|                                                       | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 |
|-------------------------------------------------------|------------------|-------------------|----------------------|
| Cash on deposit with regulated financial institutions | \$ 26,429        | \$ 33,277         | \$ 65,018            |
| Cash and cash equivalents                             | \$ 26,429        | \$ 33,277         | \$ 65,018            |
| Restricted cash - servicing                           | \$ 202           | \$ 13,499         | \$ 6,706             |
| Restricted cash - securitization                      | 3,869            | 4,613             | 2,950                |
| Total restricted cash                                 | \$ 4,071         | \$ 18,112         | \$ 9,656             |
| Canada Trust Housing mortgage-backed securities       | \$ 23,266        | \$ 23,112         | \$ 22,692            |
| Marketable securities                                 | \$ 23,266        | \$ 23,112         | \$ 22,692            |

**Restricted cash - servicing** consists of mortgage loan repayments collected on behalf of mortgage servicers.

**Restricted cash - securitization** consists of cash collected that has not yet been allocated to securitization liabilities, and accrued interest from mortgage loan repayments collected in connection with securitization activities.

**Marketable securities** – marketable securities at all dates presented above consisted of publicly traded Canada Housing Trust mortgage-backed securities (“CMBs”), par value \$7.5 million, maturing June 15, 2023, and par value \$15.0 million, maturing December 15, 2023. They are considered part of the Company’s liquid assets. At June 30, 2019 the accumulated OCI relating to the CMBs was an unrealized gain of \$0.70 million, net of tax (March 31, 2019 – unrealized gain of \$0.59 million, net of tax; December 31, 2018 – \$0.28 million, net of tax).

### 4. Prime single-family mortgage sale activity

#### (a) Gain on sale of mortgages

The largest component of the Company’s business is the origination of prime insurable mortgages that are sold to institutional investors, with the sale primarily occurring at the point of commitment. Upon sale, the investors assume the contractual right to receive the associated mortgage cash flows. Since the Company transfers substantially all of the risks and rewards of ownership of these mortgages, they are not included in the consolidated statements of financial position. The Company recognizes income from multiple sources when the mortgage is funded, such as:

- a cash premium;
- a servicing fee that is received over the remaining life of the mortgage;
- in some cases, an excess interest rate spread over the remaining life of the mortgage;
- accrued interest.

The Company also sells uninsured prime and non-prime mortgages under programs similar to the insured loan sales, except that uninsured non-prime mortgages are generally sold on a funded basis.

The table below presents the mortgages sold and the associated gain on sale for the three and six months ended June 30, 2019 and 2018.

|                                               | Three months ended June 30, |              | Six months ended June 30, |              |
|-----------------------------------------------|-----------------------------|--------------|---------------------------|--------------|
|                                               | 2019                        | 2018         | 2019                      | 2018         |
| Prime insured mortgages sold - new            | \$ 1,066,888                | \$ 1,058,427 | \$ 1,880,797              | \$ 1,884,955 |
| Prime insured mortgages sold - renewals       | 624,360                     | 767,830      | 1,098,166                 | 1,287,516    |
| Prime insured mortgages sold - total          | \$ 1,691,248                | \$ 1,826,257 | \$ 2,978,963              | \$ 3,172,471 |
| Prime uninsured mortgages sold                | 169,263                     | 3,465        | 230,883                   | 3,465        |
| Street Solutions mortgages sold               | -                           | -            | -                         | -            |
| Mortgages sold - total                        | \$ 1,860,511                | \$ 1,829,722 | \$ 3,209,846              | \$ 3,175,936 |
| Cash premium at sale - prime insured          | \$ 24,660                   | \$ 24,620    | \$ 42,808                 | \$ 42,847    |
| Deferred gain on sale - prime insured         | 4,565                       | 5,051        | 7,945                     | 9,098        |
| Acquisition costs - prime insured             | (14,052)                    | (13,251)     | (24,423)                  | (22,998)     |
| Net gain on sale - before portfolio insurance | \$ 15,173                   | \$ 16,420    | \$ 26,330                 | \$ 28,947    |
| Portfolio insurance amortization              | (3,273)                     | (2,622)      | (6,609)                   | (5,235)      |
| Net gain on sale - prime insured              | \$ 11,900                   | \$ 13,798    | \$ 19,721                 | \$ 23,712    |
| Cash premium at sale - prime uninsured        | \$ 2,167                    | \$ 47        | \$ 3,025                  | \$ 47        |
| Deferred gain on sale - prime uninsured       | 224                         | 10           | 321                       | 10           |
| Acquisition costs - prime uninsured           | (1,688)                     | (17)         | (2,334)                   | (17)         |
| Net gain on sale - prime uninsured            | \$ 703                      | \$ 40        | \$ 1,012                  | \$ 40        |
| Total net gain on sale of mortgages           | \$ 12,603                   | \$ 13,838    | \$ 20,733                 | \$ 23,752    |
| % Gain                                        | 0.68%                       | 0.76%        | 0.65%                     | 0.75%        |

### **(b) Deferred placement fees receivable**

The difference between the cash collected and the amortization of the deferred placement fees receivable is recognized as a component of Fee and other income in the consolidated statements of operations. The net deferred placement fees receivable at June 30, 2019, March 31, 2019 and December 31, 2018 are shown below.

|                                    | June 30,<br>2019 | March 31,<br>2019 | As at<br>December 31,<br>2018 |
|------------------------------------|------------------|-------------------|-------------------------------|
| Deferred placement fees recognized | \$ 170,911       | \$ 166,197        | \$ 162,641                    |
| Accumulated amortization           | (124,421)        | (119,212)         | (113,971)                     |
| Net book value                     | \$ 46,490        | \$ 46,985         | \$ 48,670                     |

### **(c) Prepaid portfolio insurance**

The Company purchases portfolio mortgage insurance on most of the low ratio insurable mortgages it originates, which is capitalized on purchase and amortized as an expense into income over a maximum period of 15 years, using a declining balance method.

The net unamortized amount of prepaid portfolio insurance at June 30, 2019, March 31, 2019 and December 31, 2018 is shown below, together with continuity schedules for the three months ended June 30, 2019, March 31, 2019 and June 30, 2018.

|                                   | June 30,<br>2019 | March 31,<br>2019 | As at<br>December 31,<br>2018 |
|-----------------------------------|------------------|-------------------|-------------------------------|
| Insurance capitalized at purchase | \$ 121,326       | \$ 120,548        | \$ 119,966                    |
| Accumulated amortization          | (51,285)         | (48,015)          | (44,681)                      |
| Net book value                    | \$ 70,041        | \$ 72,533         | \$ 75,285                     |

|                                | June 30,<br>2019 | Three months ended<br>March 31,<br>2019 | June 30,<br>2018 |
|--------------------------------|------------------|-----------------------------------------|------------------|
| Balance, beginning of period   | \$ 72,533        | \$ 75,285                               | \$ 81,157        |
| Capitalized at purchase        | 778              | 582                                     | 654              |
| Amortization during the period | (3,270)          | (3,334)                                 | (2,621)          |
| Balance, end of period         | \$ 70,041        | \$ 72,533                               | \$ 79,190        |

## 5. Mortgages under administration

Mortgages under administration include all mortgages that are administered by the Company:

- the mortgages purchased by investors;
- the mortgages securitized as NHA MBS or CMB;
- the stamped mortgages that the Company has securitized but not sold; and
- the mortgages that the Company holds on-balance sheet, primarily consisting of uninsured mortgage loans.

At June 30, 2019, total mortgages under administration amounted to \$27.92 billion (March 31, 2019 - \$27.76 billion; December 31, 2018 - \$27.59 billion).

## 6. Non-securitized mortgages and loans

### (a) Mortgages receivable

The composition of the Company's non-securitized mortgages and loans is shown below.

|                                           | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 |
|-------------------------------------------|------------------|-------------------|----------------------|
| Street Solutions mortgage loans           | \$ 613,758       | \$ 622,833        | \$ 527,377           |
| Allowance for expected credit losses      | (1,004)          | (821)             | (595)                |
| Street Solutions mortgage loans, net      | \$ 612,754       | \$ 622,012        | \$ 526,782           |
| Stamped insured mortgages                 | 13,590           | 32,883            | 24,778               |
| Single-family mortgages                   | 19,067           | 16,694            | 12,423               |
| Bridge loans - secured                    | 5,872            | 2,897             | 236                  |
| Bridge loans - unsecured                  | 2,949            | 1,150             | 559                  |
| Total non-securitized mortgages and loans | \$ 654,232       | \$ 675,636        | \$ 564,778           |

Street Solutions mortgage loans are the Company's uninsured mortgage loan program. Stamped mortgages are prime residential insured mortgages, which can be either single-family or multi-unit mortgages that have been securitized but not sold to third parties. Both are readily convertible to cash. Single family insured mortgages securitized but not sold are intended to be held until maturity and are part of the Company's liquidity pool. Generally, multi-unit residential insured mortgages securitized but not sold are held for future sale. They form part of the Company's liquidity pool while held. Please see Note 3 and the *Risk Management and Risk Factors* section of the Company's MD&A for the Three and Six Months Ended June 30, 2019 for detail of the Company's liquid assets.

**(b) Maturity profile**

The principal balances of the non-securitized loans have maturities up to 10 years.

|                             | June 30, 2019 |             |             |              |            |
|-----------------------------|---------------|-------------|-------------|--------------|------------|
|                             | Within 1 year | 1 - 3 years | 3 - 5 years | 5 - 10 years | Total      |
| Street Solutions mortgages  | \$ 587,546    | \$ 26,165   | \$ 637      | \$ -         | \$ 614,348 |
| Stamped insured mortgages   | -             | 4,937       | 7,812       | 798          | 13,547     |
| Single-family mortgages     | 1,831         | 6,507       | 10,738      | -            | 19,076     |
| Bridge loans - secured      | 5,872         | -           | -           | -            | 5,872      |
| Bridge loans - unsecured    | 2,949         | -           | -           | -            | 2,949      |
| Total non-securitized loans | \$ 598,198    | \$ 37,609   | \$ 19,187   | \$ 798       | \$ 655,792 |

|                             | March 31, 2019 |             |             |              |            |
|-----------------------------|----------------|-------------|-------------|--------------|------------|
|                             | Within 1 year  | 1 - 3 years | 3 - 5 years | 5 - 10 years | Total      |
| Street Solutions mortgages  | \$ 599,193     | \$ 24,121   | \$ 436      | \$ -         | \$ 623,750 |
| Stamped insured mortgages   | -              | 5,168       | 7,867       | 18,936       | 31,971     |
| Single-family mortgages     | 1,677          | 5,486       | 9,504       | -            | 16,667     |
| Bridge loans - secured      | 2,897          | -           | -           | -            | 2,897      |
| Bridge loans - unsecured    | 1,150          | -           | -           | -            | 1,150      |
| Total non-securitized loans | \$ 604,917     | \$ 34,775   | \$ 17,807   | \$ 18,936    | \$ 676,435 |

|                             | December 31, 2018 |             |             |              |            |
|-----------------------------|-------------------|-------------|-------------|--------------|------------|
|                             | Within 1 year     | 1 - 3 years | 3 - 5 years | 5 - 10 years | Total      |
| Street Solutions mortgages  | \$ 502,964        | \$ 25,036   | \$ 342      | \$ -         | \$ 528,342 |
| Stamped insured mortgages   | -                 | 3,502       | 10,560      | 10,716       | 24,778     |
| Single-family mortgages     | 1,624             | 4,178       | 6,621       | -            | 12,423     |
| Bridge loans - secured      | 236               | -           | -           | -            | 236        |
| Bridge loans - unsecured    | 559               | -           | -           | -            | 559        |
| Total non-securitized loans | \$ 505,383        | \$ 32,716   | \$ 17,523   | \$ 10,716    | \$ 566,338 |

### (c) Mortgage continuity and credit migration

The following tables show the continuity and credit migration of the principal balances of the Company's Street Solutions mortgage loans for the three and six months ended June 30, 2019 and 2018.

| Three months ended June 30, 2019            |            |           |          |            |
|---------------------------------------------|------------|-----------|----------|------------|
|                                             | Stage 1    | Stage 2   | Stage 3  | Total      |
| <b>Street Solutions</b>                     |            |           |          |            |
| Gross carrying amount, beginning of period  | \$ 529,814 | \$ 91,338 | \$ 2,598 | \$ 623,750 |
| Mortgages originated                        | 42,741     | -         | -        | 42,741     |
| Transfers from Stage 1                      | (4,387)    | 4,387     | -        | -          |
| Transfers from Stage 2                      | 9,035      | (9,035)   | -        | -          |
| Transfers to Stage 3                        | (1,917)    | (672)     | 2,589    | -          |
| Mortgages paid or derecognized <sup>1</sup> | (35,023)   | (16,106)  | (1,014)  | (52,143)   |
| Write-offs                                  | -          | -         | -        | -          |
| Recoveries                                  | -          | -         | -        | -          |
| Gross carrying amount, end of period        | \$ 540,263 | \$ 69,912 | \$ 4,173 | \$ 614,348 |

| Six months ended June 30, 2019              |            |           |          |            |
|---------------------------------------------|------------|-----------|----------|------------|
|                                             | Stage 1    | Stage 2   | Stage 3  | Total      |
| <b>Street Solutions</b>                     |            |           |          |            |
| Gross carrying amount, beginning of period  | \$ 449,005 | \$ 78,388 | \$ 949   | \$ 528,342 |
| Mortgages originated                        | 163,044    | -         | -        | 163,044    |
| Transfers from Stage 1                      | (52,815)   | 52,815    | -        | -          |
| Transfers from Stage 2                      | 29,439     | (29,439)  | -        | -          |
| Transfers to Stage 3                        | (1,917)    | (2,737)   | 4,654    | -          |
| Mortgages paid or derecognized <sup>1</sup> | (46,493)   | (29,115)  | (1,430)  | (77,038)   |
| Write-offs                                  | -          | -         | -        | -          |
| Recoveries                                  | -          | -         | -        | -          |
| Gross carrying amount, end of period        | \$ 540,263 | \$ 69,912 | \$ 4,173 | \$ 614,348 |

| Three months ended June 30, 2018            |            |           |         |            |
|---------------------------------------------|------------|-----------|---------|------------|
|                                             | Stage 1    | Stage 2   | Stage 3 | Total      |
| <b>Street Solutions</b>                     |            |           |         |            |
| Gross carrying amount, beginning of period  | \$ 295,438 | \$ -      | \$ -    | \$ 295,438 |
| Mortgages originated                        | 107,805    | -         | -       | 107,805    |
| Transfers from Stage 1                      | (27,267)   | 27,267    | -       | -          |
| Transfers from Stage 2                      | -          | -         | -       | -          |
| Transfers to Stage 3                        | -          | -         | -       | -          |
| Mortgages paid or derecognized <sup>1</sup> | (7,333)    | -         | -       | (7,333)    |
| Write-offs                                  | -          | -         | -       | -          |
| Recoveries                                  | -          | -         | -       | -          |
| Gross carrying amount, end of period        | \$ 368,643 | \$ 27,267 | \$ -    | \$ 395,910 |

| Six months ended June 30, 2018              |            |           |         |            |
|---------------------------------------------|------------|-----------|---------|------------|
|                                             | Stage 1    | Stage 2   | Stage 3 | Total      |
| <b>Street Solutions</b>                     |            |           |         |            |
| Gross carrying amount, beginning of period  | \$ 201,425 | \$ -      | \$ -    | \$ 201,425 |
| Mortgages originated                        | 206,090    | -         | -       | 206,090    |
| Transfers from Stage 1                      | (27,267)   | 27,267    | -       | -          |
| Transfers from Stage 2                      | -          | -         | -       | -          |
| Transfers to Stage 3                        | -          | -         | -       | -          |
| Mortgages paid or derecognized <sup>1</sup> | (11,605)   | -         | -       | (11,605)   |
| Write-offs                                  | -          | -         | -       | -          |
| Recoveries                                  | -          | -         | -       | -          |
| Gross carrying amount, end of period        | \$ 368,643 | \$ 27,267 | \$ -    | \$ 395,910 |

<sup>1</sup> This amount includes maturing mortgages that have been renewed.

**(d) Aging and impairment – non-securitized mortgage loans**

Aging tables for the outstanding principal balances of the non-securitized mortgage loans are shown below. All of the stamped insured mortgages and bridge loans that were not in current status at June 30 either returned to current status or were paid out in July, as also occurred with \$4.2 million of the Solutions loans in arrears at June 30.

|                             | June 30, 2019 |             |              |              |           |            |
|-----------------------------|---------------|-------------|--------------|--------------|-----------|------------|
|                             | Current       | 1 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total      |
| Street Solutions mortgages  | \$ 603,804    | \$ 7,535    | \$ 299       | \$ 1,618     | \$ 1,092  | \$ 614,348 |
| Stamped insured mortgages   | 13,161        | 386         | -            | -            | -         | 13,547     |
| Single-family mortgages     | 19,076        | -           | -            | -            | -         | 19,076     |
| Bridge loans - secured      | 3,998         | 1,874       | -            | -            | -         | 5,872      |
| Bridge loans - unsecured    | 2,899         | 50          | -            | -            | -         | 2,949      |
| Total non-securitized loans | \$ 642,938    | \$ 9,845    | \$ 299       | \$ 1,618     | \$ 1,092  | \$ 655,792 |

|                             | March 31, 2019 |             |              |              |           |            |
|-----------------------------|----------------|-------------|--------------|--------------|-----------|------------|
|                             | Current        | 1 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total      |
| Street Solutions mortgages  | \$ 616,379     | \$ 6,122    | \$ 716       | \$ -         | \$ 533    | \$ 623,750 |
| Stamped insured mortgages   | 31,971         | -           | -            | -            | -         | 31,971     |
| Single-family mortgages     | 16,250         | -           | -            | -            | 417       | 16,667     |
| Bridge loans - secured      | 2,897          | -           | -            | -            | -         | 2,897      |
| Bridge loans - unsecured    | 1,135          | 15          | -            | -            | -         | 1,150      |
| Total non-securitized loans | \$ 668,632     | \$ 6,137    | \$ 716       | \$ -         | \$ 950    | \$ 676,435 |

|                             | December 31, 2018 |             |              |              |           |            |
|-----------------------------|-------------------|-------------|--------------|--------------|-----------|------------|
|                             | Current           | 1 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total      |
| Street Solutions mortgages  | \$ 521,422        | \$ 4,913    | \$ 1,058     | \$ 416       | \$ 533    | \$ 528,342 |
| Stamped insured mortgages   | 14,062            | -           | -            | -            | -         | 14,062     |
| Single-family mortgages     | 22,803            | 336         | -            | -            | -         | 23,139     |
| Bridge loans - secured      | 236               | -           | -            | -            | -         | 236        |
| Bridge loans - unsecured    | 559               | -           | -            | -            | -         | 559        |
| Total non-securitized loans | \$ 559,082        | \$ 5,249    | \$ 1,058     | \$ 416       | \$ 533    | \$ 566,338 |

All loans that are contractually 90 days in arrears are classified as impaired and in Stage 3. The Company makes the decision to write off a loan, either in full or in part, when the amount owing is considered beyond a realistic probability of recovery. This is the case when a loan is sold, when all security has been realized, or when all security has been resolved with a receiver or bankruptcy court.

**7. Provisions and allowances for credit losses**

The following tables provide a reconciliation of the opening balance to the closing balance of the ECL allowance for uninsured mortgages over the three and six months ending June 30, 2019 and 2018. The Company has determined that no allowance for insured mortgages was required at either date.

The majority of the ECL allowance relates to the Street Solutions mortgages, with only \$10 thousand associated with the Company's \$9.3 million of other uninsured mortgages held on-balance sheet. To date, the Company has not realized any losses on its uninsured mortgages. The reconciling items shown below comprise the following components:

- originations, which reflect the increase in the allowance related to mortgages originated during the period;
- transfers between stages, which are assumed to occur prior to any corresponding remeasurement of the allowance;
- the decrease in the allowance related to mortgages derecognized during the period that did not incur a credit loss;

- the impact of changes to the ECL models and their inputs, including changes related to modifications of forward-looking indicators, which include macroeconomic conditions;
- write-offs of mortgages deemed uncollectible; and
- recoveries.

| Three months ended June 30, 2019            |         |         |         |          |
|---------------------------------------------|---------|---------|---------|----------|
|                                             | Stage 1 | Stage 2 | Stage 3 | Total    |
| <b>Uninsured mortgages and loans</b>        |         |         |         |          |
| Gross carrying amount, beginning of period  | \$ 597  | \$ 203  | \$ 21   | \$ 821   |
| Mortgages originated                        | 273     | -       | -       | 273      |
| Transfers from Stage 1                      | (6)     | 6       | -       | -        |
| Transfers from Stage 2                      | 12      | (12)    | -       | -        |
| Transfers to Stage 3                        | (113)   | (14)    | 127     | -        |
| Mortgages paid or derecognized <sup>1</sup> | (45)    | (21)    | (14)    | (80)     |
| Write-offs                                  | -       | -       | -       | -        |
| Recoveries                                  | -       | -       | -       | -        |
| Gross carrying amount, end of period        | \$ 718  | \$ 162  | \$ 134  | \$ 1,014 |

| Six months ended June 30, 2019              |         |         |         |          |
|---------------------------------------------|---------|---------|---------|----------|
|                                             | Stage 1 | Stage 2 | Stage 3 | Total    |
| <b>Uninsured mortgages and loans</b>        |         |         |         |          |
| Gross carrying amount, beginning of period  | \$ 403  | \$ 178  | \$ 14   | \$ 595   |
| Mortgages originated                        | 562     | -       | -       | 562      |
| Transfers from Stage 1                      | (117)   | 117     | -       | -        |
| Transfers from Stage 2                      | 54      | (54)    | -       | -        |
| Transfers to Stage 3                        | (113)   | (28)    | 141     | -        |
| Mortgages paid or derecognized <sup>1</sup> | (71)    | (51)    | (21)    | (143)    |
| Write-offs                                  | -       | -       | -       | -        |
| Recoveries                                  | -       | -       | -       | -        |
| Gross carrying amount, end of period        | \$ 718  | \$ 162  | \$ 134  | \$ 1,014 |

| Three months ended June 30, 2018            |         |         |         |        |
|---------------------------------------------|---------|---------|---------|--------|
|                                             | Stage 1 | Stage 2 | Stage 3 | Total  |
| <b>Uninsured mortgages and loans</b>        |         |         |         |        |
| Gross carrying amount, beginning of period  | \$ 330  | \$ -    | \$ -    | \$ 330 |
| Mortgages originated                        | 151     | -       | -       | 151    |
| Transfers from Stage 1                      | (184)   | 184     | -       | -      |
| Transfers from Stage 2                      | -       | -       | -       | -      |
| Transfers to Stage 3                        | -       | -       | -       | -      |
| Mortgages paid or derecognized <sup>1</sup> | (10)    | -       | -       | (10)   |
| Write-offs                                  | -       | -       | -       | -      |
| Recoveries                                  | -       | -       | -       | -      |
| Gross carrying amount, end of period        | \$ 287  | \$ 184  | \$ -    | \$ 471 |

| Six months ended June 30, 2018              |         |         |         |        |
|---------------------------------------------|---------|---------|---------|--------|
|                                             | Stage 1 | Stage 2 | Stage 3 | Total  |
| <b>Uninsured mortgages and loans</b>        |         |         |         |        |
| Gross carrying amount, beginning of period  | \$ 269  | \$ -    | \$ 75   | \$ 344 |
| Mortgages originated                        | 215     | -       | -       | 215    |
| Transfers from Stage 1                      | (184)   | 184     | -       | -      |
| Transfers from Stage 2                      | -       | -       | -       | -      |
| Transfers to Stage 3                        | -       | -       | -       | -      |
| Mortgages paid or derecognized <sup>1</sup> | (13)    | -       | (75)    | (88)   |
| Write-offs                                  | -       | -       | -       | -      |
| Recoveries                                  | -       | -       | -       | -      |
| Gross carrying amount, end of period        | \$ 287  | \$ 184  | \$ -    | \$ 471 |

<sup>1</sup> This amount includes maturing mortgages that have been renewed.

The Company has been lending in the uninsured mortgage product space only since the second quarter of 2017, and does not yet have sufficient data to support internal credit scores that could be used to categorize mortgages by credit quality. However, the Company does monitor and can classify relative credit risk based on external credit scores (Beacon score) at the date the loan is originated.

The following table categorizes the Street Solutions mortgage portfolio by Beacon ranges, which are generally accepted as ranges of credit quality.

| Beacon Score<br>(Primary Borrower) | At June 30, 2019    |                   | At March 31, 2019   |                   | At December 31, 2018 |                   |
|------------------------------------|---------------------|-------------------|---------------------|-------------------|----------------------|-------------------|
|                                    | Mortgage<br>balance | % of<br>mortgages | Mortgage<br>balance | % of<br>mortgages | Mortgage<br>balance  | % of<br>mortgages |
| 700+                               | \$ 289,868          | 47.2%             | \$ 296,189          | 47.5%             | \$ 245,735           | 46.5%             |
| 600 - 699                          | 264,951             | 43.1%             | 267,497             | 42.9%             | 235,038              | 44.5%             |
| <600                               | 59,529              | 9.7%              | 60,064              | 9.6%              | 47,569               | 9.0%              |
|                                    | <b>\$ 614,348</b>   | <b>100.0%</b>     | <b>\$ 623,750</b>   | <b>100.0%</b>     | <b>\$ 528,342</b>    | <b>100.0%</b>     |

## 8. Securitization activity

### *(a) Mortgages receivable and securitization liabilities*

The Company has securitized and sold insured single-family residential mortgage loans by participating in the NHA MBS program, with the most recent such transaction occurring during the fourth quarter of 2016. As the issuer of the MBS, the Company is responsible for advancing all scheduled principal and MBS interest payments to CMHC, whether or not the amounts have been collected on the underlying transferred mortgages. Therefore the Company retains certain prepayment and/or interest rate risks and rewards and does not derecognize the mortgages upon sale.

The Company also occasionally sells, to independent third parties, the net interest spread on previously securitized and sold mortgage loans (an "I/O strip transaction"). As a result of the I/O strip transaction, the Company transfers the prepayment and interest rate risks and rewards on the mortgages to the third party, and therefore derecognizes both the mortgages receivable and the associated securitization liabilities. In the first quarter of 2019 the Company sold I/O strips relating to \$8.72 million of its previously securitized mortgage loans, recognizing a net gain of \$0.08 million, which was included in Fee and Other Income. A deferred receivable of \$0.15 million was recorded in Other Assets. There were no similar transactions in the second quarter of 2019, or during the first two quarters of 2018.

The tables below present the carrying amounts of the securitized mortgages and the corresponding liabilities.

|                            | <b>June 30, 2019</b>                                         |                                                              |
|----------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
|                            | <b>Carrying amount<br/>of securitized<br/>mortgage loans</b> | <b>Carrying amount<br/>of securitization<br/>liabilities</b> |
| Securitized mortgage loans | \$ 99,669                                                    | \$ 101,322                                                   |
| Deferred acquisition costs | 559                                                          | -                                                            |
| Deferred transaction costs | -                                                            | (222)                                                        |
|                            | <b>\$ 100,228</b>                                            | <b>\$ 101,100</b>                                            |

|                            | <b>March 31, 2019</b>                                        |                                                              |
|----------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
|                            | <b>Carrying amount<br/>of securitized<br/>mortgage loans</b> | <b>Carrying amount<br/>of securitization<br/>liabilities</b> |
| Securitized mortgage loans | \$ 104,154                                                   | \$ 107,441                                                   |
| Deferred acquisition costs | 645                                                          | -                                                            |
| Deferred transaction costs | -                                                            | (261)                                                        |
|                            | <b>\$ 104,799</b>                                            | <b>\$ 107,180</b>                                            |

|                            | <b>December 31, 2018</b>                                     |                                                              |
|----------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
|                            | <b>Carrying amount<br/>of securitized<br/>mortgage loans</b> | <b>Carrying amount<br/>of securitization<br/>liabilities</b> |
| Securitized mortgage loans | \$ 122,570                                                   | \$ 125,805                                                   |
| Deferred acquisition costs | 792                                                          | -                                                            |
| Deferred transaction costs | -                                                            | (333)                                                        |
|                            | <b>\$ 123,362</b>                                            | <b>\$ 125,472</b>                                            |

**(b) Maturity profile**

The principal balances of the securitized mortgages have maturities up to 3 years, as shown below.

|                       | <b>June 30, 2019</b> |                    |                    |              |
|-----------------------|----------------------|--------------------|--------------------|--------------|
|                       | <b>Within 1 Year</b> | <b>1 - 3 Years</b> | <b>3 - 5 Years</b> | <b>Total</b> |
| Securitized mortgages | \$ 2,299             | \$ 97,370          | \$ -               | \$ 99,669    |

|                       | <b>March 31, 2019</b> |                    |                    |              |
|-----------------------|-----------------------|--------------------|--------------------|--------------|
|                       | <b>Within 1 Year</b>  | <b>1 - 3 Years</b> | <b>3 - 5 Years</b> | <b>Total</b> |
| Securitized mortgages | \$ 507                | \$ 103,647         | \$ -               | \$ 104,154   |

|                       | <b>December 31, 2018</b> |                    |                    |              |
|-----------------------|--------------------------|--------------------|--------------------|--------------|
|                       | <b>Within 1 Year</b>     | <b>1 - 3 Years</b> | <b>3 - 5 Years</b> | <b>Total</b> |
| Securitized mortgages | \$ 5,152                 | \$ 117,418         | \$ -               | \$ 122,570   |

**(c) Mortgage continuity and credit migration**

The following tables show the continuity of the Company's securitized mortgage loans over the three and six months ended June 30, 2019 and 2018.

| Three months ended June 30, 2019           |            |         |         |            |
|--------------------------------------------|------------|---------|---------|------------|
|                                            | Stage 1    | Stage 2 | Stage 3 | Total      |
| <b>Securitized mortgage loans</b>          |            |         |         |            |
| Gross carrying amount, beginning of period | \$ 103,384 | \$ 770  | \$ -    | \$ 104,154 |
| Transfers to Stage 2                       | -          | -       | -       | -          |
| Mortgages paid or derecognized             | (4,477)    | (8)     | -       | (4,485)    |
| Gross carrying amount, end of period       | \$ 98,907  | \$ 762  | \$ -    | \$ 99,669  |

  

| Six months ended June 30, 2019             |            |         |         |            |
|--------------------------------------------|------------|---------|---------|------------|
|                                            | Stage 1    | Stage 2 | Stage 3 | Total      |
| <b>Securitized mortgage loans</b>          |            |         |         |            |
| Gross carrying amount, beginning of period | \$ 122,570 | \$ -    | \$ -    | \$ 122,570 |
| Transfers to Stage 2                       | (770)      | 770     | -       | -          |
| Mortgages paid or derecognized             | (22,893)   | (8)     | -       | (22,901)   |
| Gross carrying amount, end of period       | \$ 98,907  | \$ 762  | \$ -    | \$ 99,669  |

  

| Three months ended June 30, 2018           |            |           |         |            |
|--------------------------------------------|------------|-----------|---------|------------|
|                                            | Stage 1    | Stage 2   | Stage 3 | Total      |
| <b>Securitized mortgage loans</b>          |            |           |         |            |
| Gross carrying amount, beginning of period | \$ 196,111 | \$ 13,219 | \$ -    | \$ 209,330 |
| Transfers from Stage 2                     | 12,730     | (12,730)  | -       | -          |
| Mortgages paid or derecognized             | (10,472)   | (489)     | -       | (10,961)   |
| Gross carrying amount, end of period       | \$ 198,369 | \$ -      | \$ -    | \$ 198,369 |

  

| Six months ended June 30, 2018             |            |           |         |            |
|--------------------------------------------|------------|-----------|---------|------------|
|                                            | Stage 1    | Stage 2   | Stage 3 | Total      |
| <b>Securitized mortgage loans</b>          |            |           |         |            |
| Gross carrying amount, beginning of period | \$ 205,279 | \$ 13,845 | \$ -    | \$ 219,124 |
| Transfers from Stage 2                     | 12,730     | (12,730)  | -       | -          |
| Mortgages paid or derecognized             | (19,640)   | (1,115)   | -       | (20,755)   |
| Gross carrying amount, end of period       | \$ 198,369 | \$ -      | \$ -    | \$ 198,369 |

**(d) Aging and impairment – securitized mortgages**

Shown below is an aging table for the outstanding principal balances of the securitized mortgages.

| June 30, 2019                    |           |             |              |              |           |           |
|----------------------------------|-----------|-------------|--------------|--------------|-----------|-----------|
|                                  | Current   | 1 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total     |
| Total securitized mortgage loans | \$ 98,907 | \$ -        | \$ 762       | \$ -         | \$ -      | \$ 99,669 |

  

| March 31, 2019                   |            |             |              |              |           |            |
|----------------------------------|------------|-------------|--------------|--------------|-----------|------------|
|                                  | Current    | 1 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total      |
| Total securitized mortgage loans | \$ 103,384 | \$ -        | \$ 770       | \$ -         | \$ -      | \$ 104,154 |

  

| December 31, 2018                |            |             |              |              |           |            |
|----------------------------------|------------|-------------|--------------|--------------|-----------|------------|
|                                  | Current    | 1 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total      |
| Total securitized mortgage loans | \$ 121,466 | \$ 1,104    | \$ -         | \$ -         | \$ -      | \$ 122,570 |

All loans that are contractually 90 days in arrears are classified as impaired and in Stage 3. At both June 30, 2019 and March 31, 2019, the balance reported as 31 – 60 days overdue consisted of one loan. Management determined that no provision was required on this loan at either date, and the loan returned to current status in July.

**(e) Other securitization activity**

The Company securitizes and sells, through the CMB program, 10-year insured NHA MBS mortgage loans on multi-unit residential properties. The underlying mortgage loans are closed to prepayment, and the Company enters into third party arrangements to manage its CMB seller swaps, thereby mitigating its interest rate risk. As noted above in Note 2, under *Derecognition*, these mortgages are recognized on the Company's balance sheet only to the extent of the Company's continuing involvement in the mortgages, which is limited to a retained interest receivable and the obligations and rights associated with servicing the mortgages. The mortgages are therefore effectively derecognized because of the securitization, and the gain on sale on these transactions is reported on the consolidated statements of operations as a component of Fee and other income, as reported below in Note 10.

The retained interest receivable is set up at the time of each sale as the present value of the expected net cash flows, including servicing, to be received over the mortgage terms. The retained interests are recorded as a component of Other assets, as reported in Note 12.

The Company occasionally holds the mortgage loans on-balance sheet, for sale in the subsequent quarter. Under IFRS 9 any unrealized fair value gains or losses on these mortgages are recorded in net income in the reporting period, and therefore the ultimate gain when these mortgages are sold is composed of both a realized holding gain and a gain on sale. The key components of the CMB transactions during the three and six months ended June 30, 2019 and 2018 are shown below.

| <b>Three months ended June 30, 2019</b>               |            |
|-------------------------------------------------------|------------|
| Multi-unit residential mortgages securitized and sold | \$ 106,558 |
| Holding gain on multi-unit residential mortgages      | \$ 419     |
| Gain on sales of multi-unit residential mortgages     | 1,113      |
| Total gain on multi-unit residential mortgages        | \$ 1,532   |
| Gain on sales as a percentage of the mortgage amounts | 1.04%      |
| Retained interests recognized in the quarter          | \$ 5,625   |

| <b>Six months ended June 30, 2019</b>                 |            |
|-------------------------------------------------------|------------|
| Multi-unit residential mortgages securitized and sold | \$ 202,955 |
| Holding gain on multi-unit residential mortgages      | \$ 718     |
| Gain on sales of multi-unit residential mortgages     | 1,426      |
| Total gain on multi-unit residential mortgages        | \$ 2,144   |
| Gain on sales as a percentage of the mortgage amounts | 0.70%      |
| Retained interests recognized year to date            | \$ 10,865  |

| <b>Three months ended June 30, 2018</b>               |            |
|-------------------------------------------------------|------------|
| Multi-unit residential mortgages securitized and sold | \$ 110,280 |
| Gain on sales of multi-unit residential mortgages     | \$ 672     |
| Gain on sales as a percentage of the mortgage amounts | 0.61%      |
| Retained interests recognized in the quarter          | \$ 4,000   |

| <b>Six months ended June 30, 2018</b>                 |            |
|-------------------------------------------------------|------------|
| Multi-unit residential mortgages securitized and sold | \$ 126,065 |
| Gain on sales of multi-unit residential mortgages     | \$ 791     |
| Gain on sales as a percentage of the mortgage amounts | 0.63%      |
| Retained interests recognized year to date            | \$ 4,714   |

## 9. Deposits

The Company offers deposits, in the form of guaranteed investment certificates ("GICs"), through deposit broker agents. These deposits are eligible to be insured by Canada Deposit Insurance Corporation ("CDIC") up to \$100 thousand per depositor. Deposit terms range from 1 to 5 years.

The Company's deposits include deferred deposit agent commissions, as shown below.

|                                    | <b>June 30,<br/>2019</b> | <b>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|------------------------------------|--------------------------|---------------------------|------------------------------|
| Deposit principal                  | \$ 696,764               | \$ 723,488                | \$ 641,149                   |
| Deferred deposit agent commissions | (2,571)                  | (2,731)                   | (2,439)                      |
| Net deposits                       | \$ 694,193               | \$ 720,757                | \$ 638,710                   |

Shown below is a maturity table of the remaining term to maturity for these deposits.

|                          | June 30, 2019 |               |            |            |            |
|--------------------------|---------------|---------------|------------|------------|------------|
|                          | Cashable *    | Within 1 Year | 1 -3 Years | 3 -5 Years | Total      |
| Deposit maturities       | \$ 1,266      | \$ 279,259    | \$ 293,062 | \$ 120,606 | \$ 694,193 |
| Average contractual rate | 1.45%         | 2.45%         | 2.82%      | 3.04%      | 2.71%      |

  

|                          | March 31, 2019 |               |            |            |            |
|--------------------------|----------------|---------------|------------|------------|------------|
|                          | Cashable *     | Within 1 Year | 1 -3 Years | 3 -5 Years | Total      |
| Deposit maturities       | \$ 2,295       | \$ 291,160    | \$ 298,608 | \$ 128,694 | \$ 720,757 |
| Average contractual rate | 1.44%          | 2.40%         | 2.82%      | 3.02%      | 2.69%      |

  

|                          | December 31, 2018 |               |            |            |            |
|--------------------------|-------------------|---------------|------------|------------|------------|
|                          | Cashable *        | Within 1 Year | 1 -3 Years | 3 -5 Years | Total      |
| Deposit maturities       | \$ 3,485          | \$ 272,185    | \$ 251,982 | \$ 111,058 | \$ 638,710 |
| Average contractual rate | 1.45%             | 2.33%         | 2.77%      | 3.00%      | 2.61%      |

\* 90-day cashable 1 year GIC

## 10. Other interest income, fee income, and other income

The details of Fee and Other Income for the three and six months ended June 30, 2019 and 2018 are shown below. With respect to the fair value adjustments, \$0.21 million and \$0.57 million were realized in the first and second quarters, respectively, upon sale of the associated mortgages. Other income (loss) is primarily related to the Company's legacy operations.

|                                                  | Three months ended June 30, |        | Six months ended June 30, |        |
|--------------------------------------------------|-----------------------------|--------|---------------------------|--------|
|                                                  | 2019                        | 2018   | 2019                      | 2018   |
| Servicing and fee income - mortgages             | \$ 279                      | \$ 306 | \$ 449                    | \$ 609 |
| CMB securitization income (Note 8(e))            | 1,239                       | 682    | 1,960                     | 801    |
| Gain on sale of I/O strip                        | -                           | -      | 84                        | -      |
| Fair value adjustments - mortgages held for sale | (18)                        | -      | 790                       | -      |
| Other income (loss)                              | (110)                       | (60)   | (310)                     | (488)  |
| Total fee and other income (expense)             | \$ 1,390                    | \$ 928 | \$ 2,973                  | \$ 922 |

## 11. Corporate reorganization and restructuring charges

During the first quarter of 2019, the Company incurred \$2.1 million in restructuring expense related to a workforce reduction. This was related to a strategic realignment that occurred during the fourth quarter of 2018. At that time, the Company terminated a major contract with a key information technology partner, in connection with the Company's decision to postpone the development of its core banking initiative, the initial launch of which had been planned for 2019. Although the Company has retained the development and design work for the partially-developed core banking system, and it remains available for future development and deployment, the termination of this contract and associated costs resulted in a \$7.38 million charge to Restructuring Expense in Q4 2018.

Total reorganization expenses are reported separately as Restructuring costs in the consolidated statements of operations, and the unpaid portion is recorded as part of Accounts Payable and Accrued Liabilities in the consolidated statements of financial position. There were no restructuring charges during the second quarter of 2019, or during the first two quarters of 2018.

## 12. Other assets

The Company's other assets consist of:

|                                              | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 |
|----------------------------------------------|------------------|-------------------|----------------------|
| Gain on sale receivable                      | \$ 12,345        | \$ 3,567          | \$ 4,193             |
| CMB retained interest receivable (Note 8(e)) | 23,090           | 17,991            | 13,095               |
| I/O strip sale receivable                    | 696              | 795               | 725                  |
| Accrued interest receivable                  | 1,819            | 2,016             | 1,571                |
| Accounts receivable                          | 10,828           | 3,979             | 6,130                |
| Employee loans receivable (Note 19)          | 1,765            | 1,765             | 1,765                |
| Prepaid and other assets                     | 1,435            | 1,536             | 1,358                |
| Right of use assets (Note 2)                 | 5,072            | 5,329             | -                    |
| Capital assets                               | 3,642            | 3,742             | 3,904                |
| Intangible assets                            | 1,407            | 1,386             | 1,500                |
| Assets of discontinued operations (Note 23)  | 464              | 464               | 463                  |
|                                              | <b>\$ 62,563</b> | <b>\$ 42,570</b>  | <b>\$ 34,704</b>     |

There were no external or internal indicators of impairment for the intangible assets at the balance sheet date for any of the periods presented.

The right of use assets consist of the following:

|                                                      | Premises        | Automobiles   | Equipment     | Total           |
|------------------------------------------------------|-----------------|---------------|---------------|-----------------|
| Right of use assets as identified at January 1, 2019 | \$ 5,374        | \$ 284        | \$ 182        | \$ 5,840        |
| Application of rental inducements                    | (253)           | -             | -             | (253)           |
| Depreciation - six months ended June 30, 2019        | (422)           | (68)          | (25)          | (515)           |
| <b>Right of use assets at June 30, 2019</b>          | <b>\$ 4,699</b> | <b>\$ 216</b> | <b>\$ 157</b> | <b>\$ 5,072</b> |

### 13. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are as shown below.

|                                                  | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 |
|--------------------------------------------------|------------------|-------------------|----------------------|
| Payment due to mortgage servicers                | \$ 202           | \$ 13,499         | \$ 6,706             |
| Accrued mortgage acquisition costs               | 21,073           | 13,259            | 10,697               |
| Accrued interest payable                         | 13,881           | 12,045            | 9,255                |
| Accrued restructuring costs                      | 4,467            | 5,015             | 9,226                |
| Accrued compensation                             | 4,698            | 2,215             | 4,600                |
| Lease liabilities (Note 2)                       | 5,427            | 5,637             | -                    |
| Liabilities of discontinued operations (Note 23) | 8                | 8                 | 8                    |
| Other                                            | 3,666            | 3,386             | 3,842                |
|                                                  | <b>\$ 53,422</b> | <b>\$ 55,064</b>  | <b>\$ 44,334</b>     |

The lease liabilities consist of the following:

|                                                     | Premises        | Automobiles   | Equipment     | Total           |
|-----------------------------------------------------|-----------------|---------------|---------------|-----------------|
| Lease liabilities as identified at January 1, 2019  | \$ 5,374        | \$ 284        | \$ 182        | \$ 5,840        |
| Interest accretion - six months ended June 30, 2019 | 219             | 5             | 7             | 231             |
| Payments - six months ended June 30, 2019           | (547)           | (68)          | (29)          | (644)           |
| <b>Lease liabilities at June 30, 2019</b>           | <b>\$ 5,046</b> | <b>\$ 221</b> | <b>\$ 160</b> | <b>\$ 5,427</b> |

In addition to the payments noted in the above table, during the six months ended June 30, 2019 the Company made additional cash payments for the variable components of the associated leases, and for short term leases, as shown below.

|                                           | Premises        | Automobiles  | Equipment    | Total           |
|-------------------------------------------|-----------------|--------------|--------------|-----------------|
| Payments - lease liabilities per IFRS 16  | \$ 547          | \$ 68        | \$ 29        | \$ 644          |
| Non-lease components - per IFRS 16        | 510             | 11           | 20           | 541             |
| Payments - short term leases              | 61              | 14           | -            | 75              |
| <b>Total cash payments for the period</b> | <b>\$ 1,118</b> | <b>\$ 93</b> | <b>\$ 49</b> | <b>\$ 1,260</b> |

### 14. Loans payable

Details of loans payable are as shown below.

|                        | Maturity<br>date | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 |
|------------------------|------------------|------------------|-------------------|----------------------|
| Corporate loan - \$Cdn | Jan 15, 2020     | \$ 1,000         | \$ 1,000          | \$ 1,000             |
| Corporate loan - \$US  | Jan 15, 2020     | 3,141            | 3,207             | 3,274                |
|                        |                  | <b>\$ 4,141</b>  | <b>\$ 4,207</b>   | <b>\$ 4,274</b>      |

The loans are associated with the Company's legacy businesses. They bear interest at 6%, are not subject to security or covenants, and can be prepaid by the Company without penalty.

## **15. Commitments and contingencies**

At June 30, 2019 the Company had credit commitments in the form of the securitization liabilities discussed in Note 8 and the loans payable discussed in Note 14.

The Company also had \$20.9 million of commitments for mortgage loans intended to be funded on-balance sheet (March 31, 2019 - \$68.9 million; December 31, 2018 - \$140.2 million). Such offers to extend credit are in the normal course of business, and the amount represents the maximum amount that the Company would be obligated to fund. In the course of its operations, the Company does not expect to fund 100% of its outstanding mortgage loan commitments.

The Company, from time to time, is involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company.

## **16. Financial instruments**

The amounts set out in the table on the following page represent the carrying value, the fair value and the current/non-current classification of the Company's financial instruments. The estimated fair values approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction in the principal or most advantageous market accessible to the Company. The valuation methods and assumptions are as follows:

Cash and cash equivalents (including restricted cash); other assets; bank facilities and loans payable; and accounts payable and accrued liabilities – fair value approximates carrying value due to the short-term nature of the financial instrument.

Marketable securities – fair value is determined by reference to market values at financial reporting dates.

Non-securitized and securitized mortgage loans – fair value is determined by discounting the expected future cash flows, adjusting for prepayment and credit loss assumptions, if applicable, at current rates for offered loans with similar terms.

Deferred placement fees receivable – fair value approximates carrying value as the discount rates used to discount expected future cash flows from this asset have not changed materially from the time of recognition.

Deposits - estimated fair value is determined by discounting the expected future contractual cash flows using observed market interest rates offered for deposits with similar terms.

Securitization liabilities – fair value is determined by discounting the expected future cash flows using current rates for MBS.

The Company uses the following hierarchy for determining the fair value of financial instruments:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 – one or more significant inputs to the valuation methodology are unobservable.

|                                          | June 30, 2019 |           |                |                      |            |                     |                    | December 31, 2018 |            |
|------------------------------------------|---------------|-----------|----------------|----------------------|------------|---------------------|--------------------|-------------------|------------|
|                                          | FVTPL         | FVOCI     | Amortized cost | Total carrying value | Fair value | Due within one year | Due after one year | Carrying value    | Fair value |
| <b>Financial assets</b>                  |               |           |                |                      |            |                     |                    |                   |            |
| Cash and cash equivalents                | \$ 26,429     | \$ -      | \$ -           | \$ 26,429            | \$ 26,429  | \$ 26,429           | \$ -               | \$ 65,018         | \$ 65,018  |
| Restricted cash                          | 4,071         | -         | -              | 4,071                | 4,071      | 4,071               | -                  | 9,656             | 9,656      |
| Marketable securities                    | -             | 23,266    | -              | 23,266               | 23,266     | -                   | 23,266             | 22,692            | 22,692     |
| Street Solutions mortgage loans          | -             | -         | 612,754        | 612,754              | 622,674    | 586,032             | 26,722             | 526,782           | 534,754    |
| Stamped insured mortgages                | 841           | -         | 12,749         | 13,590               | 13,642     | 841                 | 12,749             | 24,778            | 24,731     |
| Single-family mortgages                  | -             | -         | 19,067         | 19,067               | 19,460     | 1,832               | 17,235             | 12,423            | 12,125     |
| Bridge loans                             | -             | -         | 8,821          | 8,821                | 8,821      | 8,821               | -                  | 795               | 795        |
| Securitized mortgage loans               | -             | -         | 100,228        | 100,228              | 100,471    | 2,639               | 97,589             | 123,362           | 123,099    |
| Deferred placement fees receivable       | -             | -         | 46,490         | 46,490               | 46,490     | 17,578              | 28,912             | 48,670            | 48,670     |
| Other assets                             | -             | -         | 51,192         | 51,192               | 51,192     | 29,775              | 21,417             | 28,048            | 28,048     |
|                                          | \$ 31,341     | \$ 23,266 | \$ 851,301     | \$ 905,908           | \$ 916,516 | \$ 678,018          | \$ 227,890         | \$ 862,224        | \$ 869,588 |
| <b>Financial liabilities</b>             |               |           |                |                      |            |                     |                    |                   |            |
| Deposits                                 | \$ -          | \$ -      | \$ 694,193     | \$ 694,193           | \$ 711,179 | \$ 280,525          | \$ 413,668         | \$ 638,710        | \$ 642,864 |
| Loans payable                            | -             | -         | 4,141          | 4,141                | 4,141      | 4,141               | -                  | 4,274             | 4,274      |
| Securitization liabilities               | -             | -         | 101,100        | 101,100              | 100,827    | 3,800               | 97,300             | 125,472           | 124,354    |
| Accounts payable and accrued liabilities | -             | -         | 53,422         | 53,422               | 53,422     | 43,952              | 9,470              | 44,334            | 44,334     |
|                                          | \$ -          | \$ -      | \$ 852,856     | \$ 852,856           | \$ 869,569 | \$ 332,418          | \$ 520,438         | \$ 812,790        | \$ 815,826 |

The following tables present the financial instruments measured at fair value at June 30, 2019 and December 31, 2018, as classified by the fair value hierarchy described above.

| June 30, 2019                            |           |           |            |            |
|------------------------------------------|-----------|-----------|------------|------------|
|                                          | Level 1   | Level 2   | Level 3    | Total      |
| <b>Financial assets</b>                  |           |           |            |            |
| Cash and cash equivalents                | \$ 26,429 | \$ -      | \$ -       | \$ 26,429  |
| Restricted cash                          | 4,071     | -         | -          | 4,071      |
| Marketable securities                    | 23,266    | -         | -          | 23,266     |
| Street Solutions mortgage loans          | -         | -         | 622,674    | 622,674    |
| Stamped insured mortgages                | -         | 13,642    | -          | 13,642     |
| Single-family mortgages                  | -         | -         | 19,460     | 19,460     |
| Bridge loans                             | -         | -         | 8,821      | 8,821      |
| Securitized mortgage loans               | -         | -         | 100,471    | 100,471    |
| Deferred placement fees receivable       | -         | -         | 46,490     | 46,490     |
| Other assets                             | -         | -         | 51,192     | 51,192     |
|                                          | \$ 53,766 | \$ 13,642 | \$ 849,108 | \$ 916,516 |
| <b>Financial liabilities</b>             |           |           |            |            |
| Deposits                                 | \$ -      | \$ -      | \$ 711,179 | \$ 711,179 |
| Loans payable                            | -         | -         | 4,141      | 4,141      |
| Securitization liabilities               | -         | -         | 100,827    | 100,827    |
| Accounts payable and accrued liabilities | -         | -         | 53,422     | 53,422     |
|                                          | \$ -      | \$ -      | \$ 869,569 | \$ 869,569 |

| December 31, 2018                        |           |           |            |            |
|------------------------------------------|-----------|-----------|------------|------------|
|                                          | Level 1   | Level 2   | Level 3    | Total      |
| <b>Financial assets</b>                  |           |           |            |            |
| Cash and cash equivalents                | \$ 65,018 | \$ -      | \$ -       | \$ 65,018  |
| Restricted cash                          | 9,656     | -         | -          | 9,656      |
| Marketable securities                    | 22,692    | -         | -          | 22,692     |
| Street Solutions mortgage loans          | -         | -         | 534,754    | 534,754    |
| Stamped insured mortgages                | -         | 24,731    | -          | 24,731     |
| Single-family mortgages                  | -         | -         | 12,125     | 12,125     |
| Bridge loans                             | -         | -         | 795        | 795        |
| Securitized mortgage loans               | -         | -         | 123,099    | 123,099    |
| Deferred placement fees receivable       | -         | -         | 48,670     | 48,670     |
| Other assets                             | -         | -         | 28,048     | 28,048     |
|                                          | \$ 97,366 | \$ 24,731 | \$ 747,491 | \$ 869,588 |
| <b>Financial liabilities</b>             |           |           |            |            |
| Deposits                                 | \$ -      | \$ -      | \$ 642,864 | \$ 642,864 |
| Loans payable                            | -         | -         | 4,274      | 4,274      |
| Securitization liabilities               | -         | -         | 124,354    | 124,354    |
| Accounts payable and accrued liabilities | -         | -         | 44,334     | 44,334     |
|                                          | \$ -      | \$ -      | \$ 815,826 | \$ 815,826 |

## 17. Financial risk management

The Company is exposed to various types of risk owing to the nature of its business activities, and, like other financial institutions, is exposed to the symptoms and effects of global economic conditions and other factors that could adversely affect its business, financial condition, and operating results. These risks include strategic, capital, credit, liquidity, interest rate, investment, operational, reputational, and regulatory and legislative risk, and many of these cannot be directly controlled by the Company. The Company has established policies, processes and frameworks to measure and monitor the risks. The Company's Board of Directors, and its Enterprise Risk Management Committee, play an active role in monitoring the Company's key risks and in determining the policies and limits that are best suited to manage them. The policies are reviewed and approved by the Board of Directors at least annually.

The Company's risk management policies and procedures are described under the headings *Risk Appetite Framework*, *Risk Governance*, *Credit Risk Management*, *Liquidity and Funding Risk Management*, and *Market Risk Management* within the *Risk Management and Risk Factors* section of the Company's 2018 MD&A, and in the Company's MD&A for the three and six months ended June 30, 2019. There have been no material changes to these risk factors subsequent to December 31, 2018.

## 18. Share capital and share-based compensation

### Share capital

The Company's authorized capital stock consists of an unlimited number of common and preferred shares with no par value. There are no preferred shares outstanding. There have been no changes to the Company's share capital since the third quarter of 2017.

| Common shares<br>Issued and outstanding (000s) | June 30,<br>2019    |                       | March 31,<br>2019   |                       | For the three months ended<br>December 31,<br>2018 |                       |
|------------------------------------------------|---------------------|-----------------------|---------------------|-----------------------|----------------------------------------------------|-----------------------|
|                                                | Number of<br>Shares | Amount                | Number of<br>Shares | Amount                | Number of<br>Shares                                | Amount                |
| Outstanding, beginning of period               | 122,184             | \$ 245,329            | 122,184             | \$ 245,329            | 122,184                                            | \$ 245,329            |
| Options exercised                              | -                   | -                     | -                   | -                     | -                                                  | -                     |
| Share purchase loans                           | 122,184             | \$ 245,329<br>(1,912) | 122,184             | \$ 245,329<br>(1,912) | 122,184                                            | \$ 245,329<br>(1,912) |
| Outstanding, end of period                     | 122,184             | \$ 243,417            | 122,184             | \$ 243,417            | 122,184                                            | \$ 243,417            |

Please see Note 19 for discussion of the share purchase loans included in the table above.

### Stock options

The Company has two stock option plans available for the grant of options to its directors, officers, employees, and any other person or company engaged to provide ongoing management or consulting services for the Company. These plans are i) the Director, Officer and Employee Stock Option Plan (the "1992 Plan"), and ii) the 1997 Stock Option Plan (the "1997 Plan"). Under the 1992 Plan, the exercise price of each option equals, at a minimum, the closing price of the Company's common shares on the day prior to the grant date. Under the 1997 Plan, the exercise price of each option equals the volume weighted average trading price of the Company's common shares on the TSX for the five trading days immediately prior to the grant date. Unless otherwise provided, the maximum

term of the grant is six years from the grant date, and options vest 20% on the date of grant and 20% on each of the first through fourth anniversaries of the grant date. All unvested options vest upon a change of control of the Company.

Stock option expense during 2019 was \$0.13 million and \$0.18 million during the first and second quarters, respectively. There were no options either granted or exercised during the first two quarters of 2019. In connection with the reduction in headcount due to the restructuring discussed in Note 11, 355,597 unvested options were forfeited in the first quarter of 2019, and 40,939 were forfeited in the second quarter. The forfeitures reduced expense by \$0.12 million and \$0.01 million in the respective quarters. An additional 1,500,000 vested options expired unexercised in the first quarter, and 262,000 vested options expired in the second quarter.

Summaries of the status of the Company's stock option plans and changes are shown below.

| Stock options<br>Outstanding and exercisable (000s except price) | For the three months ended |                                 |                   |                                 |                   |                                 |
|------------------------------------------------------------------|----------------------------|---------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                                                                  | June 30, 2019              |                                 | March 31, 2019    |                                 | June 30, 2018     |                                 |
|                                                                  | Number of options          | Weighted-average Exercise Price | Number of options | Weighted-average Exercise Price | Number of options | Weighted-average exercise price |
| Outstanding, beginning of period                                 | 7,171                      | \$ 1.20                         | 9,027             | \$ 1.16                         | 8,873             | \$ 1.17                         |
| Granted                                                          | -                          | -                               | -                 | -                               | 250               | 0.76                            |
| Expired                                                          | (262)                      | \$ 1.21                         | (1,500)           | \$ 0.91                         | -                 | -                               |
| Forfeited                                                        | (41)                       | \$ 0.90                         | (356)             | \$ 1.25                         | -                 | -                               |
| Outstanding, end of period                                       | 6,868                      | \$ 1.20                         | 7,171             | \$ 1.20                         | 9,123             | \$ 1.15                         |
| Exercisable, end of period                                       | 2,820                      | \$ 1.38                         | 3,019             | \$ 1.38                         | 3,228             | \$ 1.24                         |
| Weighted-average remaining contractual life in years             |                            | 4.07                            |                   | 4.30                            |                   | 4.10                            |

| Stock Options<br>Outstanding and exercisable (000`s except price) | For the six months ended |                                 |                   |                                 |
|-------------------------------------------------------------------|--------------------------|---------------------------------|-------------------|---------------------------------|
|                                                                   | June 30, 2019            |                                 | June 30, 2018     |                                 |
|                                                                   | Number of options        | Weighted-average exercise price | Number of options | Weighted-average exercise price |
| Outstanding, beginning of period                                  | 9,027                    | \$ 1.16                         | 6,461             | \$ 1.26                         |
| Granted                                                           | -                        | -                               | 2,662             | 0.89                            |
| Expired                                                           | (1,762)                  | 0.96                            | -                 | -                               |
| Forfeited                                                         | (397)                    | 1.22                            | -                 | -                               |
| Outstanding, end of period                                        | 6,868                    | \$ 1.20                         | 9,123             | \$ 1.15                         |
| Exercisable, end of period                                        | 2,820                    | \$ 1.38                         | 3,228             | \$ 1.24                         |
| Weighted-average remaining contractual life in years              |                          | 4.07                            |                   | 4.10                            |

### Restricted Share Units

The Company has a restricted share unit plan (the "RSU Plan") for the grant of restricted share units ("RSUs") to employees of the Company. The grant price of the RSUs is equal to the weighted average closing price of the Company's common shares on the TSX, or any other exchange upon which the common shares of Street Capital are traded if not traded on the TSX, for the five trading days immediately prior to the Grant Date. Unless otherwise provided, the maximum term of the grant is three years from the date of the grant. The RSU vesting period is determined by the RSU Plan administrators at the time of grant, and the vested RSUs are redeemed in cash within 30 days of the date they vest. The redemption price is calculated similarly to the grant price, as the weighted average closing price of the Company's common shares for the five trading days immediately prior to the vesting date. All unvested RSUs vest upon a change of control of the Company.

At June 30, 2019 the calculated value per outstanding RSU was \$0.6600. Expense related to RSUs during 2019 was \$0.10 million and \$0.31 million during the first and second quarters, respectively. During the first quarter of 2019, the Company granted 2,511,321 RSUs to officers and senior management.

### **Deferred Share Units**

The Company granted deferred share units ("DSUs") to its independent directors from 2006 until 2011. The DSUs are exchangeable for common shares of the Company upon a director's retirement. At both June 30, 2019 and December 31, 2018 there were 146,590 DSUs outstanding, all of which are held by an active director.

## **19. Related party transactions**

The Company's related parties include the following individuals or entities:

- associates, or entities, that are controlled or significantly influenced by the Company;
- key management personnel, comprised of the Company's directors and officers, and other employees having authority and responsibility for planning, directing and controlling the Company's activities; and
- entities controlled by key management personnel

### **Share purchase loans**

At June 30, 2019 the Company had outstanding share purchase loans made to certain key employees and former employees, as shown below. Only the parties identified as "Executive and Officer" are related parties at June 30, 2019.

| <b>June 30, 2019</b>             |                                        |                            |                                |                      |                                                                                                      |
|----------------------------------|----------------------------------------|----------------------------|--------------------------------|----------------------|------------------------------------------------------------------------------------------------------|
|                                  | <b>Date Granted</b>                    | <b>Amount <sup>1</sup></b> | <b>Due Date</b>                | <b>Interest Rate</b> | <b>Terms</b>                                                                                         |
| <b>Former Executive</b>          | November 30, 1999<br>December 17, 1999 | \$ 412                     | December 31, 2020              | Non-interest bearing | Secured by 0.16 million common shares held in trust by the Company, and by personal guarantee        |
| <b>Former Chair of the Board</b> | January 19, 1996                       | 1,500                      | December 31, 2019 <sup>2</sup> | 1% <sup>2</sup>      | Secured by 0.30 million common shares held in trust by the Company, and by personal guarantee        |
| <b>Executive and Officer</b>     | June 1, 2015                           | 565                        | December 31, 2019 <sup>2</sup> | Non-interest bearing | To finance purchase of 0.40 million common shares <sup>3</sup>                                       |
| <b>Executive and Officer</b>     | August 16, 2017                        | 1,200                      | December 31, 2019              | 1%                   | To finance purchase of 1 million common shares; interest rate as prescribed by Canada Revenue Agency |
|                                  |                                        | <u>\$ 3,677</u>            |                                |                      |                                                                                                      |

<sup>1</sup> These amounts exclude any accrued interest.

<sup>2</sup> The terms of this loan have been revised.

<sup>3</sup> The Company assisted the Executive with the purchase of common shares in order to satisfy an agreement between the Executive and the Company. The costs associated with this agreement were included as part of the organizational realignment and share exchange completed by the Company in June 2015.

### **Other**

At June 30, 2019 the Company has an accrued payable of \$2.9 million owing to the Former Chair of the Board. During the first six months of 2019, net interest expense of \$0.07 million relating to this payable was recorded in Fee and other income.

In the ordinary course of business, the Company underwrites mortgages for its senior management, other related parties, and employees of the Company. The mortgage terms are similar to those offered to unrelated parties, and incorporate an interest rate discount that is available to all employees of the Company. At June 30, 2019, mortgage loans made to key management personnel totaled \$1.72 million.

## 20. Capital management

The Company has a Board-approved Capital Management Policy that governs the quantity and quality of capital held. The objective of the policy is to ensure that the Company appropriately balances its capital allocation between retention of a prudent margin above regulatory capital adequacy minimums in order to provide access to contingency capital, and maintenance of sufficient freely available capital to achieve business goals and objectives. Management defines capital as the Company's equity and deficit. The Company's Capital Management Policy is reviewed at least annually, and more often if required by events or changing circumstances.

The Company's subsidiary, Street Capital Bank, calculates capital ratios and regulatory capital based on the capital adequacy requirements issued by OSFI, which are based on standards issued by the Basel Committee on Banking Supervision, and which are discussed in more detail in the Company's MD&A for the three and six months ended June 30, 2019, under *Capital Management*. Street Capital Bank maintains a capital management policy and an Internal Capital Adequacy Assessment Process ("ICAAP"), which governs the quality and quantity of capital utilized in its operations. Dividend payments to Street Capital by Street Capital Bank are subject to restrictions by OSFI.

Shown below is the regulatory capital for Street Capital Bank. During the periods shown, Street Capital Bank was in compliance with all internal and external capital requirements.

### Basel III Regulatory Capital (Based only on the consolidated subsidiary, Street Capital Bank of Canada)

| <i>(in thousands of \$)</i>            | June 30,<br>2019 | March 31,<br>2019 | June 30,<br>2018 |
|----------------------------------------|------------------|-------------------|------------------|
|                                        | All-In Basis     | All-In Basis      | All-In Basis     |
| Common Equity Tier 1 capital (CET 1)   |                  |                   |                  |
| Capital stock                          | \$ 16,426        | \$ 16,426         | \$ 16,426        |
| Contributed surplus                    | 2,381            | 2,202             | 1,444            |
| Retained earnings                      | 79,850           | 76,059            | 84,010           |
| Accumulated other comprehensive income | 701              | 586               | -                |
| Less: Regulatory adjustments to CET 1  | (1,783)          | (1,865)           | (1,341)          |
| Total CET 1 capital                    | \$ 97,575        | \$ 93,408         | \$ 100,539       |
| Additional Tier 1 capital              | -                | -                 | -                |
| Total Tier 1 capital                   | \$ 97,575        | \$ 93,408         | \$ 100,539       |
| Total Tier 2 capital                   | 879              | 800               | -                |
| Total regulatory capital               | \$ 98,454        | \$ 94,208         | \$ 100,539       |

## 21. Net earnings per share

The following is a reconciliation of the numerators and denominators used in computing net earnings per share for the three and six months ended June 30:

| Basic and diluted net income per share                                | Three months ended June 30, |          | Six months ended June 30, |          |
|-----------------------------------------------------------------------|-----------------------------|----------|---------------------------|----------|
|                                                                       | 2019                        | 2018     | 2019                      | 2018     |
| Numerator:                                                            |                             |          |                           |          |
| Income from continuing operations                                     | \$ 3,798                    | \$ 4,596 | \$ 2,142                  | \$ 3,456 |
| Income attributable to non-controlling interest                       | -                           | 1,290    | -                         | 1,515    |
| Income attributable to shareholders - continuing operations           | \$ 3,798                    | \$ 3,306 | \$ 2,142                  | \$ 1,941 |
| Income from discontinued operations                                   | \$ -                        | \$ -     | \$ -                      | \$ -     |
| Income attributable to non-controlling interest                       | -                           | -        | -                         | -        |
| Income attributable to shareholders - discontinued operations         | \$ -                        | \$ -     | \$ -                      | \$ -     |
| Net income attributable to shareholders                               | \$ 3,798                    | \$ 3,306 | \$ 2,142                  | \$ 1,941 |
| Denominator:                                                          |                             |          |                           |          |
| Weighted average common shares outstanding - basic and diluted (000s) | 122,184                     | 122,184  | 122,184                   | 122,184  |
| Basic and diluted net income per share from continuing operations     | \$ 0.03                     | \$ 0.03  | \$ 0.02                   | \$ 0.02  |
| Basic and diluted net income per share from discontinued operations   | 0.00                        | 0.00     | 0.00                      | 0.00     |
| Basic and diluted net income per share                                | \$ 0.03                     | \$ 0.03  | \$ 0.02                   | \$ 0.02  |

In computing the diluted net earnings per share, the Company included in the calculation potential common share equivalents, which consist of incremental shares from stock options and the outstanding DSUs held by directors. The inclusion of the potential common share equivalents was not sufficiently dilutive to change the earnings per share for any period presented. The potential common share equivalents are included in EPS only when the Company has earnings, as they would be anti-dilutive in periods during which the Company has a net loss.

## 22. Interest rate sensitivity

The following table shows the June 30, 2019 position of the Company's wholly owned subsidiary, Street Capital Bank of Canada, with regard to the interest rate sensitivity of its assets, liabilities and equity. The information presented is based on the contractual maturity date.

|                                                                                | June 30, 2019    |                   |                    |                     |                      |                    |                    |
|--------------------------------------------------------------------------------|------------------|-------------------|--------------------|---------------------|----------------------|--------------------|--------------------|
| <i>(in thousands of \$)</i>                                                    | Floating Rate    | 0 to 3 Months     | 4 Months to 1 Year | 1 Year to 5 Years   | Greater than 5 Years | Non Rate Sensitive | Total <sup>1</sup> |
| <b>Assets</b>                                                                  |                  |                   |                    |                     |                      |                    |                    |
| Cash and restricted cash                                                       | \$ -             | \$ 30,282         | \$ -               | \$ -                | \$ -                 | \$ -               | \$ 30,282          |
| Weighted Average Contractual Rate                                              | -                | 1.75%             | -                  | -                   | -                    | -                  | 1.75%              |
| Securities                                                                     | -                | -                 | -                  | 23,266              | -                    | -                  | 23,266             |
| Weighted Average Contractual Rate                                              | -                | -                 | -                  | 2.48%               | -                    | -                  | 2.48%              |
| Non-securitized mortgages                                                      |                  |                   |                    |                     |                      |                    |                    |
| - Street Solutions                                                             | -                | 164,052           | 423,493            | 26,802              | -                    | (1,593)            | 612,754            |
| Weighted Average Contractual Rate                                              | -                | 4.98%             | 5.10%              | 5.70%               | -                    | -                  | 5.11%              |
| Non-securitized mortgages                                                      |                  |                   |                    |                     |                      |                    |                    |
| - stamped mortgages                                                            | 6,984            | -                 | -                  | 5,765               | 812                  | 29                 | 13,590             |
| Weighted Average Contractual Rate                                              | 3.09%            | -                 | -                  | 2.73%               | 2.89%                | -                  | 2.92%              |
| Non-securitized mortgages                                                      |                  |                   |                    |                     |                      |                    |                    |
| - other                                                                        | 3,784            | 318               | 1,514              | 13,460              | -                    | (9)                | 19,067             |
| Weighted Average Contractual Rate                                              | 3.23%            | 3.79%             | 3.86%              | 3.34%               | -                    | -                  | 3.37%              |
| Bridge loans                                                                   | 8,821            | -                 | -                  | -                   | -                    | -                  | 8,821              |
| Weighted Average Contractual Rate                                              | 8.95%            | -                 | -                  | -                   | -                    | -                  | 8.95%              |
| Securitized mortgages held on-balance sheet                                    | 54,042           | -                 | 2,299              | 43,328              | -                    | 559                | 100,228            |
| Weighted Average Contractual Rate                                              | 3.44%            | -                 | 2.67%              | 2.62%               | -                    | -                  | 3.05%              |
| Other assets                                                                   | -                | -                 | 1,200              | -                   | -                    | 179,291            | 180,491            |
| Weighted Average Contractual Rate                                              | -                | -                 | 1.00%              | -                   | -                    | -                  | 0.01%              |
| <b>Total assets</b>                                                            | <b>\$ 73,631</b> | <b>\$ 194,652</b> | <b>\$ 428,506</b>  | <b>\$ 112,621</b>   | <b>\$ 812</b>        | <b>\$ 178,277</b>  | <b>\$ 988,499</b>  |
| Weighted Average Contractual Rate                                              | 4.06%            | 4.48%             | 5.07%              | 3.41%               | 2.89%                | -                  | 3.77%              |
| <b>Liabilities</b>                                                             |                  |                   |                    |                     |                      |                    |                    |
| Cashable GICs <sup>2</sup>                                                     | \$ -             | \$ 1,267          | \$ -               | \$ -                | \$ -                 | \$ (1)             | \$ 1,266           |
| Weighted Average Contractual Rate                                              | -                | 1.45%             | -                  | -                   | -                    | -                  | 1.45%              |
| Non-cashable GICs                                                              | -                | 73,868            | 205,719            | 415,910             | -                    | (2,570)            | 692,927            |
| Weighted Average Contractual Rate                                              | -                | 2.30%             | 2.47%              | 2.85%               | -                    | -                  | 2.69%              |
| Securitization liabilities                                                     | 55,622           | 73                | 2,299              | 43,328              | -                    | (222)              | 101,100            |
| Weighted Average Contractual Rate                                              | 2.39%            | 1.84%             | 1.45%              | 1.79%               | -                    | -                  | 2.12%              |
| Other liabilities                                                              | -                | -                 | -                  | -                   | -                    | 93,848             | 93,848             |
| Weighted Average Contractual Rate                                              | -                | -                 | -                  | -                   | -                    | -                  | -                  |
| Shareholders' equity                                                           | -                | -                 | -                  | -                   | -                    | 99,358             | 99,358             |
| Weighted Average Contractual Rate                                              | -                | -                 | -                  | -                   | -                    | -                  | -                  |
| <b>Total liabilities and shareholders' equity</b>                              | <b>\$ 55,622</b> | <b>\$ 75,208</b>  | <b>\$ 208,018</b>  | <b>\$ 459,238</b>   | <b>\$ -</b>          | <b>\$ 190,413</b>  | <b>\$ 988,499</b>  |
| Weighted Average Contractual Rate                                              | 2.39%            | 2.28%             | 2.46%              | 2.75%               | -                    | -                  | 2.10%              |
| <b>Excess (deficiency) of assets over liabilities and shareholders' equity</b> | <b>\$ 18,009</b> | <b>\$ 119,444</b> | <b>\$ 220,488</b>  | <b>\$ (346,617)</b> | <b>\$ 812</b>        | <b>\$ (12,136)</b> | <b>\$ -</b>        |

<sup>1</sup> Accrued interest is included in "Other assets" and "Other liabilities", respectively.

<sup>2</sup> Cashable GICs are redeemable by the depositor after 90 days from the issue date.

## **23. Discontinued operations and non-controlling interest**

Both discontinued operations and the non-controlling interest relate to the Company's legacy businesses.

### ***Discontinued operations***

At both June 30, 2019 and December 31, 2018 the Company's assets and liabilities of discontinued operations consisted of net commissions receivable of \$0.46 million. The Company reports discontinued assets and liabilities as components of Other assets and Accounts payable and accrued liabilities, respectively; please see Note 12 and Note 13. There were no significant transactions involving discontinued operations during the six months ended June 30, 2019 and 2018.

### ***Non-controlling interest***

At June 30, 2018, due to the effective liquidation of Private Equity upon the sale of its final asset, the non-controlling interest in the Private Equity business was reduced to zero, and there have been no subsequent transactions. During the first six months of 2018, a total of \$1.52 million net income was attributable to the Company's non-controlling interest associated with the Private Equity business.

There is also a non-controlling interest associated with the Company's legacy investment in Fleetwood Fine Furniture, LP ("FFF"). No income or loss was attributable to the non-controlling interest associated with FFF during the first six months of either 2019 or 2018. The non-controlling interest in FFF amounts to \$(7.09) million at both June 30, 2019 and December 31, 2018.

## **24. Subsequent events**

The Company has evaluated events subsequent to June 30, 2019 through to the date of approval of the condensed consolidated interim financial statements by the Board of Directors for disclosure. There were no material subsequent events requiring disclosure.