MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

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STREET CAPITAL GROUP INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the results of operations of Street Capital Group Inc. ("Street Capital", "the Company", "SCGI", or the "Bank" when referring to Street Capital Bank of Canada) for the three and six months ended June 30, 2019, and its financial condition as at June 30, 2019, is based on the Company's Q2 2019 unaudited condensed consolidated interim financial statements prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), which incorporate International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with these interim financial statements, and also the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018. The effective date of this MD&A is August 1, 2019.

This MD&A is primarily related to the Company's wholly owned subsidiary, Street Capital Bank of Canada ("Street Capital Bank" or the "Bank"), a federally regulated Schedule I bank that carries on the Company's operating activities.

This MD&A contains non-GAAP measures that the Company uses to isolate the core operations and results of Street Capital Bank. These non-GAAP measures, and a glossary of terms used in this MD&A and the consolidated financial statements, are presented in the last section of this MD&A.

Additional information about the Company, including its continuous disclosure materials consisting of its interim filings, this MD&A, audited annual consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders, and Management Information Circular, can be found on the Company's website at *www.streetcapital.ca* and on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at *www.sedar.com*.

At August 1, 2019 the Company had 122,184,182 common shares issued and outstanding.

FORWARD-LOOKING INFORMATION

This MD&A, and the Company's other regulatory filings and other communications, contain certain forward-looking statements and forward-looking information (collectively, forward-looking statements) within the meaning of applicable securities laws. In this and other documents, forward-looking statements can generally be identified by use of words such as "may", "will", "could", "should", "anticipate", "believe", "estimate", "expect", "intend", "forecast", "project", "plan", "schedule", and words of similar import. These forward-looking statements relate to matters including, but not limited to, the Company's objectives, strategies, financial and operating results, as well as to the Company's markets and the Canadian economy in general.

Forward-looking statements are presented for the purpose of assisting the Company's shareholders and other stakeholders in understanding the Company's financial position, objectives and priorities, as well as its anticipated financial performance as at and for the periods ended on the dates presented, and may not be appropriate for other purposes.

Forward-looking statements reflect management's business judgement based on information available to management at the time they are made and on management's then-current view of future events and, as such, are subject to certain risks and uncertainties as outlined in this MD&A, including in, but not limited to, the sections titled "Business Update", "Outlook", and "Risk Management and Risk Factors". Such risks

and uncertainties are also discussed in the Company's Annual Information Form and other filings made with securities regulators, which are available on SEDAR (www.sedar.com) and on the Company's website (www.streetcapital.ca).

Relevant risks and uncertainties include, without limitation, possible unanticipated changes in: the Company's capital requirements, regulatory requirements, mortgage insurance rules, and the business and economic environment generally, including, but not limited to, Canadian housing market conditions and activity, interest rates, mortgage backed securities markets, timing and execution of anticipated transactions, technology, employment conditions, taxation, and competitive factors.

Should one or more of these risks materialize, or should underlying assumptions prove incorrect, the Company's actual results could differ materially from those anticipated in these forward-looking statements. Although management believes that its expectations are based on reasonable assumptions, management can give no assurance that its expectations will materialize. Therefore, the reader should not place undue reliance on forward-looking statements made in this MD&A or in the Company's other regulatory filings and other communications. Management undertakes no obligation, and does not intend, to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of any unanticipated events, except as required by applicable securities laws.

BUSINESS PROFILE

Street Capital (TSX: SCB) was established to create shareholder value by building a substantial, diversified financial services company. The Company's operations are currently concentrated in residential mortgage lending through its wholly owned subsidiary, Street Capital Bank, which was founded in 2007, and was approved on December 13, 2016 to commence business operations as a federally regulated Schedule I bank. It began banking operations on February 1, 2017. Prior to obtaining its bank licence, Street Capital Bank established itself as one of the largest non-bank mortgage lenders in Canada. The Bank operates in all provinces of Canada except Quebec.

Proposed Sale to RFA Capital

On June 14, 2019, as announced on June 17, 2019, the Company entered into a definitive arrangement agreement (the "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 (the "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. Assuming the receipt of all approvals, the Company expects the transaction to close by the end of the year.

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.

Concurrent with completion of the Arrangement, RFA has committed to cause the equity capital of the Bank to increase by a minimum of $50 million. In addition, RFA has committed to cause its investors (the "Investors") to provide an additional $25 million in readily available stand-by capital to the Bank. Subject to the Investors' discretion and the achievement of certain performance targets, it is RFA's intention to also cause the Investors to inject up to an additional $100 million of further equity capital into the Bank over the next five years to support balance sheet growth. RFA has also committed to provide the Company with access to up to $5 billion of additional mortgage funding. Accordingly, the Board believes that, in addition to the immediate liquidity and certainty of value for Shareholders, the Arrangement will allow the Company to, under RFA's ownership, benefit from improved financial strength, meet the needs of its other stakeholders, and enhance its competitive positioning.

If the sale of the Company to RFA is not approved or completed, the Company would immediately explore other alternatives for strengthening the capital base of the Bank, which could potentially be less attractive to shareholders. This could include a new capital raise (that could significantly dilute the ownership interest of existing shareholders who don't participate in such raise), a sale of assets by the Company, or another strategic relationship or merger with a third-party that could provide the Bank with additional capital resources and ongoing financial support. There can be no assurance that either the Company or the Bank will be successful in strengthening its capital position, or in securing necessary ongoing financial support. If unsuccessful the Company would need to materially alter its business plans.

Further information about the Arrangement is available in the Arrangement Agreement and in the Notice of Special Meeting and Management Information Circular dated July 11, 2019 which is available on SEDAR (www.sedar.com) and on the Company's website (www.streetcapital.ca).

BUSINESS OVERVIEW

Prime Insurable Residential Lending ($26.5 B MUA at June 30, 2019)

Since its inception in 2007, the Bank's primary operations have centered on the origination and subsequent sale of both high ratio and conventional prime insurable single-family residential mortgages at competitive interest rates. These prime insurable residential mortgages are originated through the Bank's network of approved independent mortgage brokers, and almost all of them are sold at the time of commitment to top-tier financial institutions (the "investors" or "funding partners"). The Bank is an approved issuer of National Housing Agency Mortgage-Backed Securities ("NHA MBS") and an approved seller under the Canada Mortgage Bonds ("CMB") program, and therefore can also securitize the mortgages and access the market directly. However, although direct securitization of prime insured mortgages can at times be more profitable over the life of the mortgage, depending on mortgage spreads, in the absence of a secondary transaction such as the sale of the interest-only strip, the underlying mortgages remain on the Bank's balance sheet and attract a commensurate increase in regulatory capital in the calculation of its leverage ratio. This, combined with the fact that the Bank can earn a better rate of return on capital on its "Street Solutions" uninsured mortgage product, are disincentives to the Bank making prime insured mortgage securitization a major part of its funding model. Its participation in the direct securitization market has not been significant to date.

Although the Bank sells the majority of the prime mortgages it originates, thereby transferring the associated risks to the investor, the Bank has always focused on, and been committed to, the credit quality of the mortgages it underwrites. It maintains stringent underwriting and robust quality assurance processes. This is core as an originator of mortgages for third-party funding partners, and critical to the Bank's success in building a solid balance sheet with predictable recurring revenues.

The Bank outsources the servicing of its MUA to third-party service providers, but continues to administer the mortgages, and therefore remains the face of all direct communication with borrowers throughout the mortgage term. This ongoing customer relationship promotes renewals and is a key part of the long-term growth, profitability and recognition of the Street Capital Bank brand. Prime renewals are highly profitable due to their much lower acquisition costs as compared to newly originated mortgages. Additionally, existing customer relationships can be the source of potential cross-sell opportunities for the Bank's new products as its banking operations expand. Prime mortgage renewals are expected to remain an important part of the business model. While the Bank generally targets a renewal rate in the range in of 75% of prime mortgages eligible for renewal, the primary focus is maximizing the financial returns of the renewal portfolio.

Prime Uninsurable Residential Lending ($294 MM MUA at June 30, 2019)

In Q2 2018 the Bank began originating prime uninsurable single-family mortgages, on a limited scale, through the Bank's network of approved independent mortgage brokers. Prime uninsurable mortgages are mortgages that have similar credit quality when compared to prime insurable mortgages, but that no longer qualify for mortgage insurance due to one or more criteria. These criteria include mortgages for the purpose of refinancing, mortgages on homes valued over $1 million, and mortgages with amortization periods over 25 years. As with the prime insurable mortgages discussed above, these prime uninsurable mortgages are sold at commitment to one of the Bank's funding partners. Meaningful growth in originations for this product will ultimately depend on the development of sufficiently liquid private residential mortgage backed securities ("RMBS") markets at sufficiently profitable spreads. Originations and sale of prime uninsurable mortgages have been a relatively small proportion of the Company's operations but with improved pricing, originations and sales increased to $169 million in Q2 compared to $62 million last quarter and $3.5 million at inception in Q2 2018.

Street Solutions Uninsured Residential Mortgage Lending ($638 MM MUA at June 30, 2019)

Street Solutions are non-prime single-family residential mortgages that provide alternative lending options for achieving the goal of home ownership. The program targets a market segment that consists of credit-worthy, but generally under-served, borrowers who may not qualify for a prime residential mortgage. This segment of borrowers includes:

- New immigrants;
- Self-employed individuals;
- Rental investors; and
- Individuals with slightly bruised credit history.

The Street Solutions uninsured mortgage products consist entirely of first mortgages. Currently most of the mortgages are funded on the Bank's balance sheet with deposits and earn both net interest income and fee income. In Q4 2018, the Bank sold $26.2 million of funded Street Solutions mortgages to an institutional investor, and will continue to sell mortgages when the underlying economics are beneficial. As with its program for prime mortgages, the Bank earned an upfront gain on sale and transferred all the risks and rewards of the underlying mortgages upon sale, therefore derecognizing the mortgages from its balance sheet. There were no sales during Q1 and Q2 2019.

Insured Multi-Unit Residential Lending ($534 MM MUA at June 30, 2019)

In Q3 2017 the Bank began to originate and securitize insured multi-unit residential mortgages through the CMB program. The mortgages have 10-year terms and are fully insured through Canadian Mortgage and Housing Corporation ("CMHC") programs. The combination of the underlying terms of the mortgages and the sale structure allows these transactions to qualify for off-balance sheet accounting, resulting in derecognition and generating upfront gains on sale. The Bank will continue to participate in this product space to the extent of its quarterly 10-year CMB allocation, and when the mortgages individually and on a portfolio basis meet the Bank's risk tolerance.

Broker Deposit Products ($694 MM at June 30, 2019)

To build its balance sheet lending portfolio, since Q1 2017 the Bank has been offering CDIC insurance-eligible deposits through a network of licensed investment dealers. Products consist of one to five-year guaranteed investment certificates ("GICs") and a 90-day cashable GIC, all at competitive interest rates. The Bank does not offer demand deposit products such as High Interest Savings Accounts ("HISAs"). The GIC deposit base funds the Bank's Street Solutions program, its other mortgage loans that remain on-balance sheet, such as bridge loans or securitized mortgages awaiting sale, and its pool of high-quality liquid assets.

BUSINESS UPDATE

Non-adjusted earnings per share (EPS) was $0.03 for the quarter, up from ($0.01) last quarter which included significant non-recurring restructuring costs. Adjusted EPS was also $0.03 for the quarter, as compared to flat last quarter and $0.02 in Q2 2018. Adjusted EPS excludes non-recurring restructuring costs and legacy business items (please see the *Non-GAAP Measures* section for more information).

Revenue increased to $18.0 million in the quarter, up 6% from $17.0 million in Q2 2018 and up seasonally from $13.3 million last quarter. Increased net interest margin from Street Solutions mortgage balances and similar contributions from new prime mortgage sales were partially offset by a lower contribution from prime renewals in the quarter and compared to last year. Net interest margin improved from last quarter on marginally lower Street Solutions balances, while prime mortgage sales were up seasonally.

Prime insured originations (excluding variable to fixed conversions) were $1.05 billion in the quarter, up 4% from $1.01 billion in Q2 2018. Prime uninsured mortgage volumes also increased to $169.3 million in the quarter, compared to $56.6 million in all of 2018 and up from $61.6 million last quarter. Improved price competitiveness of this product is supporting increased volumes.

Originations of Street Solutions mortgages were $42.7 million in the quarter, down meaningfully from $107.8 million in Q2 2018 and $120.3 million last quarter. Lower originations and the active management of renewal rates has reduced the portfolio to $612.8 million from $622.0 million last quarter. The Company will continue to conservatively manage this portfolio around these levels until additional regulatory capital is available to the Bank.

PROGRESS AGAINST 2019 PRIORITIES

In its Q4 2018 Management's Discussion and Analysis the Company set out three core priorities in support of the Bank's broader strategic realignment. During the first six months of 2019 the Bank achieved the following outcomes:

Description	YTD 2019 Progress
Prime New Mortgage Originations	• Originated and sold $2.11 billion in prime mortgages, generating $13.8 million in revenue YTD compared to $1.89 billion and $13.2 million last year, up 11.8% and 4.4% respectively.
Prime Mortgage Renewals	• Renewed and sold $1.10 billion in prime mortgages, generating $13.6 million in revenue YTD compared to $1.29 billion and $15.8 million last year, reflecting the underlying maturity profile of mortgages under administration. • Renewed 69% of mortgages eligible for renewal YTD compared to 73% last year.
Loan Origination Systems and Processes	• Assembled an Agile delivery team that is focused on middle office transformation and digital delivery to improve throughput, customer experience and the overall efficiency of the Company's mortgage origination platform, with the objective of solidifying competitive advantage and growing overall market share. • Advanced the vendor selection process for a new loan origination system (LOS) and enhanced workflow capability. This project is on hold given the proposed sale to RFA Capital described above. • Identified and implemented several minor improvements to the end-to-end operational process.

OUTLOOK

Note to readers: This section includes forward-looking information and is qualified in its entirety by the discussion about Forward-Looking Information on page 1.

Prime Mortgage Lending

Market competition for prime insurable mortgages remains high, particularly in the high ratio segment, and this is anticipated to continue. Management continues to execute on its renewed go-to-market strategies and improving service levels, and continues to target an improvement in prime originations and its broker market share in 2019.

Price competition for prime insurable mortgages has been evident through the spring markets and will continue to put some negative pressure on the gain on sale rates earned on these mortgages. As such, margins could compress from current levels, particularly into Q3.

The Company's rates for prime uninsured mortgages have become more competitive, and to the extent the pricing remains as such, the Company anticipates originations for this product will continue to increase compared to 2018.

Prime Mortgage Renewals

Management continues to expect prime renewals in the range of $2.40 - $2.60 billion in 2019 and $2.60 - $2.80 billion in 2020.

Renewals will likely continue to be sold at relatively lower net gain on sale rates compared to 2018 due to two main factors. First, from the period January 2011 – July 2015, the Bank offered brokers a Loyalty Program that pays a trailer commission upon mortgage renewal. The bulk of mortgages originated under this program have maturity dates between 2018 and 2020, which began noticeably increasing acquisition costs for renewals in 2018, and the relative proportion renewing will be higher in 2019. Addtionally, renewals are subject to the same margin pressure as new prime originations. Even with these pressures, the gain on sale rates for renewals remain materially more profitable than new originations and will continue to significantly contribute to the Company's financial results.

The decline in the prime mortgage renewal rate to 69% of mortgages eligible for renewal YTD compared to 73% last year has been affected by intense price competition. Management continues to focus on maximizing contribution from mortgage renewals versus maximizing the renewal rate alone.

Street Solutions Uninsured Residential Mortgage Lending

The Bank is managing Street Solutions renewal volumes and new originations based on its current levels of available regulatory capital and funding, and in particular off-balance sheet funding. While the Bank is within its capital targets, it will continue to conservatively manage the Street Solutions on-balance sheet portfolio to remain relatively flat until additional regulatory capital becomes available to the Bank.

As discussed in previous reports, in order for the Bank to grow its portfolio of Street Solutions mortgages on-balance sheet it requires a commensurate increase in its level of regulatory capital, given its current internal capital targets. Originations for Street Solutions will ultimately depend on deepening funding sources both on-and off-balance sheet, expected renewal volumes, and regulatory capital levels. The sustainability and profitability of off-balance sheet funding for uninsured mortgages is dependent upon several factors outside the control of the Company including, but not limited to, funding availability and funding costs relative to the yield on the underlying mortgages. The Company hopes to continue accessing this funding capability through future loan sales. However, given the nascent nature of the off-balance sales program for this product, there is no certainty that future funding will be available from this funding source, or that such sales will be sufficiently profitable to the Company to justify participation in the program. During the first six months of 2019, returns for this program were not sufficiently profitable and the Company did not sell any Street Solutions mortgages. The Company continues to actively evaluate future loan sales and expects to be able to participate in future loan sales given acceptable profitability.

Funding and Liquidity

As noted above, when investors purchase prime insurable mortgages at commitment, the Bank transfers substantially all the risks associated with the mortgage. The Bank's access to this funding is currently adequate, and the Bank remains competitive in this mortgage segment. Also, as mentioned above, the Bank has been successful in obtaining funding for a prime uninsurable mortgage product.

The primary funding strategy for the Street Solutions product continues to be to originate deposits, sourced through the investment broker network, across tenors, and to focus on deposits with fixed terms to manage liquidity risk.

The Company uses robust liquidity models which help analyze the Company's anticipated net cash flows, and always maintains an adequate stock of unencumbered high quality liquid assets ("HQLA") as insurance against a range of liquidity and funding stress scenarios. These include cash and cash equivalents, government guaranteed marketable securities, and stamped mortgages. Please see Table 18 in *Funding and Liquidity Risk Management*, below. As a result, the level of HQLA the Company holds varies over time depending upon the Company's view of its expected net cash flows, which include such variables as expectations for on-balance sheet mortgage originations and renewal volumes, anticipated loan sales, and deposit inflows and maturities. As discussed above, for the Bank to grow its portfolio of Street Solutions on-balance sheet it needs a commensurate increase in its level of regulatory capital, given its current internal capital targets and/or the ability to actively sell Street Solutions loans to third-party investors. The reduction in expected funding is reflected in the Company's reduction in its HQLA during the quarter from $89 million to $63 million.

Operating Expenses

The Bank will continue to target positive operating leverage as a key performance indicator in 2019. The additional expenses, including legal and advisory services, associated with the Process, could put some pressure on this key objective. Management continues to manage expenses prudently, including the earlier restructuring that resulted in a net reduction of just over 10% of the workforce in early 2019. Balancing all factors, including additional servicing costs, and the need to balance improvements in efficiency against the appropriate investments in people and technology, the Company anticipates expenses to run marginally above 2018.

Q2 2019 SUMMARY AND HIGHLIGHTS

Table 1 – Financial Highlights

(in thousands of $, except where defined)	For the three months ended or as at			For the six months ended or as at	
	June 30, 2019	**March 31, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Financial performance					
Shareholders' net income (loss)	**$ 3,798**	$ (1,656)	$ 3,306	**$ 2,142**	$ 1,941
Shareholders' diluted earnings (loss) per share	**$ 0.03**	$ (0.01)	$ 0.03	**$ 0.02**	$ 0.02
Adjusted shareholders' net income (loss) (i)	**$ 3,820**	$ (56)	$ 2,337	**$ 3,765**	$ 856
Adjusted shareholders' diluted earnings (loss) per share (i)	**$ 0.03**	$ (0.00)	$ 0.02	**$ 0.03**	$ 0.01
Total revenue (net of acquisition costs)	**$ 18,004**	$ 13,336	$ 17,041	**$ 31,340**	$ 28,634
Net gain on sale - new and conversions - excluding portfolio insurance (ii)	**$ 7,811**	$ 5,976	$ 7,407	**$ 13,787**	$ 13,207
Net gain on sale - new and conversions - % excluding portfolio insurance (ii)	**0.63%**	0.68%	0.70%	**0.65%**	0.70%
Net gain on sale of mortgages - renewals	**$ 8,065**	$ 5,490	$ 9,053	**$ 13,555**	$ 15,780
Net gain on sale - renewals - % of renewals	**1.29%**	1.16%	1.18%	**1.23%**	1.23%
Net interest income - non-securitized assets	**$ 4,077**	$ 3,713	$ 2,156	**$ 7,790**	$ 3,558
Net interest margin - non-securitized assets	**2.25%**	2.11%	2.00%	**2.18%**	1.85%
Return on tangible equity (i)	**15.9%**	(7.0%)	12.2%	**4.5%**	3.9%
Adjusted return on tangible equity (i)	**16.0%**	(0.2%)	8.8%	**7.9%**	2.0%
Mortgages originated and under administration					
Mortgages under administration *(in billions of $)*	**$ 27.92**	$ 27.76	$ 27.90	**$ 27.92**	$ 27.90
Prime mortgages originated and sold	**$ 1,236,151**	$ 875,529	$ 1,061,892	**$ 2,111,680**	$ 1,888,420
Prime mortgage renewals sold	**624,360**	473,806	767,830	**1,098,166**	1,287,516
Total prime mortgages sold	**$ 1,860,511**	$ 1,349,335	$ 1,829,722	**$ 3,209,846**	$ 3,175,936
Total Street Solutions originations	**$ 42,741**	$ 120,303	$ 107,805	**$ 163,044**	$ 206,090
Credit quality - mortgages					
Provision for Street Solutions credit losses	**$ (182)**	$ (226)	$ (140)	**$ (408)**	$ (201)
Provision for Street Solutions credit losses - rate	**0.12%**	0.16%	0.16%	**0.13%**	0.12%
Allowance for Street Solutions credit losses	**$ 1,004**	$ 821	$ 471	**$ 1,004**	$ 471
Allowance for Street Solutions credit losses - % of Street Solutions assets	**0.16%**	0.13%	0.12%	**0.16%**	0.12%
Regulatory Capital Ratios - Street Capital Bank					
Risk-weighted assets	**$ 512,693**	$ 513,297	$ 452,010		
Common equity Tier 1 (CET1) ratio	**19.03%**	18.20%	22.24%		
Total capital ratio	**19.20%**	18.35%	22.24%		
Leverage ratio	**9.88%**	9.18%	11.29%		
Equity and share information					
Shareholders' equity	**$ 97,835**	$ 93,742	$ 140,763		
Shares outstanding end of period (000s)	**122,184**	122,184	122,184		
Book value per share	**$ 0.80**	$ 0.77	$ 1.15		
Market capitalization	**$ 80,641**	$ 63,536	$ 103,856		
Share price at close of market	**$ 0.66**	$ 0.52	$ 0.85		

(please see definitions on following page)

Note: The table above includes non-GAAP measures that highlight the Company's core operating business (the Bank) by removing non-recurring items, including non-recurring restructuring costs or recoveries, non-cash asset write-downs, and material items associated with the Company's legacy businesses. Please see the section Non-GAAP Measures for further detail and numerical reconciliations of these non-GAAP measures to the most directly comparable measure specified, defined or determined under the GAAP presented in the Company's financial statements.

(i) Non-GAAP measure the Company uses to measure its performance from continuing and recurring income from its core business.
(ii) Portfolio insurance refers to the amortization of the prepaid portfolio insurance asset which is included as an expense in the calculation of total revenue. This amortization of the asset is not variable based on the current period's volume, and, as such, can distort gain on sale trends. Please see Table 2 for additional information.

Items of Note

Q2 2019 was impacted by the following items:

- The Company reduced its deferred tax liabilities by $0.7 million, lowering its income tax expense for the current year, due to the reduction of income tax rates in Alberta.
- As mentioned above, under *Proposed Sale to RFA Capital*, on June 14, 2019 the Company entered into the Arrangement Agreement with 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, subject to shareholder approvals at the Meeting scheduled for August 16, 2019 and regulatory approvals.

Q1 2019 was impacted by the following items:

- The Company recorded a restructuring charge of $2.1 million relating to reduction of its workforce by approximately 30 positions. This charge was adjusted from net loss in the determination of non-GAAP performance measures.
- The Company recorded $0.81 million in fair value gains related to holding $19.9 million in mortgages held for sale. While the Company does not generally hold mortgages for sale on balance sheet, it does occur in limited circumstances.

Q2 2018 was impacted by the following items:

- The Company effectively exited its Private Equity operations via the sale of its sole remaining investment, with the Company's share of the proceeds totaling $1.03 million. The fair value gains in the quarter were $2.48 million, of which $1.29 million was allocated to the Company's non-controlling interests. The net gain was incorporated into the determination of non-GAAP adjusted performance measures..

Financial Highlights

- Net income was $3.8 million or $0.03 per share in Q2 2019, compared to net income of $3.3 million or $0.03 per share in Q2 2018, and up from a net loss of $1.7 million or ($0.01) last quarter. Net income YTD 2019 was $2.1 million or $0.02 per share compared to $1.9 million and $0.02 per share YTD 2018. Net loss in Q1 2019 was significantly affected by the restructuring charge noted above. Net income in Q2 2019 and YTD 2019 includes the tax adjustment discussed under Q2 2019 *Items of Note*.

- Adjusted net income (primarily adjusted for the restructuring charges and legacy items) of $3.8 million or $0.03 per share in Q2 2019 improved from adjusted net income of $2.3 million or $0.02 per share in Q2 2018 and from an adjusted net loss of $0.1 million or ($0.00) per share last quarter. Adjusted net income YTD 2019 was $3.8 million or $0.03 per share, up from $0.9 million YTD 2018, and includes the tax adjustment discussed under Q2 2019 *Items of Note*. Adjusted net income in both Q2 2018 and YTD 2018 was reduced by the reversal of fair value gains related to the Company's former private equity business.

- Mortgages under administration (MUA) were $27.92 billion at the end of Q2 2019, up from $27.76 billion at the end of Q1 and up marginally from $27.90 billion one year ago.

- New prime insurable originations were $1.05 billion in the quarter, up 4% compared to $1.01 billion in Q2 2018 and up seasonally from $767.3 million last quarter. YTD originations were $1.82 billion, up 5% compared to $1.73 billion YTD 2018.

- New prime uninsured originations were $169.3 million in the quarter, up from $3.5 million in Q2 2018, which was the quarter the program started, and up from $61.6 million last quarter. YTD originations were $230.9 million.

- Net gains on sale for new prime single-family mortgages were $7.8 million in Q2 2019, up 5% from $7.4 million in Q2 2018 and up seasonally from $6.0 million last quarter. Improvements year over year reflect higher originations, discussed above, offset by lower net gain on sale rates of 0.63% compared to 0.70% last year. Compared to last quarter, seasonally higher originations were also partially offset by an expected 5 bp decrease in net gain on sale rates from 0.68%. YTD 2019 net gains were $13.8 million, up 4% compared to $13.2 million YTD 2018, with YTD net gain on sale rates of 0.65% compared to 0.70%.

- Total prime mortgages renewed and sold were $624.4 million in Q2 2019, down from $767.8 million in Q2 2018 and up from $473.8 million last quarter. YTD 2019 renewals were $1.10 billion, down from $1.29 billion YTD 2018. The decline over last year is due to both the underlying maturity and prepayment profile of the portfolio available for renewal, and the lower renewal rates this quarter compared to last year. Management still expects prime renewals in the range of $2.40 to $2.60 billion in 2019, compared to $2.44 billion in 2018. Renewal rates were 68% in Q2 2019 compared to 70% in Q2 2018 and 71% last quarter, and 69% YTD 2019 compared to 73% YTD 2018.

- Net gains on sale for prime renewed mortgages were $8.1 million in the quarter, down $1.0 million from $9.1 million in Q2 2018 and up from $5.5 million last quarter. The decrease year over year reflects the lower volume of prime renewals, discussed above, offset by an increase in gain on sale rates to 1.29% compared to 1.18% in 2018 reflecting a higher proportion of renewals with an investor where the Company can benefit from the higher spreads in 2019. Quarter over quarter,

both renewal volumes and gain on sale rates increased. Net gains on sale YTD 2019 were $13.6 million, down from $15.8 million YTD 2018, but with consistent gain on sale rates of 1.23%.

- Originations of Street Solutions (uninsured non-prime) single-family mortgages were $42.7 million in Q2 2019, down from both $107.8 million in Q2 2018 and $120.3 million last quarter. The total Street Solutions portfolio on balance sheet was $612.8 million at the end of the quarter compared to $394.6 million one year ago and $622.0 last quarter. Demand for Street Solutions remains strong, but the portfolio has decreased due to management's continued focus on managing the portfolio conservatively, in line with its current available regulatory capital.

- Net interest income from non-securitized assets was $4.1 million in Q2 2019, up from $2.2 million in Q2 2018 and $3.7 million in Q1 2019, reflecting the overall increase in the on-balance sheet Street Solutions mortgages year over year to $612.8 million at the end of Q2 2019, and improvements in net interest margins to 2.25% in the quarter compared to 2.00% in Q2 2018 and 2.11% last quarter. The average spread of Street Solutions over deposits was 2.52% in Q2 2019, down from 2.60% in Q2 2018 and 2.49% last quarter. Net interest income YTD 2019 was $7.8 million with a margin of 2.18% compared to $3.6 million with a margin of 1.85% YTD 2018, with the average spread of Street Solutions over deposits at 2.51% and 2.65%, respectively.

- Deposit balances were $694.2 million at the end of Q2 2019, up from $481.2 million one year ago and from $638.7 million at the end of 2018, but down from $720.8 million last quarter as the Street Solutions portfolio is actively managed at steady balances. Liquid assets were $63.1 million at the end of Q2 2019 compared to $112.0 million at the end of 2018 and $89.0 million last quarter, and well within the Bank's conservative liquidity metrics. The reduction from year end and last quarter reflects both absorption of excess liquidity and the active management of liquidity against commitments, and also lower expected future funding in the normal course of business.

- Street Solutions credit performance remains very strong with total expected credit losses of $1.0 million or 0.16% of ending Street Solutions balances at the end of the quarter, well within management's expectations. Although non-performing loans reached their highest level since the Q2 2017 inception of the product, overall, they remain within expectations at $3.0 million or 49 basis points of ending balances, and the Street Solutions portfolio has not generated a realized loss since its inception. At June 30, 2019 98.2% of the Street Solutions portfolio was current.

- The serious arrears rate (>90 days past due) for prime mortgages was 0.11% at the end of the quarter, unchanged from both June 30, 2018 and March 31, 2019.

- Adjusted operating expenses were $13.7 million in Q2 2019, consistent with $13.8 million in Q2 2018 and $13.3 million in Q1 2019. The YTD amounts were similarly consistent, with $27.0 million in 2019 compared to $27.2 million in 2018.

Prime Mortgage Activity and MUA

Table 2 - Prime Mortgages Sold and Gains on Sale

	For the three months ended or as at					
	June 30, 2019		March 31, 2019		June 30, 2018	
Mortgages sold						
(in thousands of $)						
Prime insurable mortgages originated	**$ 1,052,342**	**56.6%**	$ 767,347	56.9%	$ 1,010,229	55.2%
Prime insurable mortgage conversions	**14,546**	**0.8%**	46,562	3.5%	48,198	2.6%
Prime uninsurable mortgages originated	**169,263**	**9.1%**	61,620	4.6%	3,465	0.2%
Total prime mortgages originated	**$ 1,236,151**	**66.4%**	$ 875,529	64.9%	$ 1,061,892	58.0%
Prime insurable mortgages renewed	**624,360**	**33.6%**	473,806	35.1%	767,830	42.0%
Total prime mortgages sold	**$ 1,860,511**	**100.0%**	$ 1,349,335	100.0%	$ 1,829,722	100.0%
Mortgages under administration ***(in billions of $)***	**$ 27.92**		$ 27.76		$ 27.90	
Prime insurable mortgage sale financial highlights						
(in thousands of $)						
Cash premium at sale - new	**$ 16,383**	**1.56%**	$ 12,129	1.58%	$ 15,394	1.52%
Deferred gain on sale - new	**2,848**	**0.27%**	2,059	0.27%	2,902	0.29%
Gain on sale of mortgages - new	**$ 19,231**	**1.83%**	$ 14,188	1.85%	$ 18,296	1.81%
Acquisition expenses - new	**12,283**	**1.17%**	8,886	1.16%	11,312	1.12%
Gain on sale before portfolio insurance	**$ 6,948**	**0.66%**	$ 5,302	0.69%	$ 6,984	0.69%
Portfolio insurance expense	**3,273**	**0.31%**	3,336	0.43%	2,622	0.26%
Net gain on sale - new	**$ 3,675**	**0.35%**	$ 1,966	0.26%	$ 4,362	0.43%
Net gain on sale - conversions	**$ 160**	**1.10%**	$ 365	0.78%	$ 383	0.79%
Cash premium at sale - renewals	**$ 8,161**	**1.31%**	$ 5,801	1.22%	$ 8,976	1.17%
Deferred gain on sale - renewals	**1,673**	**0.27%**	1,174	0.25%	2,016	0.26%
Gain on sale of mortgages - renewals	**$ 9,834**	**1.58%**	$ 6,975	1.47%	$ 10,992	1.43%
Acquisition expenses - renewals	**1,769**	**0.28%**	1,485	0.31%	1,939	0.25%
Net gain on sale - renewals	**$ 8,065**	**1.29%**	$ 5,490	1.16%	$ 9,053	1.18%
Prime uninsurable mortgage sale financial highlights						
(in thousands of $)						
Cash premium at sale	**$ 2,167**	**1.28%**	$ 858	1.39%	$ 47	1.36%
Deferred gain on sale	**224**	**0.13%**	97	0.16%	10	0.29%
Gain on sale of mortgages	**$ 2,391**	**1.41%**	$ 955	1.55%	$ 57	1.65%
Acquisition expenses	**1,688**	**1.00%**	646	1.05%	17	0.49%
Net gain on sale	**$ 703**	**0.42%**	$ 309	0.50%	$ 40	1.15%

Table 2 (continued) - Prime Mortgages Sold and Gains on Sale

	For the six months ended or as at			
	June 30, 2019		June 30, 2018	
Mortgages sold				
(in thousands of $)				
Prime insurable mortgages originated	**$ 1,819,689**	**56.7%**	$ 1,734,077	54.6%
Prime insurable mortgage conversions	**61,108**	**1.9%**	150,878	4.8%
Prime uninsurable mortgages originated	**230,883**	**7.2%**	3,465	0.1%
Total prime mortgages originated	**$ 2,111,680**	**65.8%**	$ 1,888,420	59.5%
Prime insurable mortgages renewed	**1,098,166**	**34.2%**	1,287,516	40.5%
Total prime mortgages sold	**$ 3,209,846**	**100.0%**	$ 3,175,936	100.0%
Mortgages under administration ***(in billions of $)***	**$ 27.92**		$ 27.90	
Prime insurable mortgage sale financial highlights				
(in thousands of $)				
Cash premium at sale - new	**$ 28,512**	**1.57%**	$ 26,764	1.54%
Deferred gain on sale - new	**4,907**	**0.27%**	5,280	0.30%
Gain on sale of mortgages - new	**$ 33,419**	**1.84%**	$ 32,044	1.85%
Acquisition expenses - new	**21,169**	**1.16%**	19,951	1.15%
Gain on sale before portfolio insurance	**$ 12,250**	**0.67%**	$ 12,093	0.70%
Portfolio insurance expense	**6,609**	**0.36%**	5,235	0.30%
Net gain on sale - new	**$ 5,641**	**0.31%**	$ 6,858	0.40%
Net gain on sale - conversions	**$ 525**	**0.86%**	$ 1,074	0.71%
Cash premium at sale - renewals	**$ 13,962**	**1.27%**	$ 15,437	1.20%
Deferred gain on sale - renewals	**2,847**	**0.26%**	3,390	0.26%
Gain on sale of mortgages - renewals	**$ 16,809**	**1.53%**	$ 18,827	1.46%
Acquisition expenses - renewals	**3,254**	**0.30%**	3,047	0.24%
Net gain on sale - renewals	**$ 13,555**	**1.23%**	$ 15,780	1.23%
Prime uninsurable mortgage sale financial highlights				
(in thousands of $)				
Cash premium at sale	**$ 3,025**	**1.31%**	$ 47	1.36%
Deferred gain on sale	**321**	**0.14%**	10	0.29%
Gain on sale of mortgages	**$ 3,346**	**1.45%**	$ 57	1.65%
Acquisition expenses	**2,334**	**1.01%**	17	0.49%
Net gain on sale	**$ 1,012**	**0.44%**	$ 40	1.15%

Q2 2019 compared to Q2 2018

New Prime Single-Family Mortgage Sales

(i) Prime insurable mortgages

New sales volume of $1.05 billion in Q2 2019 was up 4% from $1.01 billion in Q2 2018. Management did observe some reduction in origination momentum late in the quarter after the announcement of the proposed sale to RFA. More recent observations have shown some improvement as communication strategies have began to have the intended effect. Conversion activity (where existing mortgage customers convert from variable rate to fixed rate), was $14.5 million this year compared to $48.2 million last year. This activity fluctuates depending on the underlying interest rate environment. In the absence of market disruption, the Company still expects to see continued improvement in prime insured origination levels in 2019.

Net revenue from new sales was $6.9 million (excluding portfolio insurance amortization), consistent with $7.0 million in Q2 2018. The increase in sales volume this year was offset by a reduction in the net gain on sale rate to 0.66% from 0.69%, which primarily reflected an increase in acquisition expenses due to higher rates to access origination systems. This was partially offset by better spreads compared to last year.

Portfolio insurance amortization was $3.3 million compared to $2.6 million in Q2 2018. This expense is not variable with current period volumes, as it represents an amortization pattern associated with the estimated remaining balances of the underlying portfolio-insured mortgages under administration. The increase in amortization reflects the prospective application of changes in management's assumptions for prepayment and renewal rates, which has increased the rate of amortization.

(ii) Prime uninsurable mortgages

The Company began originating and selling prime uninsurable mortgages in Q2 2018, with sales in that quarter of $3.5 million. Although this product line remains a relatively small segment of the Company's business, sales of prime uninsurable mortgages in Q2 2019 increased to $169.3 million as the pricing for the product became more competitive.

Renewal Prime Single-Family Mortgage Sales

Renewal sales volume of $624.4 million was down from $767.8 million in Q2 2018, reflecting the maturity profile of mortgages available for renewal, prepayment behavior and a lower renewal rate in Q2 2019 of 68% compared to 70% last year. While the Bank targets a renewal rate in the mid 70s, it is most focused on maximizing the revenue contribution from renewals, by balancing renewal rate with maximizing profit contribution.

Net revenue of $8.1 million was down from $9.1 million in Q2 2018, reflecting lower volumes partially offset by higher net gain on sale rates of 1.29% versus 1.18% last year. This increase in net gain on sale rates primarily reflects a higher proportion of renewals with an investor where the Company benefits from wider spreads experienced this year.

Q2 2019 compared to Q1 2019

New Prime Single-Family Mortgage Sales

(i) Prime insurable mortgages

New sales volume of prime insurable mortgages of $1.05 billion was up seasonally from $767.3 million last quarter. These results were anticipated, given the existing business model that sees stronger activity in the second and third quarters of the year.

Net revenue of $6.9 million (excluding amortization of portfolio insurance) from new prime insurable sales was up from $5.3 million last quarter, on increased volumes partially offset by reduced gain on sale rates of 0.66% compared to 0.69% last quarter (excluding portfolio insurance amortization), reflecting fairly stable gross gains on sale with some changes in product mix.

(ii) Prime uninsurable mortgages

With continued competitive pricing for prime uninsured mortgages the Company increased originations and sales to $169.3 million compared to $61.6 million last quarter and $56.6 million for all of 2018. Changes to the product and pricing in 2019, to drive higher volumes across the product shelf, brought the net gain on sale rates down from last quarter.

Renewal Prime Single-Family Mortgage Sales

Renewal sales volume of $624.4 million was up from $473.8 million in Q1 2019 reflecting the maturity profile of the underlying MUA. Renewal rates were 68% in the quarter compared to 71% last quarter.

Net revenue from renewal sales was $8.1 million, up from $5.5 million in Q1 2019, on the higher volume and the increase in net gain on sale rates to 1.29% compared to 1.16% last quarter. This was reflective of a higher proportion of renewals with an investor where the Company benefits from better market spreads.

YTD 2019 compared to YTD 2018

New Prime Single-Family Mortgage Sales

(i) Prime insurable mortgages

New sales volume of prime insurable mortgages of $1.82 billion was up 5% compared to $1.73 billion YTD 2018. Conversions in 2019 were $61.1 million compared to $150.9 million last year, reflecting the current interest rate environment.

Net revenue from new sales was $12.3 million (excluding portfolio insurance amortization), up slightly from $12.1 million in 2018. Higher sales volumes were offset by lower net gain on sales rates of 0.67% compared to 0.70% last year.

(ii) Prime uninsurable mortgages

YTD originations and sales increased to $230.9 million compared to $3.5 million in Q2 2018 and $56.6 million for all of 2018. Net revenue from 2019 sales was $1.01 million with a net gain on sale rate of 0.44%.

Renewal Prime Single-Family Mortgage Sales

Renewal sales volume of $1.10 billion was down from $1.29 billion in 2018 reflecting the maturity profile of the underlying MUA. Renewal rates were 69% YTD compared to 73% last year.

Net revenue from renewal sales was $13.6 million, down from $15.8 million in 2018, on the lower volume. The net gain on sale rates were unchanged year over year, at 1.23%, due to offsetting factors. The gross gain on sale rate was 1.53%, up from 1.46% in 2018 and reflective of fewer relative renewals with an investor who pays lower premiums, but also offset by continued rate discounting given competitive factors.

The acquisition cost rate was 0.30%, up from 0.24% in 2018, primarily reflecting the increased proportion of renewals that were part of the discontinued Loyalty Program referenced above.

Net interest and other income

Table 3 - Net interest, fee and other income (expense)

A breakdown of the Company's net interest and other income is shown below, allocated among the Company's core banking business components and other items.

(in thousands of $)	June 30, 2019	Average rate	March 31, 2019	Average rate	June 30, 2018	Average rate
	For the three months ended					
Interest income - Street Solutions	**$ 8,454**	**5.42%**	$ 7,781	5.33%	$ 4,487	5.21%
Interest income - bridge loans	**78**	**6.96%**	52	7.43%	52	7.22%
Interest income - other mortgages and loans	**307**	**2.80%**	353	3.06%	98	2.67%
Interest income - cash and liquidity	**421**	**3.12%**	454	2.51%	287	1.66%
Total interest income - non-securitized assets	**$ 9,260**	**5.10%**	$ 8,640	4.90%	$ 4,924	4.56%
Interest expense - deposits and other	**(5,183)**	**2.90%**	(4,927)	2.84%	(2,768)	2.60%
Net interest income - non-securitized assets	**$ 4,077**	**2.25%**	$ 3,713	2.11%	$ 2,156	2.00%
Provision for credit losses	**(192)**		(226)		(140)	
Net interest income - non-securitized	**$ 3,885**		$ 3,487		$ 2,016	
Interest income - securitized mortgages	**715**	**2.78%**	804	2.88%	1,346	2.62%
Interest expense - securitization liabilities	**(589)**	**2.28%**	(668)	2.36%	(1,087)	2.12%
Net interest income - securitized	**$ 126**	**0.49%**	$ 136	0.49%	$ 259	0.51%
Total net interest income [1]	**$ 4,011**	**2.03%**	$ 3,623	1.88%	$ 2,275	1.52%
Servicing and fee income - mortgages	**279**		170		306	
CMB securitization income	**1,239**		721		682	
Gain on sale of I/O strip	**-**		84		-	
Fair value adjustments - mortgages held for sale	**(18)**		808		-	
Other income (expense)	**(110)**		(200)		(60)	
Total fee and other income	**$ 1,390**		$ 1,583		$ 928	
Total fee, interest and other income	**$ 5,401**		$ 5,206		$ 3,203	

[1] based on interest earning assets only

Table 3 (continued) - Net interest, fee and other income (expense)

	For the six months ended			
(in thousands of $)	June 30, 2019	Average rate	June 30, 2018	Average rate
Interest income - Street Solutions	$ 16,235	5.38%	$ 7,671	5.21%
Interest income - bridge loans	130	7.14%	95	7.38%
Interest income - other mortgages and loans	660	2.93%	181	2.65%
Interest income - cash and liquidity	875	2.77%	569	1.54%
Total interest income - non-securitized assets	$ 17,900	5.00%	$ 8,516	4.43%
Interest expense - deposits and other	(10,110)	2.87%	(4,958)	2.62%
Net interest income - non-securitized assets	$ 7,790	2.18%	$ 3,558	1.85%
Provision for credit losses	(418)		(126)	
Net interest income - non-securitized	$ 7,372		$ 3,432	
Interest income - securitized mortgages	1,519	2.83%	2,728	2.59%
Interest expense - securitization liabilities	(1,257)	2.32%	(2,200)	2.09%
Net interest income - securitized	$ 262	0.49%	$ 528	0.49%
Total net interest income [1]	$ 7,634	1.96%	$ 3,960	1.37%
Servicing and fee income - mortgages	449		609	
CMB securitization income	1,960		801	
Gain on sale of I/O strip	84		-	
Fair value adjustments - mortgages held for sale	790		-	
Other income (expense)	(310)		(488)	
Total fee and other income	$ 2,973		$ 922	
Total fee, interest and other income	$ 10,607		$ 4,882	

[1] **based on interest earning assets only**

Net Interest Income ("NII") and Net Interest Margin ("NIM") – Non-Securitized

NII (excluding provisions for expected credit losses) was $4.1 million in Q2 2019, up from $3.7 million in Q1 2019 and up significantly from $2.2 million in Q2 2018.

While the Street Solutions portfolio declined to $613 million from $622 million last quarter, NIM improved to 2.25% from 2.11%, primarily due to slightly higher spreads of Street Solutions over deposits together with better relative returns and utilization of the liquidity portfolio. The increase from last year reflects the growth in the Street Solutions mortgage portfolio over that period, from $395 million to $613 million, and improvement in NIM.

Year over year, NII (excluding provisions for expected credit losses) increased to $7.8 million YTD 2019 compared to $3.6 million YTD 2018, with NIM increasing to 2.18% from 1.85%. The increases are in line with the maturing of the Company's on-balance sheet lending program over the year, which saw increases in Street Solutions in every quarter prior to the slight decline noted above for Q2 2019. As noted above,

the Bank is managing Street Solutions renewal volumes and new originations based on its current levels of available regulatory capital and funding, and therefore its focus is on maximizing profit contribution within those constraints.

Provisions for Expected Credit Losses

The Q2 2019 provision for expected credit losses of $0.19 million was relatively consistent with $0.14 million in Q2 2018 and $0.23 million in Q1 2019.

The total allowances for expected credit losses were 0.17% of the average uninsured portfolio at June 30, 2019 compared to 0.13% at March 31, 2019 and 0.12% at June 30, 2018. The Bank continues to observe strong credit profiles in the Street Solutions portfolio, which has had no realized losses since inception of the product in Q2 2017, and also in its other small portfolio of uninsured loans. The total allowance for expected credit losses was $1.01 million at June 30, 2019 compared to $0.82 million at March 31, 2019 and $0.47 million at June 30, 2018. Please see *Expected credit losses*, under *Credit Risk Management*, below, for further information.

Net Interest Income – Securitized

Net interest income from this source is declining, as expected, as the related balances amortize, and also due to sales of interest-only strips in Q4 2018 and Q1 2019. The Bank has not securitized mortgages for its own balance sheet since Q4 2016.

Fee and Other Income

Servicing and fee income - loan sales is largely composed of miscellaneous mortgage lending fees, primarily earned from the Street Solutions portfolio. It also includes the net servicing fees and trailing interest spread earned by the Bank on mortgage loan sales.

CMB securitization income is earned from the Bank's securitization and sale of NHA MBS mortgage loans on multi-unit residential properties, and fluctuates quarterly depending on the Bank's allocation and its participation. Management focus is to maximize contribution from the product when mortgages that meet the Bank's risk tolerance are available. In Q2 2019 the Company securitized and sold $106.6 million of mortgage loans compared to $110.3 million in Q2 2018 and $96.4 million in Q1 2019. YTD sales were $203.0 million and $126.1 million, respectively, in 2019 and 2018. Please see Note 8 of the Company's Q2 2019 unaudited condensed consolidated interim financial statements for more discussion of these sales.

The Company earned $0.08 million in Q1 2019 and $0.47 million in Q4 2018 from sales of interest-only strips on its securitized mortgages. There have been no similar transactions prior to Q4 2018 or in Q2 2019.

The fair value adjustments of $0.79 million YTD 2019 relate to NHA MBS mortgages and prime insured mortgages that were being held for sale at various times during the first six months of the year; there were no similar fair value adjustments YTD 2018. The Company realized $0.21 million of fair value gains in Q1 and $0.57 million of fair value gains in Q2.

Other income (expense) largely relates to the Company's legacy business and other non-core items. YTD 2019 this consisted of total net $0.20 million of interest expense on the corporate loans reported in Note 14 of the Q2 2019 unaudited condensed consolidated interim financial statements, and on a payable to a former board member and executive as reported in Note 19. It also includes a loss of $0.09 million on the sale of artwork. The largest component of the YTD 2018 expense was losses on the sale of artwork.

Operating expenses

Table 4 – Adjusted Operating Expenses

Adjusted operating expenses are defined as the Company's total operating expenses net of restructuring charges and impairment of goodwill and intangible assets (please see the section *Non-GAAP Measures*, and the table below).

(in thousands of $)	For the three months ended			For the six months ended	
	June 30, 2019	**March 31, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Salaries and benefits	**$ 8,612**	$ 8,057	$ 8,157	**$ 16,669**	$ 15,886
Information technology and telecom	**1,009**	996	1,234	**2,005**	2,149
Outsourcing and servicing	**920**	846	930	**1,766**	1,676
Professional services	**1,244**	1,360	436	**2,604**	1,148
Facilities and office	**651**	700	805	**1,351**	1,575
Marketing and business development	**517**	425	674	**942**	1,192
Depreciation and amortization	**342**	407	480	**749**	849
Other	**395**	515	1,111	**910**	2,709
Other operating expenses	**5,078**	5,249	5,670	**10,327**	11,298
Adjusted operating expenses	**13,690**	13,306	13,827	**26,996**	27,184
Restructuring costs	-	2,138	-	**2,138**	-
Total operating expenses	**$ 13,690**	$ 15,444	$ 13,827	**$ 29,134**	$ 27,184
Employee headcount at quarter end	**194**	191	222		

Salaries and benefits

Salaries and benefits of $8.6 million in Q2 2019 are up from $8.1 million last quarter and in Q2 2018, despite a reduction in head count. This in part reflects accruals and expectations for variable compensation this year, based on improved corporate performance metrics.

Salaries and benefits include expenses related to equity compensation, which for the Company is composed of stock options and restricted share units ("RSUs"). Information regarding the stock options is discussed in more detail below, under *Shareholders' Equity, Share and Stock Option Information*, and both the stock options and the RSUs are discussed in Note 18 of the Q2 2019 unaudited condensed consolidated interim financial statements. Equity compensation expense was $0.49 million in Q2 2019, consistent with $0.47 million in Q2 2018 and up from $0.23 million in Q1 2019. The increase quarter over quarter is due to Q2 including a full quarter of expense related to RSU grants that were made in March 2019. As well, Q1 2019 was reduced by $0.12 million of expense reversal associated with the forfeiture of approximately 355,000 options in the quarter. Forfeitures during Q2 2019 were immaterial.

Other operating expenses

Operating expenses of $5.1 million in Q2 2019 were down from $5.7 million in Q2 2018 and relatively consistent with $5.2 million last quarter. The year over year increase in professional services is related to the Company's strategic realignment and proposed sale to RFA as discussed above under *Proposed Sale to RFA Capital*. The reduction in other expenses quarter over quarter reflects HST recoveries received in Q2. Q2 2018 included expenses related to legacy items, which are no longer being incurred in 2019, and additional servicing fees that are also not part of 2019 expenses.

Income Taxes

The Company’s net income tax expense in the current quarter is related to the operating results of Street Capital Bank. In Q2 2019 the Company recognized the impact of the effect of the Alberta corporate tax rate decline to 8% by 2022 from 12%. This reduced the Company’s deferred tax liabilities by $0.72 million, with a corresponding decrease to income tax expense, and a very immaterial amount was allocated to Other Comprehensive Income.

In all periods, the income tax expense or recovery reported in the statement of operations is based on a number of different estimates made by management. The effective tax rate can change from period to period, based on the mix of income or loss among the different jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, and changes in the estimated values of deferred tax assets and liabilities recorded on the statement of financial position. This is in addition to permanent differences that are either not in, or not deductible from, the computation of taxable income. For a given period, the reported income tax expense or recovery reflects an estimate of cash taxes in the current year, offset by the associated utilization of non-capital loss carry-forwards, and a provision for changes arising during the year in the value of the deferred tax assets and liabilities. The likelihood of recovering value from deferred tax assets such as loss carry-forwards, future tax depreciation of capital assets, and other assets, is assessed and recognized at each quarter-end. Material changes in income tax assets, liabilities, expense and recoveries may occur in the short term.

At June 30, 2019, the Company had approximately $224 million in non-capital loss carry-forwards that may be used to reduce future years’ taxable income until 2036, although losses begin expiring in 2026.

Legacy Items

The Company discontinued its real estate business in the first quarter of 2013, but has retained some related assets and liabilities that in aggregate are immaterial to both the Company’s operations and its financial position. There were no transactions involving discontinued operations during any of the periods presented.

The Company’s fair value adjustments and allocation to the non-controlling interest reported in 2018 relate to the Private Equity investments that were part of its legacy business. At June 30, 2018 the Company had effectively exited Private Equity with the sale of its final portfolio investment in June 2018.

The non-controlling interest of $(7.09) million reported on the Company’s statement of financial position at June 30, 2019 is 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 all of 2018 or YTD 2019.

QUARTERLY HIGHLIGHTS

The following table sets out financial highlights of the Company's consolidated quarterly results of operations for the eight quarters ended June 30, 2019. Please see the section *Non-GAAP Measures* for the definitions of adjusted net income (loss) and other related non-GAAP measures.

Table 5 – Quarterly Financial Highlights

(in thousands of $, except where defined)	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	**2019 Q2**
Financial performance								
Shareholders' net income (loss)	$ 3,731	$ 1,239	$ (1,365)	$ 3,306	$ (1,361)	$ (45,369)	$ (1,656)	**$ 3,798**
Adjusted shareholders' net income (loss)	$ 4,297	$ 1,544	$ (1,481)	$ 2,337	$ 713	$ (1,665)	$ (56)	**$ 3,820**
Shareholders' diluted earnings (loss) per share	$ 0.03	$ 0.01	$ (0.01)	$ 0.03	$ (0.01)	$ (0.37)	$ (0.01)	**$ 0.03**
Adjusted shareholders' diluted earnings (loss) per share	$ 0.04	$ 0.01	$ (0.01)	$ 0.02	$ 0.01	$ (0.01)	$ (0.00)	**$ 0.03**
Return on equity	11.1%	3.6%	(4.0%)	9.5%	(3.9%)	(154.6%)	(7.0%)	**15.9%**
Adjusted return on equity	12.8%	4.5%	(4.3%)	6.7%	2.0%	(5.7%)	(0.2%)	**16.0%**
Return on tangible equity	14.4%	4.9%	(4.5%)	12.2%	(4.4%)	(174.0%)	(7.0%)	**15.9%**
Adjusted return on tangible equity	16.5%	6.1%	(4.9%)	8.8%	2.9%	(5.9%)	(0.2%)	**16.0%**
Mortgages sold and under administration								
Prime mortgages sold - new	$ 1,521,342	$ 1,138,274	$ 826,528	$ 1,061,892	$ 1,005,705	$ 904,442	$ 875,529	**$1,236,151**
Prime mortgages sold - renewal	560,423	531,080	519,686	767,830	695,609	457,161	473,806	**624,360**
Prime mortgages sold - total	$ 2,081,765	$ 1,669,354	$ 1,346,214	$ 1,829,722	$ 1,701,314	$ 1,361,603	$ 1,349,335	**$1,860,511**
Total Street Solutions originations	$ 131,376	$ 62,116	$ 98,285	$ 107,805	$ 93,685	$ 121,611	$ 120,303	**$ 42,741**
Mortgages under administration ***(in billions of $)***	$ 27.98	$ 28.02	$ 27.83	$ 27.90	$ 27.64	$ 27.59	$ 27.76	**$ 27.92**
Total revenue	$ 19,916	$ 14,788	$ 11,593	$ 17,041	$ 14,020	$ 12,307	$ 13,336	**$ 18,004**
Gain on sale of mortgages	$ 39,531	$ 30,077	$ 22,274	$ 29,728	$ 26,075	$ 21,459	$ 22,483	**$ 31,616**
As a % of mortgages sold	1.90%	1.80%	1.65%	1.62%	1.53%	1.58%	1.67%	**1.70%**
Acquisition expenses	$ 20,819	$ 16,750	$ 12,360	$ 15,890	$ 15,118	$ 13,998	$ 14,353	**$ 19,013**
As a % of mortgages sold	1.00%	1.00%	0.92%	0.87%	0.89%	1.03%	1.06%	**1.02%**
Net gain on sale of mortgages	$ 18,712	$ 13,327	$ 9,914	$ 13,838	$ 10,957	$ 7,461	$ 8,130	**$ 12,603**
As a % of mortgages sold	0.90%	0.80%	0.74%	0.76%	0.64%	0.55%	0.60%	**0.68%**
Adjusted operating expenses	$ 13,821	$ 12,223	$ 13,357	$ 13,827	$ 13,350	$ 14,400	$ 13,306	**$ 13,690**
As a % of mortgages sold	0.66%	0.73%	0.99%	0.76%	0.78%	1.06%	0.99%	**0.74%**
Equity and share performance								
Shareholders' equity	$ 136,590	$ 138,162	$ 137,056	$ 140,763	$ 139,743	$ 94,960	$ 93,742	**$ 97,835**
Shares outstanding end of period **(in 000s)**	122,184	122,184	122,184	122,184	122,184	122,184	122,184	**122,184**
Book value per share	$ 1.12	$ 1.13	$ 1.12	$ 1.15	$ 1.14	$ 0.78	$ 0.77	**$ 0.80**
Market capitalization	$ 171,058	$ 125,850	$ 91,638	$ 103,856	$ 109,966	$ 73,310	$ 63,536	**$ 80,641**
Share price at close of market	$ 1.40	$ 1.03	$ 0.75	$ 0.85	$ 0.90	$ 0.60	$ 0.52	**$ 0.66**

Mortgage originations tend to follow seasonal housing market trends, where the spring and summer markets outperform the fall and winter ones, generally leading to relatively higher gains on sale and net income in Q2 and Q3 compared to Q4 and Q1.

Q2 2019 FINANCIAL POSITION REVIEW

The following table sets out the Company's consolidated financial position as at June 30, 2019, March 31, 2019, December 31, 2018 and June 30, 2018.

Table 6 - Financial Position

(in thousands of $)	June 30, 2019	March 31, 2019	December 31, 2018	June 30, 2018
				As at
Assets				
Cash and cash equivalents	**$ 26,429**	$ 33,277	$ 65,018	$ 74,821
Restricted cash	**4,071**	18,112	9,656	34,944
Securities	**23,266**	23,112	22,692	-
Street Solutions uninsured mortgages	**612,754**	622,012	526,782	394,644
Other non-securitized mortgages and loans	**41,478**	53,624	37,996	20,136
Securitized mortgage loans	**100,228**	104,799	123,362	199,748
Deferred placement fees receivable	**46,490**	46,985	48,670	51,024
Prepaid portfolio insurance	**70,041**	72,533	75,285	79,190
Deferred income tax assets	**-**	-	-	14,697
Other assets	**62,563**	42,570	34,704	37,698
Goodwill	**-**	-	-	23,465
Total assets	**$ 987,320**	$ 1,017,024	$ 944,165	$ 930,367
Liabilities				
Deposits	**$ 694,193**	$ 720,757	$ 638,710	$ 481,220
Loans payable	**4,141**	4,207	4,274	4,160
Securitization liabilities	**101,100**	107,180	125,472	201,496
Accounts payable and accrued liabilities	**53,422**	55,064	44,334	62,951
Deferred income tax liabilities	**43,721**	43,166	43,507	46,869
Total liabilities	**896,577**	930,374	856,297	796,696
Total shareholders' equity	**97,835**	93,742	94,960	140,763
Non-controlling interests	**(7,092)**	(7,092)	(7,092)	(7,092)
Total liabilities and equity	**$ 987,320**	$ 1,017,024	$ 944,165	$ 930,367
Total MUA ***(in billions of $)***	**$ 27.92**	$ 27.76	$ 27.59	$ 27.90

CASH AND CASH EQUIVALENTS, RESTRICTED CASH, AND SECURITIES

Cash and cash equivalents at the balance sheet date represent funds on deposit with regulated Canadian financial institutions. They can include highly liquid investments such as Treasury Bills and bankers' acceptances.

Restricted cash represents mortgage loan repayments collected on behalf of third-party investors via a third-party service provider, cash collected that has not yet been allocated to securitization liabilities, and accrued interest from mortgage loan repayments collected in connection with securitization activities.

Securities, which were acquired during 2018, consist of publicly traded Canada Housing Trust mortgage-backed securities ("CMBs"). They are considered part of the Company's liquid assets. Please see Note 3 of the Q2 2019 unaudited condensed consolidated interim financial statements.

The Company's primary sources of cash are the premiums received on the sale of mortgages, deposit taking, the net servicing revenue and excess spread received on mortgages that have been sold, net interest income and fee income from balance sheet lending, and, to a lesser extent, securitizations.

The Bank's liquid assets include cash and cash equivalents, securities, and insured mortgages that have been securitized but not sold (stamped mortgages), which are included in the non-securitized mortgages balance. The reduction in total cash and liquid investments from the end of 2018 reflects the active management of liquidity requirements within the Bank's risk limits, given the reduction in expected funding of Street Solutions on balance sheet. Additionally, restricted cash balances fluctuate depending on the timing of specific cash receipts and remittances. Please see Table 18 in the *Liquidity and Funding Risk* section for more information.

MORTGAGES UNDER ADMINISTRATION

Total mortgages under administration increased to $27.92 billion at June 30, 2019 compared to $27.76 billion at March 31, 2019 and $27.59 billion at December 31, 2018.

Geographic Distribution – Prime Mortgages

The charts below show the geographic distribution of prime mortgage originations during each quarter, and prime MUA at the end of each quarter. As noted in prior quarters, the distribution reflects both the relative population density in urban centers of Ontario, and the historically higher average housing prices there compared to most of Canada.

Chart 1 – Geographic Distribution of Prime New Originations (% of $)

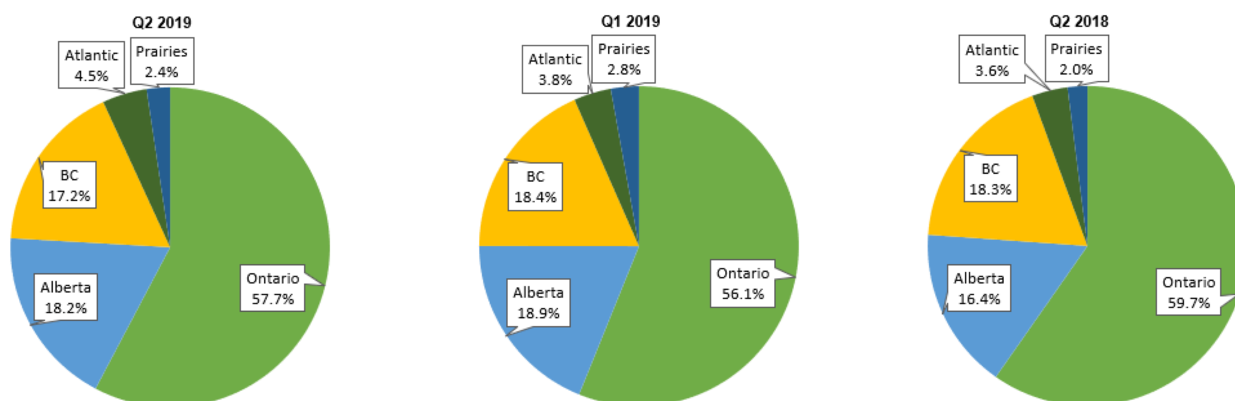
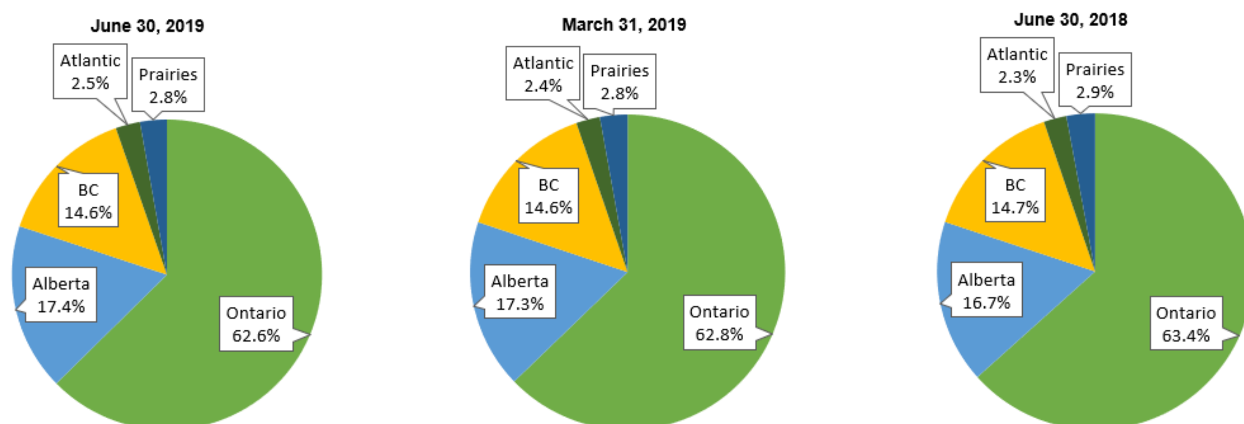


Chart 2 – Geographic Distribution of Prime Mortgages under Administration (%of $)



Shown below is the contractual remaining maturity profile of the Company's prime MUA at June 30, 2019.

Table 7 – Prime MUA Maturity Table

(in billions of $)	2019	2020	2021	2022	2023	2024 and beyond	Total
	$	$	$	$	$	$	$
Prime MUA maturities	2.34	4.96	6.02	5.30	5.19	2.93	**26.74**

ON BALANCE SHEET LENDING ASSETS

Street Solutions Uninsured Mortgages

The Bank launched its uninsured lending product, Street Solutions, in Q2 2017 and the portfolio was $638 million in mortgages under administration at June 30, 2019, including both mortgages held on-balance sheet of $612.8 million and those derecognized in Q4 2018 through whole loan sales. The mortgages on-balance sheet are funded from the Bank's GIC deposit base, and originated through the Bank's broker channel. The target market consists of credit-worthy, but under-served, borrowers who may not qualify for a prime insurable or prime uninsurable residential mortgage in the current lending environment.

Geographic Distribution

Since inception, the geographic distribution of outstanding Street Solutions mortgages has been weighted to the areas of the country that have larger urban centers and correspondingly larger populations, along with strong employment trends and liquid housing markets. At June 30, 2019 approximately 78% was concentrated in Ontario compared to 19% in British Columbia and 3% in Alberta and the Atlantic provinces combined, essentially unchanged from the end of 2018. Management expects that Street Solutions loans will continue to be concentrated in larger urban centers.

Mortgage Continuity

The table below shows the continuity of the Street Solutions portfolio for Q2 2019, Q1 2019 and Q2 2018.

Table 8 – Street Solutions mortgage principal continuity schedules

	For the three months ended		
(in thousands of $)	June 30, 2019	March 31, 2019	June 30, 2018
Balance - beginning of period	**$ 623,750**	$ 528,342	$ 295,438
Originations	**42,741**	120,303	107,805
Renewals	**60,392**	62,331	3,505
Capitalization and other	**93**	74	-
Repayments	**(2,904)**	(2,398)	(1,317)
Discharges [1]	**(109,724)**	(84,902)	(9,521)
Balance - end of period	**$ 614,348**	$ 623,750	$ 395,910

[1] *This amount includes maturing mortgages that have been renewed.*

Other non-securitized and securitized mortgage loans

The Bank originates a low volume of mortgages and loans that are bridge loans, mortgages intended for future securitization and sale, or non-Street Solutions mortgages that will be held on-balance sheet.

Between 2014 and 2016 the Bank securitized and sold prime insured mortgage loans through the NHA MBS program. These securitized mortgages and the related securitization liabilities are declining in line with their contractual maturities and run-off. As well, the Bank derecognized $8.7 million and $47.3 million of these mortgages in Q1 2019 and Q4 2018, respectively, through interest-only strip sales to a third-party investor.

DEFERRED PLACEMENT FEES RECEIVABLE AND PREPAID PORTFOLIO INSURANCE

When the Bank sells mortgages on a fully serviced basis, at the time of sale it recognizes a gain on sale of mortgages and records a deferred placement fee receivable in the consolidated statement of financial position.

Prepaid portfolio insurance provides insurance coverage for pools of mortgages over their amortization period. Portfolio insurance premiums are capitalized when paid and are amortized into income over a maximum period of 15 years, using a declining balance method that reflects the underlying insured value of the mortgages.

Both Deferred placement fees receivable and Prepaid portfolio insurance are decreasing as amortization has exceeded increases from originations. Please see Note 4 of the Q2 2019 unaudited condensed consolidated interim financial statements for further information.

DEPOSITS

The Bank offers CDIC insurance-eligible GIC deposits, which are sourced through third party deposit agents. At June 30, 2019 deposits net of unamortized broker commissions totaled $694.2 million, down from $720.8 million at March 31, 2019. The decrease in the quarter is associated with the reduction, in the same time period, in Street Solutions mortgages held on-balance sheet, as discussed above. Deposits have terms ranging from 1 to 5 years, at interest rates between 1.25% and 3.69%. As noted above under *Street Solutions Uninsured Mortgages*, the deposits are the primary source of funding for the Bank's uninsured lending program. The table below shows the original term structure of the principal amount of the Bank's deposits. Please see Note 9 of the Q2 2019 unaudited condensed consolidated interim financial statements for a schedule of the remaining term to maturity.

Table 9 – Term Structure of Deposits

(in thousands of $, except %)							As at June 30, 2019
Contractual term	**Cashable ***	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**Total**
Deposit principal	**$ 1,267**	**$ 158,025**	**$ 247,810**	**$ 141,788**	**$ 35,378**	**$ 112,496**	**$ 696,764**
% of principal	**0.2%**	**22.7%**	**35.6%**	**20.3%**	**5.1%**	**16.1%**	**100.0%**
							As at March 31, 2019
Contractual term	**Cashable ***	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**Total**
Deposit principal	$ 2,297	$ 178,716	$ 259,932	$ 136,818	$ 32,970	$ 112,755	$ 723,488
% of principal	0.3%	24.7%	35.9%	18.9%	4.6%	15.6%	100.0%
							As at December 31, 2018
Contractual term	**Cashable ***	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**Total**
Deposit principal	$ 3,488	$ 182,916	$ 213,152	$ 115,533	$ 27,047	$ 99,013	$ 641,149
% of principal	0.6%	28.5%	33.3%	18.0%	4.2%	15.4%	100.0%

*** 90-day cashable 1 year GIC**

OTHER ASSETS

Other assets include receivables associated with mortgage sale activities, retained interests from securitization and interest-only transactions where derecognition is achieved, accrued interest and other accounts receivable, prepaid amounts, capital and intangible assets, the right of use assets associated with the Company's adoption of *IFRS 16 – Leases*, and receivables associated with the Company's discontinued real estate operations. The increase to $62.6 million at June 30, 2019 from $34.7 million at December 31, 2018 and $37.7 million at June 30, 2018, is primarily due to the increase in retained interests related to the securitization and sale of multi-unit residential mortgages through the CMB program, and the addition of the right of use assets in Q1 2019. At June 30, 2019 the Company's receivables associated with mortgage sales were approximately $16 million greater than similar receivables at March 31, 2019; these receivables fluctuate depending on timing of loan sales. Please see Note 12 in the Q2 2019 unaudited condensed consolidated interim financial statements for more information.

GOODWILL

The goodwill shown on the Company's statement of financial position at June 30, 2018 was associated with Street Capital Group Inc.'s acquisition of the predecessor company of the Bank in 2011. As discussed in previous reports, at December 31, 2018 impairment charges representing the entire book value of the Company's goodwill, and the $3.1 million carrying value of associated intangible assets, were recorded as a component of Impairment of Goodwill and Intangibles in the Company's consolidated statement of operations in Q4 2018.

DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

Net deferred tax liabilities are almost exclusively associated with the Company's prime mortgage loan sale business. In Q2 2019 the Company's deferred tax liabilities were reduced by $0.72 million due to the effect of the Alberta corporate tax rate decline to 8% by 2022 from 12%. The Company formerly reported deferred tax assets that were associated with non-capital losses related to the Company's legacy businesses and head office operations. As discussed in previous reports, at the end of 2018 it was determined that it was no longer probable that sufficient future taxable income at the Street Capital Group Inc. entity would be available to utilize the tax losses, and $14.3 million in deferred tax assets were reversed in the Company's consolidated statement of operations in Q3 and Q4 2018. Tax recoveries do remain available for use until 2036, although they begin expiring in 2026.

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

These liabilities include accounts payable, accrued operating liabilities including restructuring costs, accrued mortgage acquisition costs, accrued interest primarily relating to the Bank's deposits, the lease liabilities associated with the Company's adoption of *IFRS 16 - Leases*, and liabilities associated with the Company's discontinued real estate operations. The decrease to $53.4 million at June 30, 2019 from $62.9 million at June 30, 2018 is largely due to reductions in amounts owed to mortgage servicers, due to changes in the timing of cash receipts and payments. This has been partially offset by increases in accrued deposit interest payable, reflecting the increase in deposit balances, and the addition of the lease liabilities in Q1 2019. At June 30, 2019, similar to the account receivables discussed above under *Other Assets*, the Company's accrued payables associated with mortgage sales were approximately $8 million greater than similar payables at March 31, 2019. Please see Note 13 of the Q2 2019 unaudited condensed consolidated interim financial statements.

Accrued restructuring costs at both June 30, 2019 and December 31, 2018 include $2.9 million owing to the former Board Chair, which arose from the corporate reorganization that occurred in June 2015. This payable is partially offset by a $1.5 million share purchase loan receivable from the same party, reported within shareholders' equity. During the first six months of 2019, the Company recorded net interest expense of $0.07 million related to these items, bringing net interest payable to $0.51 million at June 30, 2019.

LOANS PAYABLE

The $4.1 million of loans payable at June 30, 2019 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. Please see Note 14 of the Q2 2019 unaudited condensed consolidated interim financial statements.

SHAREHOLDERS' EQUITY, SHARE AND STOCK OPTION INFORMATION

During the first six months of 2019, shareholders' equity increased by the Company's $2.1 million income from operations, and by $0.31 million amortization of stock-based compensation. There were no options either granted or exercised during Q1 or Q2. In connection with the reduction in headcount due to the restructuring discussed above under Q1 2019 *Items of Note*, 355,597 unvested options were forfeited during Q1 and reduced amortization in the quarter by $0.12 million; there were no material forfeitures during Q2. An additional 1,500,000 options expired unexercised in Q1, and 262,000 vested options expired unexercised in Q2.

During the first six months of 2019, the Company recorded $0.42 million of unrealized fair value gains, net of tax, relating to the CMBs that were purchased in Q3 and Q4 2018. In conformance with IFRS 9, the gains are reported in the consolidated statements of other comprehensive income.

At August 1, 2019, the Company had 122,184,182 common shares issued and outstanding. In addition, there were 6,747,004 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $8.0 million. All outstanding stock options are currently out of the money based on the trading price and the offer price under the proposed sale to RFA discussed above. Please see Note 18 of the Q2 2019 unaudited condensed consolidated interim financial statements.

CONTINGENCIES

The Company, from time to time, is involved in various claims, legal and tax 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.

OFF BALANCE SHEET ARRANGEMENTS

At June 30, 2019 the Bank had $20.9 million of outstanding commitments for advances on mortgage loans (March 31, 2019 - $68.9 million; December 31, 2018 - $140.2 million). These amounts are for mortgages the Bank intends to fund on its own balance sheet, and include offers made to customers that have not yet been accepted as of the reporting date. In the normal course of business, the Bank does not expect to fund 100% of the outstanding commitments. Such offers to extend credit are in the normal course of business and are planned through the Bank's liquidity and funding management practices.

At June 30, 2019 the Bank has $27.17 billion in loans under administration that are not included on the Bank's balance sheet, because they have been sold to third parties through a whole loan sale or derecognized through a securitization transaction.

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 and the Bank's directors and officers, and other employees having authority and responsibility for planning, directing and controlling the Company and the Bank's activities; and
- entities controlled by key management personnel.

The Company is party to a few related party transactions, which are also described in Note 19 to the Q2 2019 unaudited condensed consolidated interim financial statements. These include share purchase loans to certain key employees.

In the ordinary course of business, the Bank underwrites mortgages for its senior management, other related parties, and employees of the Bank. The mortgage terms are similar to those offered to unrelated parties, and incorporate an interest rate discount that is available to all employees.

CAPITAL MANAGEMENT

An adequate reserve of capital provides the Company with a buffer for reasonably foreseeable losses, to ensure that the Company may absorb such losses and to position the business to remain stable. Additionally, a strong capital position helps to promote confidence among stakeholders such as investors, depositors, regulators and shareholders.

The Company has a Board-approved Capital Management Policy that governs the quantity and quality of capital held. The policy was developed with significant reference to the operations of the Company's wholly owned Schedule I bank, Street Capital Bank, which is the Company's sole operating subsidiary, and it is aligned with the Company's risk appetite and strategic plan. 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.

As a regulated financial institution that is subject to regulatory capital requirements, the Bank must continually monitor and assess its capital adequacy. Capital adequacy is in part affected by changes in the Bank's financial performance, its business plans, or regulatory requirements that could lead to a requirement for the Bank to implement strategies to improve capital adequacy. See *Risk Management and Risk Factors – Capital Adequacy* for further discussion.

Regulatory capital

Effective with the commencement of banking operations on February 1, 2017, the Bank is required to calculate capital ratios and regulatory capital based on the capital adequacy requirements issued by the Office of the Superintendent of Financial Institutions, Canada ("OSFI"). These are based on *International Convergence of Capital Measurement and Capital Standards – A Revised Framework* ("Basel II") and *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* ("Basel III"). The Bank must maintain minimum levels of capital in order to meet minimum risk-based capital ratios based on Basel II and Basel III. Accordingly, the Company manages the Bank's capital through utilization of an Internal Capital Adequacy Assessment Process ("ICAAP"), as discussed below. Street Capital Bank defines capital as meeting the definition of regulatory capital as defined by the capital adequacy requirements defined by OSFI, which in its case is Street Capital Bank's common equity and retained earnings.

The Bank's capital management policy addresses two regulatory capital requirements: the Leverage Ratio and the Risk-Based Capital Ratios. OSFI establishes Leverage Ratio targets for each financial institution, which are confidential. The Bank was fully compliant with its target regulatory capital and leverage ratio requirements at June 30, 2019.

Table 10 – Basel III Regulatory Capital (based only on the consolidated subsidiary, Street Capital Bank)

(in thousands of $, except %)	June 30, 2019 All-In Basis	March 31, 2019 All-In Basis	June 30, 2018 All-In Basis
Common Equity Tier 1 capital (CET 1)			
Capital stock	**$ 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
Total risk-weighted assets	**$ 512,693**	$ 513,297	$ 452,010
Regulated capital to risk-weighted assets			
CET 1 ratio	**19.03%**	18.20%	22.24%
Tier 1 capital ratio	**19.03%**	18.20%	22.24%
Total regulatory capital ratio	**19.20%**	18.35%	22.24%
Leverage ratio	**9.88%**	9.18%	11.29%
National regulatory minimum			
CET 1 ratio	**7.00%**	7.00%	7.00%
Tier 1 capital ratio	**8.50%**	8.50%	8.50%
Total regulatory capital ratio	**10.50%**	10.50%	10.50%
Leverage ratio	**3.00%**	3.00%	3.00%

The Bank's regulatory capital ratios and leverage ratio remain above regulatory minimums and internal targets. The ratios have declined over the periods presented as the Bank began to deploy its capital towards on-balance sheet lending through the Street Solutions product.

Internal Capital Adequacy Assessment Process (ICAAP)

Under the Bank's capital and risk management policies, and OSFI's guidelines, the Bank is required to continually assess the adequacy of current and projected capital resources under expected and stressed conditions.

The Bank manages its capital risk through its Capital Management Policy and ICAAP and related standards (including stress-testing). The Bank's risk identification and assessment process for capital adequacy risk includes:

- Escalation of current and emerging risks to the Asset and Liability Committee ("ALCO") and the Enterprise Risk Management Committee of the Board ("ERMC") and review of actual results against plan at least monthly
- Use of stress testing and scenario analysis to assess the potential impact of severe but plausible scenarios / stress tests

- Integration of business, financial and capital planning processes to assess adequacy of the capital to meet business and financial plans
- Consideration of capital implications for new business initiatives
- Capital contingency planning

Based on management's assessment of the adequacy of the Bank's capital, the Bank is currently adequately capitalized to continue current operations. However, as noted above, the Bank requires additional capital in order to execute on its business plans to further build its balance sheet.

Dividends

There were no dividends declared or paid during 2018 or the first two quarters of 2019. While there is no restriction on the Company's ability to declare dividends, the Bank is the sole operating subsidiary of the Company and is subject to regulatory capital and business requirements stipulated by OSFI that must be met before dividends can be declared and paid.

RISK MANAGEMENT AND RISK FACTORS

The Bank's business strategies and operations expose the Company to a wide range of risks. The Company's continual investment in, and commitment to, risk management is a key component of its long-term success. The Bank has exposure to risks that are similar to those of other regulated financial institutions. These include the symptoms and effects of domestic and global economic conditions, among others, many of which are beyond the Bank's control. Exposure to these risks could adversely affect the Bank's operations, financial condition or financial performance, and in turn could influence an investor to buy, hold or sell the Company's shares.

When evaluating risks, the Bank makes decisions with reference to its risk appetite framework. This framework defines the Bank's risk capacity and sets out which risks it will accept, which risks it mitigates, and which risks it will avoid.

The Bank's most significant risks, with respect to its business activities, are capital adequacy risk, credit risk, liquidity and funding risk, market risk, and operational risk. These and other risks could also have a material impact on the Bank's and the Company's reputational risk. A detailed discussion of these and the other risks that affect the Bank can be found in the Company's Management's Discussion and Analysis For the Fourth Quarter and Year Ended December 31, 2018, under the heading *Risk Management and Risk Factors*.

Capital Adequacy

Capital adequacy risk is the risk that the Bank holds insufficient capital to meet regulatory requirements and any other requirements necessary to manage the organization, including during periods of severe but plausible stress.

As a regulated financial institution that is subject to regulatory capital requirements, the Bank must continually monitor and assess its capital adequacy. Changes in the Bank's financial performance, its business plans, or regulatory requirements could lead to a requirement for the Company to implement strategies to improve capital adequacy. As part of the strategic realignment first announced on December 20, 2018, the Company stated that it was exploring various alternatives to strengthen the Bank's capital base.

As discussed above, under *Proposed Sale to RFA,* on June 14, 2019, as announced on June 17, 2019, the Company entered into a definitive arrangement agreement (the "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 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.

Concurrent with completion of the Arrangement, RFA has committed to cause the equity capital of the Bank to increase by a minimum of $50 million. In addition, RFA has committed to cause its investors (the "Investors") to provide an additional $25 million in readily available stand-by capital to the Bank. Subject to the Investors' discretion and the achievement of certain performance targets, it is RFA's intention to also cause the Investors to inject up to an additional $100 million of further equity capital into the Bank over the next five years to support balance sheet growth. RFA has also committed to provide the Company with access to up to $5 billion of additional mortgage funding. Accordingly, the Board believes that, in addition to the immediate liquidity and certainty of value for shareholders, the Arrangement will allow the Company, under RFA's ownership, to benefit from improved financial strength, meet the needs of its other stakeholders, and enhance its competitive positioning.

If the sale of the Company to RFA is not approved or completed, the Company would immediately explore other alternatives for strengthening the capital base of the Bank, which could potentially be less attractive to shareholders. This could include a new capital raise (that could significantly dilute the ownership interest of existing shareholders who don't participate in such raise), a sale of assets by the Company, or another strategic relationship or merger with a third-party that could provide the Bank with additional capital resources and ongoing financial support. There can be no assurance that either the Company or the Bank will be successful in strengthening its capital position, or in securing necessary ongoing financial support. If unsuccessful the Company would need to materially alter its business plans.

Since Q2 2018 the Bank has been originating prime uninsurable mortgages through its network of approved independent mortgage brokers. As the Bank expands its originations of such loans for sale to institutional

investors, the Bank will bear the capital risk for any loans it may have to reacquire from investors if such loans are deemed by the investor to be ineligible. This could have a material impact on the Bank's compliance with its capital adequacy regulatory requirements if it were required to either fund at closing, or subsequently repurchase, a large amount of loans at once. The Bank considers this repurchase risk in setting its ongoing capital requirements.

Credit Risk Management

Credit risk is the risk of financial loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Through its wholly owned subsidiary, the Bank, the Company's credit risk is mainly associated with its mortgage lending business, in the form of the risk of default on the part of the borrower.

Historically, the majority of the Bank's revenue has been earned from the placement, servicing and securitization activities of its mortgage lending business. Under this business model, most of the mortgages underwritten by the Bank are sold to institutional investors and are insured or insurable against default by CMHC and other government backed private insurers. This makes the residual credit risk to the Company immaterial overall at this time. However, given that the vast majority of these mortgages have been sold to institutional investors, mortgage credit quality remains an important measure in ensuring continued demand from these investors.

Therefore, even though the Company is not exposed to material levels of credit risk associated with its mortgage origination and sale business, the Bank applies a detailed set of Board-approved credit policies and underwriting procedures to ensure mortgages are insurable and meet investor requirements. Given the Bank's funding model for insurable mortgages, its underwriting and credit policies are compliant with OSFI's Guideline *B-20 Residential Mortgage Underwriting Practices and Procedures*. At the individual transaction level the Bank applies a due diligence process to each mortgage underwritten, with oversight from an experienced management team. All mortgage applications are evaluated and assessed against risk criteria, and additional independent quality assurance procedures are performed on a significant percentage of mortgage files prior to funding. Post-funding reviews are also conducted in order to provide continuous feedback and monitoring of mortgage credit quality. The Bank's serious arrears rate of 0.11% on its prime mortgages, at June 30, 2019, reflects the Bank's due diligence and strong quality assurance processes. The Bank plans to continue selling insurable mortgages to institutional investors, and it will continue to apply these same rigorous policies and procedures. However, as the Bank's portfolio of prime insured loans seasons and becomes more weighted toward high-ratio insured loans, the Bank's serious arrears rate may increase over time as these loans typically experience higher delinquency rates compared to conventional insured mortgages.

As noted above, since Q2 2018 the Bank has been originating prime uninsurable mortgages, for sale to investors, through the Bank's network of approved independent mortgage brokers. Prime uninsurable mortgages are mortgages that substantially approximate the credit quality criteria of prime insurable mortgages and are B-20 compliant, but no longer qualify for mortgage insurance due to one or more criteria. As the Bank expands its originations of this product for sale to institutional investors, the Bank will bear credit risk for any loans it may have to reacquire from investors if such loans are deemed by the investor at a later date to be ineligible.

In 2017 the Bank expanded its products and services to include uninsured mortgages and other financial products, which increased the Company's exposure to credit risk. The amount, geographic distribution, and other information relating to these mortgages are detailed below in Tables 14 to 16. In order to mitigate the credit risk associated with these products, the Bank has established appropriate credit policies and underwriting requirements, which are also in compliance with OSFI's Guideline B-20, and has ensured their

consistent application. These policies have been developed, and are updated as necessary, with regard to such key factors as asset quality, loan to value ratio, debt service ratio, property location, and economic factors. The Bank also mitigates its risk by targeting the market segment that consists of credit-worthy quality borrowers who may not qualify for a prime residential mortgage under current regulations, and by limiting its lending areas primarily to urban locations.

In Q3 2017, the Bank began to securitize and sell, through the CMB program, 10-year insured NHA MBS mortgage loans on multi-unit residential properties. The underlying mortgage loans are closed to prepayment risk, and the Bank enters into third party arrangements to manage its seller swaps, thereby mitigating its interest rate risk. As a result, the Bank transfers control over the mortgage loans, and they are recognized on the Bank's balance sheet only to the extent of the Bank's continuing involvement in the mortgages. This is limited to a retained interest and the obligations and rights associated with servicing the mortgages, and the Bank does not retain any significant risks and rewards associated with the mortgages. The Bank would be obligated to fund any deficiency in any interest owing to CMB investors in the event that a loan became delinquent during the term of the loan, and to fund the balloon outstanding balance at maturity. However, as the loans under this program are insured, any funding by the Bank should be recoverable through an insurance claim. As the Bank is required to estimate its quarterly CMB allocation allotment, the Bank may not be able to immediately securitize and sell all multi-unit residential loans originated in the quarter if the actual quarterly loan allocation assigned by CMHC to the Bank is less than anticipated. The actual loan allocation depends on multiple factors such as borrower demand for multi-unit product, CMB issuer and seller demand for 10-year insured NHA MBS mortgage loans, and other market factors. In that scenario, the Bank will temporarily hold any loans above its quarterly allocation on its balance sheet pending the next quarterly CMB sale when these loans will then be sold and derecognized. At the end of Q4 2018, Q1 2019 and Q2 2019 respectively, $10.5 million, $18.9 million and $0.8 million of multi-unit residential loans designated for the 10-year CMB program were held on-balance sheet and posed no material credit risk as the mortgages are insured.

As the Bank launches other financial products, the Bank will continue to develop and apply the appropriate credit policies and underwriting requirements, taking into consideration such key factors as asset quality, loan to value ratio, debt service ratio, property location, and economic factors.

The Company's credit risk on liquid assets, the majority of which are cash and cash equivalents, is relatively limited. All counterparties with respect to cash and cash equivalents are Schedule I Canadian banks with high credit ratings assigned by international rating agencies. The Bank can purchase highly liquid investments in the form of Government of Canada Treasury Bills and bankers' acceptances, and use them to meet its funding and liquidity requirements, particularly its mortgage lending operations. The investments are readily convertible into cash subject to immaterial changes in fair value, and therefore do not increase the Company's credit risk.

Expected credit losses

The determination of the Company's expected credit losses ("ECL") at a given date involves significant management judgment, as the calculation depends on the following parameters:

- the probability of default ("PD") – an estimate of the likelihood of default over a specified time horizon;
- the loss given default ("LGD") – an estimate of the loss occurring at the time of default; and
- the exposure at default ("EAD") – an estimate of the exposure at the default date.

The general principle is that an entity's ECL should reflect the pattern of deterioration or improvement in the credit quality of the associated financial instruments, and therefore the calculated ECL amount at a given measurement date depends on the entity's identification of increases or decreases in credit risk since initial recognition. The Company's determination of the ECL at each reporting date, its identification of impaired loans, and other information about its accounting and reporting of financial instruments, are discussed in Note 3 of the 2018 audited consolidated financial statements.

Aging tables for the outstanding principal balances of the non-securitized mortgage loans are shown below:

Table 11 – Aging – non-securitized mortgage loans

(in thousands of $)						June 30, 2019
	Current	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**> 90 days**	**Total**
Street Solutions mortgages	**$ 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

The Bank's ECL on uninsured mortgages at June 30, 2019 is as shown below:

Table 12 – Provisions and allowances for credit losses

(in thousands of $)	Three months ended June 30, 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Uninsured mortgages and loans				
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 [1]	(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**
Uninsured mortgages and loans				
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 [1]	(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**
Uninsured mortgages and loans				
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 [1]	(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**
Uninsured mortgages and loans				
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 [1]	(13)	-	(75)	(88)
Write-offs	-	-	-	-
Recoveries	-	-	-	-
Gross carrying amount, end of period	$ 287	$ 184	$ -	$ 471

[1] This amount includes maturing mortgages that have been renewed.

As of June 30, 2019 the Bank had not recorded any write-offs in the Street Solutions portfolio. However, it had identified seven loans totalling $4.17 million as impaired, and individually assessed (Stage 3) allowances for credit losses of $0.13 million have been recorded for these loans. All of these loans were classified in Stage 3 at June 30, 2019. One loan of $0.87 million was discharged in July. The remaining loans will be retained in Stage 3 until they are either discharged or demonstrate an extended return to current status.

At June 30, 2019, 99.0% of the unimpaired Street Solutions mortgages were current. The Bank has enhanced default management and collection strategies associated with Street Solutions mortgages, as these mortgages carry higher credit risk and higher propensity to default.

At June 30, 2019, there are no expected credit losses on the Bank's securitized mortgage assets, or insured loans held on-balance sheet, as the mortgages are insured against default. No securitized mortgages were impaired at June 30, 2019. Further, all 10-year insured NHA MBS mortgage loans on multi-unit residential properties securitized through the CMB program and held off-balance-sheet were current as at June 30, 2019.

During 2018 the Bank invested in CMBs with a par value of $22.5 million, which had a fair value of $23.3 million at June 30, 2019. The CMBs are also readily converted to cash and the Bank considers them to be part of its liquid assets.

The Company has credit risk associated with specific loans and accounts receivable that are related to its discontinued real estate and case goods businesses. The carrying value of these loans at June 30, 2019 was $0.5 million.

The maximum credit exposures of the financial assets are their carrying values as reflected on the consolidated statements of financial position. The Bank's uninsured mortgages that are held on-balance sheet are concentrated in the provinces of Ontario and British Columbia. The Company's $534 million 10-year NHA insured mortgages for multi-unit residential loans, the majority of which had been derecognized through sale as at June 30, 2019, are concentrated in the provinces of Nova Scotia and Ontario, and approximately 80% of balances outstanding at June 30, 2019 are owed by six borrowers or borrowing groups. Aside from this, the Company does not have any significant concentrations of credit risk within any geographic region or group of customers.

Additional Information – Mortgage Lending

The Bank reviews the credit performance and credit quality of its mortgage portfolio on an ongoing basis and performs stress testing that includes scenarios that are based on adverse economic events. These scenarios include combinations of increasing unemployment, increasing interest rates and a decline in real-estate values, as well as specific operational and reputational stress tests. Generally, mortgage defaults are correlated to increases in unemployment rates, and in an economic downturn the Bank would expect an increase in mortgage defaults and losses on uninsured mortgages associated with declining real estate values. Given the size of the uninsured mortgage portfolio and the LTV ratios in the portfolio, the Bank's stress testing indicates that the Bank has sufficient capital to absorb stress events associated with an adverse economic event, albeit with reduced income due to increased credit losses, and from declines in revenue from expected decreases in prime origination volumes.

The table below shows Street Solutions originations and weighted average origination LTVs for the period following the product's initiation in Q2 2017. The LTV range is consistent with the Company's targets and its risk appetite.

Table 13 – Street Solutions weighted average LTVs at origination

Date		Originations *(in thousands of $)*	Weighted Average LTV
Q2 2017	$	10,225	72.4%
Q3 2017		131,376	72.6%
Q4 2017		62,116	70.1%
Q1 2018		98,285	72.9%
Q2 2018		107,805	71.4%
Q3 2018		93,685	70.7%
Q4 2018		121,611	70.2%
Q1 2019		120,303	71.4%
Q2 2019		42,742	71.4%
	$	788,148	71.4%

At June 30, 2019, the Company's total uninsured lending portfolio held on-balance sheet was $624 million, with almost all of it comprised of Street Solutions mortgages. The weighted average origination LTV for the total outstanding balance of Street Solutions mortgages was 71.6% at June 30, 2019, 71.4% at March 31, 2019 and 71.5% at December 31, 2018.

The tables below detail the geographic distribution and remaining amortization of the insured and uninsured loans that the Bank holds on-balance sheet, inclusive of credit provisions.

Table 14 – Single-family Residential Loans by Province

	As at June 30, 2019				
(in thousands of $, except %)	**Insured Residential Mortgages**	**Percentage of Total by Province**	**Uninsured Residential Mortgages**	**Percentage of Total by Province**	**Total**
British Columbia	**$ 8,558**	**6.7%**	**$ 118,325**	**93.3%**	**$ 126,883**
Alberta	**14,545**	**46.1%**	**17,004**	**53.9%**	**31,549**
Prairies	**2,537**	**67.3%**	**1,233**	**32.7%**	**3,770**
Ontario	**95,400**	**16.5%**	**482,227**	**83.5%**	**577,627**
Atlantic	**2,616**	**45.0%**	**3,194**	**55.0%**	**5,811**
	$ 123,656	**16.6%**	**$ 621,983**	**83.4%**	**$ 745,639**

	As at March 31, 2019				
(in thousands of $, except %)	**Insured Residential Mortgages**	**Percentage of Total by Province**	**Uninsured Residential Mortgages**	**Percentage of Total by Province**	**Total**
British Columbia	$ 10,174	7.9%	$ 118,544	92.1%	$ 128,718
Alberta	15,049	48.9%	15,708	51.1%	30,757
Prairies	2,557	69.3%	1,134	30.7%	3,691
Ontario	115,519	19.1%	488,683	80.9%	604,202
Atlantic	2,640	45.7%	3,132	54.3%	5,772
Quebec	3,247	100.0%	-	0.0%	3,247
	$ 149,186	19.2%	$ 627,201	80.8%	$ 776,387

	As at June 30, 2018				
(in thousands of $, except %)	**Insured Residential Mortgages**	**Percentage of Total by Province**	**Uninsured Residential Mortgages**	**Percentage of Total by Province**	**Total**
British Columbia	$ 17,034	26.0%	$ 48,589	74.0%	$ 65,623
Alberta	22,022	75.3%	7,212	24.7%	29,234
Prairies	2,764	100.0%	-	-	2,764
Ontario	166,869	32.8%	342,324	67.2%	509,193
Atlantic	2,715	75.5%	880	24.5%	3,595
	$ 211,404	34.6%	$ 399,005	65.4%	$ 610,409

The Bank defines "insured" residential mortgage loans as any loan that has been insured individually or as part of a portfolio of loans, by either CMHC or one of two government backed private insurers in the Canadian market.

Table 15 – Insured and Uninsured Single-Family Residential Mortgages by Effective Remaining Amortization Period

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
					As at June 30, 2019
Balance outstanding	**$ 20,964**	**$ 114,894**	**$ 609,781**	**$ -**	**$ 745,639**
Percentage of total	**2.8%**	**15.4%**	**81.8%**	**0.0%**	**100.0%**

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
					As at March 31, 2019
Balance outstanding	$ 26,028	$ 117,182	$ 621,060	$ 12,118	$ 776,387
Percentage of total	3.3%	15.1%	80.0%	1.6%	100.0%

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
					As at June 30, 2018
Balance outstanding	$ 13,576	$ 174,613	$ 422,220	$ -	$ 610,409
Percentage of total	2.2%	28.6%	69.2%	0.0%	100.0%

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages originated during Q2 2019, Q1 2019 and Q2 2018, which consist primarily of Street Solutions mortgages.

Table 16 – Weighted Average LTV Ratios – Uninsured Single-Family Residential Mortgages Originated Q2 2019, Q1 2019 and Q2 2018

	For the three months ended June 30, 2019					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	$ 8,899	67.4%	$ 38,923	67.2%	$ 47,822	67.3%
Ontario	35,429	72.5%	114,460	70.7%	149,889	71.1%
Alberta	1,915	78.9%	10,814	75.0%	12,729	75.6%
Prairies	104	35.9%	1,104	78.1%	1,208	74.4%
Atlantic	75	32.6%	3,962	70.9%	4,037	70.2%
	$ 46,422	71.6%	$169,263	70.2%	$215,685	70.5%

	For the three months ended March 31, 2019					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	$ 31,328	70.5%	$ 11,986	67.2%	$ 43,314	69.6%
Ontario	84,579	71.7%	41,536	71.4%	126,115	71.6%
Alberta	2,765	73.5%	4,536	72.6%	7,301	72.9%
Prairies	1,138	72.9%	1,381	72.0%	2,519	72.4%
Atlantic	889	71.7%	2,181	75.9%	3,070	74.6%
	$ 120,699	71.4%	$ 61,620	70.9%	$ 182,319	71.2%

	For the three months ended June 30, 2018					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
	Volume	LTV	Volume	LTV	Volume	LTV
(in thousands of $, except %)	$ 20,241	72.6%	$ 1,192	54.5%	$ 21,433	71.6%
	84,325	71.1%	2,091	71.9%	86,415	71.1%
British Columbia	2,593	73.5%	-	N/A	2,593	73.5%
Ontario	-	N/A	183	75.0%	183	75.0%
Alberta	646	69.2%	-	N/A	646	69.2%
Prairies						
Atlantic	$ 107,805	71.4%	$ 3,465	66.1%	$ 111,270	71.2%

Liquidity and Funding Risk Management

Liquidity and funding risk is the risk that the Company is unable to generate sufficient funds, in a timely and reasonably priced manner, to meet its financial obligations as they come due. This risk arises from the fluctuations in the Company's cash flows that are associated with the Bank's loan sales, securitizations, lending and deposits, investing, and other business activities. As the Bank continues its expansion of on-balance sheet lending and deposit taking, fluctuations in these cash flows will become significant contributors to liquidity and funding risk.

The Bank has a low tolerance for liquidity and funding risk and has a Liquidity and Funding Management policy that is managed in conjunction with other policies, all of which are designed to ensure that cash

balances and other high-quality liquid assets are a) sufficient to meet all cash outflows, in both ordinary and stressed conditions, and b) in compliance with regulatory requirements, including the Liquidity Coverage Ratio ("LCR") and Net Cumulative Cash Flow ("NCCF") metrics prescribed by OSFI. The LCR reports net cumulative cash flow requirements in a stressed environment over a short-term period of 30 days. The NCCF measures detailed cash flows to capture the risk posed by funding mismatches over and up to a 12-month time horizon. The Company currently manages liquidity risk through both daily monitoring and measurement of the Bank's liquidity position, and regular liquidity forecasting. Monitoring includes liquidity metrics such as maturity gap analysis and survival horizons. Even with the Bank's underlying policies and monitoring there is a risk of disruption in the funding markets beyond the Bank's control. In cases where the disruption is severe or prolonged the Bank may need to take further contingency actions, which could include curtailing lending activity.

The Company's main sources of cash and operating liquidity are deposits, cash premiums received from the sale of mortgages to investors, net interest income, cash received from the Bank's share of servicing fees and excess spread, and, to a lesser extent, securitizations. As described above, the Bank underwrites for sale only high-quality mortgages and maintains stringent underwriting and quality assurance processes, in order to maximize investor demand and therefore liquidity. Generally, liquidity risk associated with prime insurable and prime uninsurable mortgage commitments is limited, as most investors commit to funding at the time of mortgage commitment. Since Q2 2018 the Bank has been originating prime uninsurable mortgages through its network of approved independent mortgage brokers. As the Bank expands its originations of such loans for sale to institutional investors, the Bank will bear the liquidity risk for any loans it may have to reacquire from investors if such loans are deemed by the investor to be ineligible. This could have a material impact on the Bank's liquidity reserves if it were required to either fund at closing, or subsequently repurchase, a large amount of loans at once without the ability to replenish its pool of liquid assets. The Bank considers this repurchase risk in setting its ongoing liquidity requirements. Such funding or repurchases due to ineligibility of loans could also compromise the ongoing funding from investors supporting the prime uninsurable lending program and force the Bank to curtail the product offering.

With respect to the Bank's on-balance sheet mortgages, in particular Street Solutions uninsured loans, this lending activity is funded by the Bank's deposit taking activity. The Bank's funding strategy, where possible, is to be long on deposits relative to the expected duration of its on-balance sheet mortgage lending. Any maturity gaps are managed within risk limits.

Shown below is a maturity gap table comparing the Bank's on-balance sheet mortgages to its GIC deposits.

Table 17 – On-balance sheet loans and GIC deposits by remaining contractual term to maturity

(in thousands of $)					As at June 30, 2019
	0 - 3 Months	3 - 12 Months	1 to 3 Years	Over 3 Years	Total
Remaining contractual term					
Single-family residential mortgages	$ 165,901	$ 423,875	$ 37,609	$ 18,788	$ 646,173
Deposits (GICs)	75,135	205,719	294,247	121,663	696,764
Net maturity	$ 90,766	$ 218,156	$ (256,638)	$ (102,875)	$ (50,591)

The Bank's access to deposits depends upon a number of factors including access to third-party deposit platforms, interest rates offered by competing lenders, general economic conditions, regulatory requirements, and the securities markets in general. The Bank's deposits are currently sourced through the deposit broker network, and are CDIC-insured fixed-term GICs. This network is expected to have more than sufficient liquidity to meet the Bank's funding needs for the next few years. The Bank is, however, exposed from time to time to deposit dealer-imposed concentration limit restrictions.

In Q4 2018, the Bank completed a $26.2 million sale of funded Street Solutions mortgages to an international third-party institutional investor. The Company hopes to continue accessing this funding capability through future loan sales to this investor. However, given the nascent nature of both this relationship and the off-balance sheet sales program for this product, there is no certainty that future funding will be available from this funding source, or that such sales will be sufficiently profitable to the Company to justify continuation of the program. As well, curtailment or elimination of the program could have a material impact on the volume of the Company's Street Solutions loan originations.

The Company holds liquid assets primarily in the form of cash in bank deposits, NHA MBS, and Canada Mortgage Bonds. At June 30, 2019 the Company had $26.2 million in cash and cash equivalents on deposit with Schedule I Canadian banks (March 31, 2019 - $33.0 million; December 31, 2018 - $64.5 million). As noted above, the Company also holds CMBs, maturing in 2023, with a par value of $22.5 million and a fair value of $23.3 million at June 30, 2019.

As an approved NHA MBS issuer, the Bank can also access the NHA MBS market to fund insured mortgages. The Bank's access to liquidity through investors and the NHA MBS securitization market depends on a number of factors, including general economic conditions, spreads on mortgages relative to other investments, and conditions in both the securities markets in general and the MBS market specifically. Accordingly, a decline in investor demand or securitization markets could adversely affect the Bank's ability to originate mortgages, which could negatively impact future financial results.

At June 30, 2019 the Bank held $13.6 million (March 31, 2019 - $32.9 million; December 31, 2018 - $24.8 million) of mortgages that it had securitized through the NHA MBS program and not yet sold to investors ("stamped mortgages"), which can be readily converted to cash.

The liquid assets of the Bank are shown in the table below.

Table 18 – Liquid assets (based only on the consolidated subsidiary, Street Capital Bank)

			As at
(in thousands of $)	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**
Deposits with regulated financial institutions	**$ 26,211**	$ 32,990	$ 64,495
Securities	**23,266**	23,112	22,692
Stamped mortgages	**13,590**	32,883	24,778
Total liquid assets	**$ 63,067**	$ 88,985	$ 111,965

Market Risk Management

Market risk is largely composed of two related risks: interest rate risk and investment risk. These are discussed below.

Interest Rate Risk

Interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings, over specific time periods, despite fluctuations in interest rates. The Bank has a Board-approved market risk management framework that defines strategies and policies that are aligned with the Company's risk appetite. In addition, the framework specifies stress-testing and sensitivity analysis with regard to interest rates and related factors, along with appropriate use of hedging as a risk management technique. The policies are reviewed at least annually and more often if required by events or changing circumstances.

The Company's primary exposure to interest rate risk arises from the possibility that a significant portion of the Bank's assets and liabilities could have unmatched terms and/or interest rates.

Generally, the Bank is not exposed to material levels of interest rate risk arising from prime insurable or prime uninsurable mortgage commitments, because the purchase price for mortgages sold to investors is normally based on customer commitment rates rather than the interest rate at time of funding, thereby passing on the interest rate risk to the investors. Interest rate risk may arise if committed and allocated loans no longer qualify at funding based on individual investor criteria, and are then either funded by the Bank directly or sold to another investor who has different funding criteria. In a rate-rising environment, interest rate risk increases. When the Bank securitizes prime insured mortgages directly, or sells loans on a whole loan basis after funding, it is exposed to interest rate risk arising from both the point the mortgage commitments are issued, and from the time of loan funding to the point of pooling the loan for securitization or loan sale. The level of risk has historically been low overall given low relative volumes of both securitizations and whole loan sales after funding and as such the Bank does not hedge this risk.

The Company is also exposed to interest rate risk from the Bank's mortgage commitments issued with respect to Street Solutions mortgages designated for sale to a third-party investor, as these loans are funded by the Bank prior to their subsequent sale to the investor. Any increase in interest rates between the time of commitment and time of funding could decrease the Bank's expected level of profitability from the loan sale.

The table below details the results, for the Bank, of sensitivity modelling interest rate increases and decreases during the 12-month period beginning on June 30, 2019. The model is based on a number of assumptions, and actual results could vary from these assumptions should an actual rate change occur.

Table 19 – Net interest income shock (for the consolidated subsidiary, Street Capital Bank)

	As at June 30, 2019	
(in thousands of $, except %)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point shift		
Impact on net interest income	**$ 2,272**	**$ (2,383)**
Impact on EVE	**5,663**	**(6,004)**
EVE as a % of shareholders' equity	**5.11%**	**(5.42%)**
200 basis point shift		
Impact on net interest income	**$ 4,539**	**$ (4,767)**
Impact on EVE	**11,100**	**(12,255)**
EVE as a % of shareholders' equity	**10.02%**	**(11.06%)**

Although interest rate risk is concentrated within the Bank's operations, the Company does have legacy items that, while immaterial to overall operations, must also be considered. At June 30, 2019, an immediate and sustained 100 basis point increase in interest rates on these legacy items would result in approximately $0.04 million expense over the next 12 months.

Shown below is the June 30, 2019 position of the Bank, with regard to the interest rate sensitivity of its assets, liabilities and equity. The information presented is based on the contractual maturity date.

Table 20 – Interest rate sensitivity (for the consolidated subsidiary, Street Capital Bank)

June 30, 2019

(in thousands of $)	Floating Rate	0 to 3 Months	4 Months to 1 Year	1 Year to 5 Years	Greater than 5 Years	Non Rate Sensitive	Total [1]
Assets							
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%
Total assets	$ 73,631	$ 194,652	$ 428,506	$ 112,621	$ 812	$ 178,277	$ 988,499
Weighted Average Contractual Rate	4.06%	4.48%	5.07%	3.41%	2.89%	-	3.77%
Liabilities							
Cashable GICs [2]	$ -	$ 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	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	$ 55,622	$ 75,208	$ 208,018	$ 459,238	$ -	$ 190,413	$ 988,499
Weighted Average Contractual Rate	2.39%	2.28%	2.46%	2.75%	-	-	2.10%
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 18,009	$ 119,444	$ 220,488	$ (346,617)	$ 812	$ (12,136)	$ -

[1] *Accrued interest is included in "Other assets" and "Other liabilities", respectively.*

[2] *Cashable GICs are redeemable by the depositor after 90 days from the issue date.*

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments. The Company has adopted a Board-approved investment policy that specifies the sources of cash to be invested and the constraints within which investments can be made. The policy is designed to help mitigate credit, liquidity and market risk. It is reviewed at least annually, and more often if required by events or changing circumstances.

At June 30, 2019 the Company's investment risk is largely limited to its investments in CMBs that were acquired in 2018, which have a par value of $22.5 million and a fair value of $23.3 million. More complex investing activities are expected to occur as the Bank's deposit taking and uninsured lending operations expand, although the timing of such activities is uncertain.

Operational Risk Management

Operational risk is the risk of loss resulting from either inadequate or failed internal processes, people and systems, or from external events. Operational risk cannot be completely eliminated, since it is inherent in all business activities, and it can occur in such diverse areas as fraud, equipment damage, system failure, cyber security, business disruption, human error, and natural disasters.

As part of normal operations as a mortgage lender, the Bank is exposed to an inherently high level of fraud risk through the mortgage origination and underwriting processes. The Bank has quality control and fraud management practices in place to mitigate these risks, which practices and processes are evaluated and modified on an ongoing basis. As mortgage underwriting and mortgage insurance qualification requirements become more stringent, either as a result of changes in regulatory requirements, as seen through updates from the Department of Finance in October 2016 and from OSFI in October 2017 with respect to updates to Guideline B-20, or through changes in general industry practice, the inherent risk of mortgage fraud such as misrepresentation in mortgage documents can increase. This is particularly the case when income qualification rules are tightened within an environment of high home prices and increasing interest rates. In response, the Bank further strengthened its internal controls in 2018 to include measures such as: further enhancing documentation requirements for higher risk borrowers, performing greater due diligence on the on-boarding of new mortgage brokers, upskilling in certain key areas such as its quality assurance function, and further improving its portfolio monitoring and reporting capabilities to proactively identify potential misrepresentation.

Further, the Bank's mortgage sale agreements generally require the Bank to repurchase or substitute mortgages in the event there has been a breach of a representation or warranty made to the mortgage purchaser (generally including situations involving identification of mortgage fraud), and/or to indemnify the mortgage purchaser against any loss it may suffer. Any requirement for the Bank to repurchase or substitute a significant amount of mortgages that it has sold, or to indemnify mortgage purchasers, could have a negative impact on the Company's financial condition and results of operations, and could also lead to material losses if insurers will not honour claims for any such loans that may subsequently default. Significant breaches of mortgage sale agreements may also discourage mortgage purchasers from doing business with the Bank, which could have a negative impact on its ability to sell mortgages and could have a material adverse effect on the Company's business, financial condition and results of operations.

As well, the Bank's mortgage lending operations are dependent on a network of mortgage brokers, some of whom may represent a material volume of the Bank's aggregate mortgage originations. If the Bank chooses to cease doing business with any particular broker or brokers as a result of identifying mortgage fraud or any other misrepresentation on the part of the broker, this could have a material adverse effect on the Company's financial results.

The Bank’s mortgage origination, underwriting and quality assurance processes and controls are designed to provide a high level of assurance that the mortgages it originates comply with all underwriting requirements and do not contain misrepresentations. However, there is no absolute assurance that the Company will not make mistakes or that certain employees, brokers or borrowers will not inadvertently or deliberately violate the Bank’s underwriting or other policies, or misrepresent information in the mortgage application. The Bank is aware of the inherently high level of mortgage fraud risk in the mortgage industry and the associated effect of the above risks on its business model, and believes its current practices and processes to prevent and detect mortgage fraud are reasonable. However, even with reasonable and prudent controls in place, operational risks such as fraud cannot be fully mitigated or eliminated and therefore the practices and processes continue to be evaluated and improved as required.

While aware of these and other operational constraints, the Company takes proactive steps to mitigate its operational risk. The Company has adopted an ERM Framework that includes strategies to manage operational risk, including avoidance, transfer, insurance, acceptance, and mitigation by controls. The Company also employs a risk and compliance information system that facilitates the application of enhanced operational risk management techniques.

Reputational Risk

Reputational risk is the risk that shareholders, the general public, third parties with whom the Company deals, employees, or regulators, will, with or without basis, judge the Company’s operations, actions or business practices unfavorably, potentially resulting in a decline in the Company’s value, brand, liquidity, or customer base. Reputational risk is pervasive through all of the Company’s activities.

To manage its reputational risk, the Company has developed a Reputational Risk framework, which includes a Reputation Risk Management Policy that sets out the principles and organization structures and process related to managing reputational risk. Reputational risk is managed through:

- value setting;
- risk management and internal control (through Bank-level Enterprise Risk Management policies);
- specific identification and prevention of reputational risk events; and
- incident management (includes a communication response plan).

Specific risk management actions to manage reputational risk include:

- providing adequate employee job-specific training;
- mandating and ensuring compliance by all employees with the Bank’s Code of Conduct and Ethical Behaviour;
- conflict of interest training and annual attestation;
- ensuring strong corporate governance standards are adhered to and that compliance and risk management practices and policies are complied with; and
- monitoring potential sources of reputational risk such as negative media, emerging risks, employee engagement and survey results, etc.

As described above under *Proposed Sale to RFA Capital*, on June 14, 2019 the Company entered into the Arrangement Agreement with 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, subject to customary closing conditions. If

the sale of the Company to RFA is not approved or completed, the Company would immediately explore other alternatives for strengthening the capital base of the Bank, which could potentially be less attractive to shareholders. As mentioned above, while the Bank has specific risk management actions to manage reputational risk, in the absence of a sale to RFA, or in the inability to conclude an alternate transaction on a timely basis, the Bank may suffer reputational damage from some or all of its stakeholders/partners (e.g. customers, mortgage brokers, deposit brokers, funders, employees, regulators, etc.).

CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING STANDARDS AND POLICIES

The preparation of consolidated financial statements 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 revenue and expenses during the reporting period. The Company's management reviews its estimates, assumptions and judgments on an ongoing basis, at least quarterly, and updates them as required by events or changes in circumstances. 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 during the reporting period. Additionally, actual results could differ from those estimates under different assumptions and conditions.

The Company's key areas of judgment and estimation include: expected 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 interests in securitization transactions and intangible assets; derecognition of mortgages that have been sold; valuation of securities and other investments; valuation of lease liabilities and associated right of use assets; and accounting for deferred income taxes.

This MD&A should be read in conjunction with the Company's 2018 audited consolidated financial statements and the notes thereto. The significant accounting policies and critical accounting estimates are described in Note 3 of the 2018 audited consolidated financial statements. These policies have the potential to significantly impact the Company's financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events that are continuous in nature.

The Company adopted *IFRS 16 – Leases* effective January 1, 2019, which supersedes *IAS 17 - Leases* ("IAS 17") and its interpretive guidance. As permitted by IFRS 16, the Company has not restated its prior period comparative consolidated financial statements, which were prepared under IAS 17, and therefore are not comparable to the current year's information. No adjustments to the Company's equity were required upon the adoption of IFRS 16. Please see Note 2 of the Q1 2019 unaudited condensed consolidated interim financial statements for discussion of the adoption. The Company has not identified any future changes in accounting standards that may have an impact on the Company's financial position and results of operations.

COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain items in the comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the Q2 2019 unaudited condensed consolidated interim financial statements.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws. They include controls and procedures that are designed to ensure that information is accumulated and communicated to senior management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There were no changes to the Company's internal controls over financial reporting during the period ended June 30, 2019 that have materially affected, or are expected to have a material effect on, the Company's financial reporting.

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited condensed consolidated interim financial statements. Street Capital has in place appropriate information systems and procedures to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company. The Audit Committee has reviewed this MD&A and the accompanying unaudited condensed consolidated interim financial statements, and recommended them to the Board of Directors for approval and filing.

NON-GAAP MEASURES

Management uses a variety of financial measures in its assessment and description of the Company's performance. In addition to GAAP-defined measures, such as earnings per share ("EPS"), management uses non-GAAP measures in order to provide investors with useful information regarding the Company's financial condition and results of operations. These non-GAAP measures do not have any standardized meaning under GAAP. These measures, therefore, may not be comparable to, or consistent with, similarly titled non-GAAP measures presented by other companies. The non-GAAP measures used in this MD&A are defined as follows:

Adjusted shareholders' earnings (loss) and adjusted diluted shareholders' earnings (loss) per share

The adjusted results are intended to highlight the core operating business of the Company (the Bank) by removing non-recurring items, and items associated with the Company's legacy businesses. These items include i) non-recurring restructuring expenses or recoveries, net of applicable taxes, ii) impairment of goodwill and intangible assets, and iii) fair value adjustments, provisions, and the results of discontinued operations associated with the Company's legacy businesses. The reconciliation of shareholders' net income (loss) to adjusted shareholders' net income (loss), and the resulting adjusted earnings (loss) per share, are presented below. Adjusted diluted earnings (loss) per share is calculated using adjusted net income (loss).

Reconciliation of Shareholders' Net Income (Loss) to Adjusted Shareholders' Net Income (Loss)

(in thousands of $, except per share data)	For the three months ended			For the six months ended	
	June 30, 2019	**March 31, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Net income (loss)	**$ 3,798**	$ (1,656)	$ 3,306	**$ 2,142**	$ 1,941
Net interest accrual on legacy payable (net of tax)	**22**	29	-	**51**	-
Restructuring expense (net of tax)	**-**	1,572	-	**1,572**	-
Fair value adjustments (net of non-controlling interest)	**-**	-	(1,189)	**-**	(1,342)
Private equity management expense (net of tax)	**-**	-	220	**-**	257
Adjusted net income (loss)	**$ 3,820**	$ (56)	$ 2,337	**$ 3,765**	$ 856
Shareholders' diluted earnings (loss) per share	**$ 0.03**	$ (0.01)	$ 0.03	**$ 0.02**	$ 0.02
Adjusted shareholders' diluted earnings (loss) per share	**$ 0.03**	$ (0.00)	$ 0.02	**$ 0.03**	$ 0.01

Return on equity is defined as the net income (loss) available to common shareholders as a percentage of average shareholders' equity. It is calculated on an annualized basis.

Adjusted return on equity is calculated as the adjusted net shareholders' net income (loss) as a percentage of average shareholders' equity. It is calculated on an annualized basis.

Reconciliation of shareholders' equity to shareholders' tangible equity

Shareholders' tangible equity is defined as shareholders' equity less the Goodwill and Customer Intangibles related to Street Capital's acquisition of the Bank in 2011.

(in thousands of $)	June 30, 2019	March 31, 2019	As at June 30, 2018
Shareholders' equity	**$ 97,835**	$ 93,742	$ 140,763
Deduct: goodwill from purchase of Street Capital Bank	-	-	(23,465)
Deduct: intangible assets from purchase of Street Capital Bank	-	-	(3,374)
Shareholders' tangible equity	**$ 97,835**	$ 93,742	$ 113,924

Return on tangible shareholders' equity ("ROTE") is defined as the net income (loss) available to common shareholders, excluding the amortization of the Customer Intangibles referenced above, as a percentage of average shareholders' tangible equity. It is calculated on an annualized basis.

(in thousands of $)	For the three months ended June 30, 2019	March 31, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018
Net income (loss)	**$ 3,798**	$ (1,656)	$ 3,306	**$ 2,142**	$ 1,941
Add back: amortization of intangible assets	-	-	123	-	247
Net income (loss) for return on shareholders' tangible equity	**$ 3,798**	$ (1,656)	$ 3,429	**$ 2,142**	$ 2,188

Adjusted return on shareholders' tangible equity ("Adjusted ROTE") is defined as the adjusted net income (loss) available to common shareholders, excluding the amortization of the Customer Intangibles referenced above, as a percentage of average shareholders' tangible equity. It is calculated on an annualized basis.

(in thousands of $)	For the three months ended June 30, 2019	March 31, 2019	June 30, 2018	For the six months ended June 30, 2019	June 30, 2018
Net adjusted income (loss)	**$ 3,820**	$ (56)	$ 2,337	**$ 3,765**	$ 856
Add back: amortization of intangible assets	-	-	123	-	247
Adjusted net income (loss) for return on shareholders' tangible equity	**$ 3,820**	$ (56)	$ 2,460	**$ 3,765**	$ 1,103

Average beacon

Average beacon refers to the credit scores of new mortgage clients, and is calculated as the portfolio weighted average at the date of mortgage origination.

Book value per share

Book value per share is calculated by dividing shareholders' equity by the number of common shares outstanding.

Economic Value of Shareholders' Equity ("EVE")

Economic value of shareholders' equity is a risk analysis tool that is used to model the effect of interest rate changes on an entity's total capital. EVE is calculated by subtracting the present value of liability cash flows from the present value of asset cash flows.

Leverage Ratio

The Leverage Ratio provided in this MD&A is that of the Company's wholly owned subsidiary Street Capital Bank. The calculations are in accordance with guidelines issued by OSFI. The Leverage Ratio is defined as the Capital Measure divided by the Exposure Measure, with the ratio expressed as percentage. The Capital Measure is the all-in Tier 1 capital of Street Capital Bank. The Exposure Measure consists of on-balance sheet, derivative, securities financing transactions and off-balance sheet exposures.

Loan to value ratio

The loan to value ratio ("LTV") is calculated as the portfolio weighted average ratio of outstanding loan balance to collateral value at origination.

Market capitalization

Market capitalization at a given date is calculated by multiplying that day's closing price of the Company's common shares by the number of common shares outstanding.

Mortgages under administration ("MUA")

Mortgages under administration includes all securitized and non-securitized mortgage loans held on-balance sheet, as well as all off-balance sheet mortgages that qualify for derecognition under IFRS.

New mortgage originations

New mortgage originations includes all mortgages sold to investors, all new mortgage originations held on-balance sheet, conversions of adjustable rate mortgages to fixed rate mortgages, and mortgages that are securitized under the NHA MBS program.

Adjusted operating expenses

Adjusted operating expenses are defined as the total of the Company's i) salaries and benefits expense, plus ii) selling, general and administrative expense, excluding iii) restructuring expenses, and iv) impairments of goodwill and intangible assets.

	For the three months ended			For the six months ended	
(in thousands of $)	**June 30, 2019**	**March 31, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Expenses					
Salaries and benefits	**$ 8,612**	$ 8,057	$ 8,157	**$ 16,669**	$ 15,886
Selling, general and administrative expenses	**5,078**	5,249	5,670	**10,327**	11,298
Restructuring expense	**-**	2,138	-	**2,138**	-
Total expenses	**13,690**	15,444	13,827	**29,134**	27,184
Deduct: restructuring expense	**-**	(2,138)	-	**(2,138)**	-
Adjusted operating expenses	**$ 13,690**	$ 13,306	$ 13,827	**$ 26,996**	$ 27,184

Renewed Mortgages

Renewed mortgages includes all mortgages that are renewed at the end of their contractual term, with no changes to the contractual terms except interest rate.

Risk-Based Capital Ratios

The risk-based capital ratios are composed of the Common Equity Tier 1, Tier1, and Total Capital Ratios. The capital ratios provided in this MD&A are those of the Company's wholly owned subsidiary Street Capital Bank. The calculations are in accordance with guidelines issued by OSFI.

Risk-weighted assets

The risk-weighted assets reported in this MD&A are those of the Company's wholly owned subsidiary Street Capital Bank. The calculations are in accordance with guidelines issued by OSFI.

Serious arrears rate

Serious arrears rate is defined as the number of mortgages that are greater than 90 days in arrears, plus the number of mortgages involved in legal action due to non-payment, divided by the number of mortgages under administration. The calculation includes mortgages that have been sold to institutional investors.

Total debt service ratio

The total debt service ratio (**"TDSR"**) refers to the debt service ratios of new mortgage clients, and is calculated as the portfolio weighted average at the date of mortgage origination.

GLOSSARY

Basis point

A basis point (“bp”) is one hundredth of a percentage point.

Canada Deposit Insurance Corporation (“CDIC”)

The Canada Deposit Insurance Corporation is a Canadian federal Crown corporation that insures Canadians’ deposits held at Canadian banks up to CDN $100 thousand per issuer in case of a bank failure.

Canada Mortgage and Housing Corporation (“CMHC”)

The Canada Mortgage and Housing Corporation is a Canadian federal Crown corporation whose main function is to sell insurance to Canadian residential mortgage lenders to protect them against mortgage defaults. The cost of the insurance premiums is typically passed along to the borrower when a loan’s LTV is > 80%, and paid by the lender when a loan’s LTV is < 80%.

Guaranteed Investment Certificate (“GIC”)

A Guaranteed Investment Certificate is an investment security, sold by Canadian banks and trust companies, which offers a guaranteed rate of return (interest rate) over a fixed period of time, commonly 1 to 5 years.

Impaired or Non-Performing Loans

Loans are considered to be impaired when there is no reasonable assurance that principal and interest will be remitted to the lender on a timely basis. Under IFRS 9, the Bank considers uninsured and insured mortgage loans to be impaired when they are more than 90 days past due.

Liquidity Adequacy Requirements (“LAR”)

A guideline published by OSFI (see below) that requires banks, bank holding companies, trust and loan companies and cooperative retail associations to maintain adequate and appropriate forms of liquidity.

Liquidity Coverage Ratio (“LCR”)

The Liquidity Coverage Ratio is a standard, and a component of the LAR, that aims to ensure that an institution has an adequate stock of unencumbered high-quality liquid assets (“**HQLA**”) that consists of cash, or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

National Housing Act Mortgage-Backed Securities (“NHA MBS”) Program

NHA mortgage-backed securities are pools of CMHC-insured residential mortgages that are sold to investors (“securitized” – see “Securitization”, below).

Net Cumulative Cash Flow (“NCCF”)

The Net Cumulative Cash Flow is a tool, and a component of the LAR, that measures an institution’s cash flows beyond the 30-day horizon in order to capture the risk posed by funding mismatches between assets and liabilities, after the application of assumptions around the functioning of assets and modified liabilities (i.e. where rollover of certain liabilities is permitted). The NCCF measures an institution’s cash flow horizon both on the basis of the consolidated balance sheet as well as by major individual balance sheets and components. The metric helps identify gaps between contractual inflows and outflows for various time bands over and up to a 12-month time horizon, which indicate potential liquidity shortfalls an institution may need to address.

Net Interest Margin ("NIM")

Net Interest Margin is a significant measure of the profitability of the Bank's operations. It is calculated as the excess of interest revenues over funding costs, as a percentage of average interest earning assets.

Office of the Superintendent of Financial Institutions Canada ("OSFI")

The Office of the Superintendent of Financial Institutions Canada is the federal government agency that is responsible for regulation and supervision of banks, insurance companies, trust companies, loan companies and pension plans in Canada.

Prime insurable mortgage loans

A prime mortgage loan is considered insurable when it can be insured individually, or insured as part of a portfolio of loans. Prime insurable mortgages originated by the Bank and sold to third parties may be insured either by the Bank or by the investor.

Prime uninsurable mortgage loans

A prime uninsurable mortgage loan is a mortgage transaction that is ineligible for either individual or portfolio insurance. Uninsurable mortgage loans include re-finances of existing mortgages, mortgages greater than $1 million, mortgages with amortization periods greater than 25 years, purchased or transferred loans, and many mortgages on small multi-unit residential properties.

Securitization

Securitization is the sale of pools of assets, such as insured residential mortgages, to third parties.