# EQUITY FINANCIAL HOLDINGS INC.

## INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**First Quarter Ended March 31, 2016**

Responsibility for Consolidated Financial Statements

The accompanying interim consolidated financial statements for Equity Financial Holdings Inc. ("EQI" or the "Corporation") have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Estimates and approximations have been made using careful judgment. Recognizing that the Corporation is responsible for both the integrity and objectivity of the interim consolidated financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented.

**March 31, 2016**

## CONTENTS


| | Page |
|---|---|
| **Financial Statements** | |
| Interim Consolidated Balance Sheets | 3 |
| Interim Consolidated Statement of Operations and Comprehensive Income (loss) | 4 |
| Interim Consolidated Statements of Changes in Shareholders' Equity | 5 |
| Interim Consolidated Statements of Cash Flows | 6 |
| Notes to the Interim Consolidated Financial Statements | 7 |

**EQUITY FINANCIAL HOLDINGS INC.**

**INTERIM CONSOLIDATED BALANCE SHEETS**

**(unaudited)**

| ($000s Canadian dollars) | | As at March 31, 2016 | | As at December 31, 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents (Note 6) | **$** | **41,712** | $ | 44,326 |
| Mortgages receivable, net (Note 7) | | **441,330** | | 383,282 |
| Deferred tax assets (Note 11) | | **972** | | 894 |
| Other assets (Note 9) | | **822** | | 699 |
| Property, plant and equipment | | **337** | | 399 |
| Intangibles | | **2,011** | | 1,829 |
| | | **487,184** | | 431,429 |
| **Liabilities and Shareholders' Equity** | | | | |
| **Liabilities** | | | | |
| Customer deposits (Note 8) | | **388,934** | | 332,197 |
| Current income taxes payable | | **172** | | 135 |
| Deferred tax liabilities (Note 11) | | **221** | | 251 |
| Deferred share unit liability (Note 13) | | **1,114** | | 837 |
| Contingent consideration payable (Note 15) | | **1,000** | | 1,000 |
| Other liabilities (Note 10) | | **2,079** | | 3,554 |
| | | **393,520** | | 337,974 |
| **Shareholders' Equity** | | | | |
| Share capital (Note 12) | | **33,515** | | 33,515 |
| Contributed surplus | | **2,479** | | 2,419 |
| Retained earnings | | **57,670** | | 57,521 |
| | | **93,664** | | 93,455 |
| | **$** | **487,184** | $ | 431,429 |

**Approved on Behalf of the Board of Directors:**

*/signed/ - Michael R. Jones*
Director

*/signed/ - Brad R. Kipp*
Director

The accompanying notes and shaded sections of the MD&A form an integral part of these interim consolidated financial statements.

## EQUITY FINANCIAL HOLDINGS INC.

## INTERIM CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

**(unaudited)**

| ($000s Canadian dollars, except share and per share amounts) | For the three months ended **March 31, 2016** | March 31, 2015 |
|---|---|---|
| Interest income | **$ 5,008** | $ 3,777 |
| Interest expense | **(1,850)** | (1,281) |
| **Net interest income** | **3,158** | 2,496 |
| Provision for credit losses (Note 7) | **(167)** | (32) |
| **Net interest income, including provision for credit losses** | **2,991** | 2,464 |
| **Non-interest income** | | |
| Mortgage servicing fees | **345** | 297 |
| Other fee income (Note 15) | **150** | - |
| **Total non-interest income** | **495** | 297 |
| **Net interest income and non-interest income, including provision for credit losses** | **3,486** | 2,761 |
| **Non-interest expenses** | | |
| Staffing costs | **1,971** | 1,814 |
| Other operating expenses | **1,267** | 1,234 |
| **Total non-interest expenses** | **3,238** | 3,048 |
| **Income (loss) before income taxes** | **248** | (287) |
| **Income tax expense (recovery) (Note 11)** | | |
| Current | **207** | 205 |
| Deferred | **(108)** | (232) |
| **Total income tax expense (recovery)** | **99** | (27) |
| **Net income (loss) and total comprehensive income (loss)** | **149** | (260) |
| **Net earnings (loss) per common share** | | |
| Basic earnings (loss) per share | **$ 0.02** | $ (0.03) |
| Diluted earnings (loss) per share | **$ 0.02** | $ (0.03) |
| **Weighted average number of common shares outstanding** | | |
| Basic | **9,539,508** | 9,528,241 |
| Diluted | **9,540,881** | 9,537,648 |

The accompanying notes and shaded sections of the MD&A form an integral part of these interim consolidated financial statements.

**EQUITY FINANCIAL HOLDINGS INC.**

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**(unaudited)**

| | For the three months ended March 31, 2016 and 2015 | | | | |
|---|---|---|---|---|---|
| | **Share Capital** | | | | |
| ($000s Canadian dollars, except share amounts) | **Number** | **Amount** | **Contributed Surplus** | **Retained Earnings** | **Total Shareholders' Equity** |
| Balance as at December 31, 2015 | **9,539,508** | **$ 33,515** | **$ 2,419** | **$ 57,521** | **$ 93,455** |
| Net income | **-** | **-** | **-** | **149** | **149** |
| Share-based payment expense | **-** | **-** | **60** | **-** | **60** |
| **Balance as at March 31, 2016** | **9,539,508** | **33,515** | **2,479** | **57,670** | **93,664** |
| Balance as at December 31, 2014 | 9,527,508 | 33,401 | 1,772 | 59,678 | 94,851 |
| Exercise of stock options (Note 12) | 2,000 | 24 | (8) | - | 16 |
| Net loss | - | - | - | (260) | (260) |
| Share-based payment expense | - | - | 181 | - | 181 |
| **Balance as at March 31, 2015** | 9,529,508 | $ 33,425 | $ 1,945 | $ 59,418 | $ 94,788 |

The accompanying notes and shaded sections of the MD&A form an integral part of these interim consolidated financial statements.

**EQUITY FINANCIAL HOLDINGS INC.**

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited)**

| ($000s Canadian dollars) | | For the three months ended **March 31, 2016** | | March 31, 2015 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net income (loss) for the period | **$** | **149** | $ | (260) |
| **Adjustments to determine cash flows relating to operating assets and liabilities** | | | | |
| Depreciation of property, plant and equipment | | **65** | | 57 |
| Amortization of intangible assets | | **80** | | 118 |
| Realized loss on impaired mortgages (Note 7) | | **(95)** | | - |
| Share-based payments (Note 13) | | **60** | | 181 |
| Provision for credit losses (Note 7) | | **167** | | 32 |
| **Changes in operating assets and liabilities** | | | | |
| Income tax expense (recovery) | | **99** | | (27) |
| Income tax paid | | **(170)** | | - |
| (Increase) decrease in mortgages receivable | | **(58,120)** | | 2,945 |
| Increase in customer deposits | | **56,737** | | 899 |
| Increase in deferred share unit liability | | **277** | | 269 |
| (Increase) decrease in other assets | | **(123)** | | 166 |
| Decrease in other liabilities | | **(1,475)** | | (1,165) |
| **Cash flows (used in) provided by operating activities** | | **(2,349)** | | 3,215 |
| **Financing Activities** | | | | |
| Shares issued pursuant to stock options exercised (Note 13) | | **-** | | 16 |
| **Cash flows provided by financing activities** | | **-** | | 16 |
| **Investing Activities** | | | | |
| Additions to property, plant and equipment | | **(3)** | | - |
| Additions of intangible assets | | **(262)** | | - |
| **Cash flows used in investing activities** | | **(265)** | | - |
| **Net (decrease) increase in cash and cash equivalents during the period** | | **(2,614)** | | 3,231 |
| **Cash and cash equivalents at the beginning of the period** | | **44,326** | | 33,231 |
| **Cash and cash equivalents at the end of the period** | **$** | **41,712** | $ | 36,462 |
| **Supplementary Disclosure of Cash Flow Information** | | | | |
| Cash interest received | **$** | **4,796** | $ | 3,825 |
| Cash interest paid | | **(1,595)** | | (1,325) |
| Non-cash transactions: Deferred share unit grants | | **172** | | 290 |

The accompanying notes and shaded sections of the MD&A form an integral part of these interim consolidated financial statements.

## 1. Nature of operations

Equity Financial Holdings Inc. (“EQI” or the “Corporation”) is a Canadian financial services company, traded on the Toronto Stock Exchange under the stock symbol EQI. Through its federally regulated and wholly owned subsidiary, Equity Financial Trust Company (“EFT”), the Corporation serves the Canadian alternative mortgage market by offering residential mortgage loans to non-prime and near-prime customers who do not meet the conventional underwriting standards of the major Canadian banks. The Corporation is incorporated and domiciled in Canada, with its registered office located at 200 University Avenue, Suite 400, Toronto, Ontario.

## 2. Summary of significant accounting policies

### a. Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board (“IASB”), using the same basis of presentation and accounting policies disclosed in the annual audited consolidated financial statements for the financial year ended December 31, 2015.

These interim consolidated financial statements should be read in conjunction with the Corporation's December 31, 2015 annual audited consolidated financial statements.

These interim consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on May 10, 2016.

## 3. Future changes in accounting policies

The IASB and the International Financial Reporting Interpretations Committees (“IFRIC”) have issued a number of new or revised standards or interpretations that will become effective for future periods and could have a potential implication on the accounting policies of the Corporation. In addition to the new or revised pronouncements disclosed in the 2015 annual consolidated audited financial statements, new pronouncements which are considered to be relevant to the Corporation's operations is as follows:

*IFRS 15 - Revenue from Contracts with Customers*

In April 2016, the IASB issued an amendment to the revenue standard, clarifying some requirements and providing additional transitional relief for companies that are implementing the new standard. The amendments clarify how to identify a performance obligation, determine whether a company is a principal or an agent and determine whether the revenue from granting a license should be recognised at a point in time or over time. The amendments have the same effective date as the original standard of January 1, 2018. The Corporation is in the process of evaluating the impact of IFRS 15 on its consolidated financial statements.

## 4. Capital management

The Corporation's managed capital comprises of shareholders' equity, which totaled $93,664 as at March 31, 2016 (December 31, 2015 – $93,455). Senior management is responsible for managing the Corporation's capital and the main objectives are to ensure the longevity of its capital to support continued operations and to maintain shareholders' return on equity. To achieve these objectives, the Corporation manages capital to meet the regulatory requirements of its subsidiary, EFT, to ensure sufficient resources are available to meet day-to-day operating requirements, to allow it to enhance existing systems and develop new systems, and to have the financial ability to expand the scope of its operations and services. EFT is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions of Canada ("OSFI").

EFT's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory capital requirements, is consistent with the Corporation's risk appetite framework, and supports the Corporation's business plans. Management's internal capital adequacy assessment process is integral to the Corporation's capital planning activities and incorporates a stress testing program that evaluates the impact potential scenarios have on income and capital. Regulatory capital requirements addressed by the policy include the Leverage Ratio ("LR") and risk-based capital ratios (Common Equity Tier 1 ("CET 1"), Tier 1 and Total Capital).

Regulatory capital and capital ratios calculations are based on the Capital Adequacy Requirements Guidelines issued by OSFI. The guidelines are based on *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* ("Basel III"). Under Basel III, capital is calculated two ways during the transitional period ending January 1, 2018. To measure compliance with minimum risk based capital ratio requirements, capital is calculated on the "all-in" basis, which includes all applicable deductions required by 2019 in the current period.

As at March 31, 2016, EFT held CET 1 on an "all-in" basis of $84,427, compared to $84,200 as at December 31, 2015.

### Basel III leverage ratio

The Basel III leverage ratio framework required public disclosure of the leverage ratio beginning in the first fiscal quarter of 2015. The Basel III leverage ratio replaced the Asset to Capital Multiple prescribed by OSFI. The leverage ratio is currently defined as Tier 1 capital divided by the total exposure measure. The exposure measure is the sum of (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction exposures and (d) off-balance sheet items. Federally regulated deposit-taking institutions are expected to have Basel III leverage ratios that meet or exceed 3%.

The full Basel III Pillar 3 capital and leverage ratio disclosures can be found on pages 17 to 18 of the Corporation's MD&A for the first quarter ended March 31, 2016.

EFT's regulatory capital, capital and leverage ratios are outlined in the table below.

**$000s Canadian dollars, except per share and share amounts**

## 4. Capital management continued

**Capital Disclosures**

| As at | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **Common Equity Tier 1 capital: instruments and reserves** | **All-in** | All-in |
| Directly issued qualifying common share capital plus related stock surplus | **$ 34,145** | $ 33,912 |
| Retained earnings | **51,890** | 51,697 |
| **Common Equity Tier 1 capital before regulatory adjustments** | **86,035** | 85,609 |
| **Common Equity Tier 1 capital: regulatory adjustments** | | |
| Total regulatory adjustments to Common Equity Tier 1 | **(1,608)** | (1,409) |
| **Common Equity Tier 1 capital (CET1)** | **84,427** | 84,200 |
| **Tier 1 capital** | **84,427** | 84,200 |
| **Total capital** | **84,427** | 84,200 |
| **Total risk-weighted assets** | **189,203** | 169,246 |
| **Capital ratios** | | |
| Common Equity Tier 1 (as a percentage of risk-weighted assets) | **44.6%** | 49.8% |
| Tier 1 (as a percentage of risk-weighted assets) | **44.6%** | 49.8% |
| Total capital (as a percentage of risk-weighted assets) | **44.6%** | 49.8% |
| **OSFI all-in target** | | |
| Common Equity Tier 1 capital all-in target ratio | **7.0%** | 7.0% |
| Tier 1 capital all-in target ratio | **8.5%** | 8.5% |
| Total capital all-in target ratio | **10.5%** | 10.5% |

**Leverage Ratio Disclosures**

| As at | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Leverage ratio exposure | **500,794** | 441,842 |
| Leverage ratio (Tier 1 capital / total exposure measure) | **16.9%** | 19.1% |

**$000s Canadian dollars, except per share and share amounts**

## 5. Financial instruments

### a. Risks associated with financial instruments

The Corporation, similar to other financial institutions, is exposed to risks related to general economic conditions, operational errors, reliance on third party agents and outsourcing, competition, stock market volatility and government regulation, many of which are beyond the Corporation's direct control. The use of financial instruments exposes the Corporation to credit risk, liquidity risk and interest rate risk. A discussion of the Corporation's financial instruments risk exposures and how it manages those risks can be found in the shaded sections of pages 19 to 22 of the Corporation's MD&A for the first quarter ended March 31, 2016.

(i) Interest rate sensitivity

The Corporation's exposure to interest rate risk results from the difference between the maturity of interest rate-sensitive assets and liabilities. The following table shows the gap positions as at March 31, 2016 and December 31, 2015 based on contractual maturities. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

| As at March 31, 2016 | Floating Rate | Less than 1 Year | 1 to 2 Years | Greater than 2 Years | Non-interest Sensitive | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and cash equivalents | $ 41,712 | $ - | $ - | $ - | $ - | $ 41,712 |
| Effective interest rate | 0.92% | - | - | - | - | 0.92% |
| Mortgages receivable, net | - | 292,205 | 104,257 | 44,868 | - | 441,330 |
| Effective interest rate | - | 4.94% | 4.74% | 4.82% | - | 4.88% |
| Other non-interest sensitive assets | - | - | - | - | 4,142 | 4,142 |
| **Total assets** | $ 41,712 | $ 292,205 | $ 104,257 | $ 44,868 | $ 4,142 | $ 487,184 |
| **Liabilities:** | | | | | | |
| Customer deposits | $ - | $ 208,630 | $ 111,832 | $ 68,472 | $ - | $ 388,934 |
| Effective interest rate | - | 1.97% | 2.15% | 2.39% | - | 2.09% |
| Other non-interest sensitive liabilities | - | - | - | - | 4,586 | 4,586 |
| Shareholders' equity | - | - | - | - | 93,664 | 93,664 |
| **Total liabilities and shareholders' equity** | - | 208,630 | 111,832 | 68,472 | 98,250 | 487,184 |
| Interest rate sensitivity gap | 41,712 | 83,575 | (7,575) | (23,604) | (94,108) | - |
| Cumulative gap | $ 41,712 | $ 125,287 | $ 117,712 | $ 94,108 | $ - | $ - |
| Cumulative gap as a percentage of total assets | 8.6% | 25.7% | 24.2% | 19.3% | - | - |

**$000s Canadian dollars, except per share and share amounts**

## 5. Financial instruments continued

| As at December 31, 2015 | Floating Rate | Less than 1 Year | 1 to 2 Years | Greater than 2 Years | Non-interest Sensitive | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Cash and cash equivalents | $ 44,326 | $ - | $ - | $ - | $ - | $ 44,326 |
| Effective interest rate | 1.04% | - | - | - | - | 1.04% |
| Mortgages receivable, net | - | 244,757 | 101,662 | 36,863 | - | 383,282 |
| Effective interest rate | - | 4.97% | 4.64% | 4.74% | - | 4.86% |
| Other non-interest sensitive assets | - | - | - | - | 3,821 | 3,821 |
| **Total assets** | $ 44,326 | $ 244,757 | $ 101,662 | $ 36,863 | $ 3,821 | $ 431,429 |
| **Liabilities:** | | | | | | |
| Customer deposits | $ - | $ 174,376 | $ 91,875 | $ 65,946 | $ - | $ 332,197 |
| Effective interest rate | - | 2.03% | 2.20% | 2.40% | - | 2.13% |
| Other non-interest sensitive liabilities | - | - | - | - | 5,777 | 5,777 |
| Shareholders' equity | - | - | - | - | 93,455 | 93,455 |
| **Total liabilities and shareholders' equity** | - | 174,376 | 91,875 | 65,946 | 99,232 | 431,429 |
| Interest rate sensitivity gap | 44,326 | 70,381 | 9,787 | (29,083) | (95,411) | - |
| Cumulative gap | $ 44,326 | $ 114,707 | $ 124,494 | $ 95,411 | $ - | $ - |
| Cumulative gap as a percentage of total assets | 10.3% | 26.6% | 28.9% | 22.1% | - | - |

Based on the current interest rate gap position as at March 31, 2016, the Corporation estimates that a 100 basis point decrease in interest rates would decrease net interest income over the next 12 months by $744 (December 31, 2015 – $229 decrease). A 100 basis point increase in interest rates would increase net interest income over the next 12 months by $830 (December 31, 2015 – $466 increase).

### b. Fair value of financial instruments

The valuation methods and assumptions used to estimate fair values of financial instruments are described as follows:

(i) Mortgages receivable

Mortgages receivable are carried at amortized cost on the consolidated balance sheets. The disclosed fair value of mortgages receivable is determined by discounting the expected future cash flows of the mortgages at market rates for mortgages with similar terms and credit risks.

(ii) Contingent consideration payable

Contingent consideration payable is carried at fair value on the consolidated balance sheets. The disclosed fair value of the contingent consideration payable is determined by using management's best estimate based on a probability weighted range of future outcomes.

$000s Canadian dollars, except per share and share amounts

## 5. Financial instruments continued

### b. Fair value of financial instruments continued

(iii) Customer deposits

Customer deposits are carried at amortized cost on the consolidated balance sheets. The disclosed fair value of customer deposits is determined by discounting the contractual cash flows using current market interest rates for deposits with similar terms and risks.

The following table presents the carrying value of each category of financial assets and liabilities and their estimated fair values. The table does not include assets and liabilities that are not considered financial instruments.

| | As at March 31, 2016 | | |
|---|---|---|---|
| | **Carrying Value** | **Fair Value** | **Fair Value (Under) Over Carrying Value** |
| **Financial assets:** | | | |
| Mortgages receivable, net | **$ 441,330** | **$ 443,306** | **$ 1,976** |
| **Total financial assets** | **441,330** | **443,306** | **1,976** |
| **Financial liabilities:** | | | |
| Customer deposits | **388,934** | **391,696** | **2,762** |
| Contingent consideration payable | **1,000** | **1,000** | **-** |
| **Total financial liabilities** | **$ 389,934** | **$ 392,696** | **$ 2,762** |

| | As at December 31, 2015 | | |
|---|---|---|---|
| | Carrying Value | Fair Value | Fair Value (Under) Over Carrying Value |
| **Financial assets:** | | | |
| Mortgages receivable, net | $ 383,282 | $ 384,855 | $ 1,573 |
| **Total financial assets** | 383,282 | 384,855 | 1,573 |
| **Financial liabilities:** | | | |
| Customer deposits | 332,197 | 334,755 | 2,558 |
| Contingent consideration payable | 1,000 | 1,000 | - |
| **Total financial liabilities** | $ 333,197 | $ 335,755 | $ 2,558 |

**$000s Canadian dollars, except per share and share amounts**

## 5. Financial instruments continued

### c. Fair value hierarchy

The Corporation categorizes its financial assets and liabilities into one of three fair value hierarchy levels as described below:

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.

Level 3: This level includes valuations based on inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The following table presents the fair values of financial instruments recorded at amortized cost or fair value across the levels of the fair value hierarchy.

| | **As at March 31, 2016** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets:** | | | | |
| Mortgages receivable, net | **$ -** | **$ -** | **$ 443,306** | **$ 443,306** |
| **Total financial assets** | **-** | **-** | **443,306** | **443,306** |
| **Financial liabilities:** | | | | |
| Customer deposits | **-** | **-** | **391,696** | **391,696** |
| Contingent consideration payable | **-** | **-** | **1,000** | **1,000** |
| **Total financial liabilities** | **$ -** | **$ -** | **$ 392,696** | **$ 392,696** |

| | As at December 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets:** | | | | |
| Mortgages receivable, net | $ - | $ - | $ 384,855 | $ 384,855 |
| **Total financial assets** | - | - | 384,855 | 384,855 |
| **Financial liabilities:** | | | | |
| Customer deposits | - | - | 334,755 | 334,755 |
| Contingent consideration payable | - | - | 1,000 | 1,000 |
| **Total financial liabilities** | $ - | $ - | $ 335,755 | $ 335,755 |

$000s Canadian dollars, except per share and share amounts

## 5. Financial instruments continued

There were no transfers into or out of any of the three levels during the current or prior period.

The following table presents the changes in fair value of the financial liability reported in Level 3. This liability is measured at fair value utilizing non-observable inputs.

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Balance, beginning of period | $ | 1,000 | $ | - |
| Charge for contingent consideration | | - | | 1,000 |
| **Balance, end of period** | $ | 1,000 | $ | 1,000 |

## 6. Cash and cash equivalents

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Deposits with regulated financial institutions | $ | 39,714 | $ | 42,328 |
| Short-term investments | | 1,998 | | 1,998 |
| **Total cash and cash equivalents** | $ | 41,712 | $ | 44,326 |

Cash and cash equivalents include balances with banks and short-term investments with original maturity dates of approximately less than 90 days.

## 7. Mortgages receivable

### a. Mortgages receivable

| | As at March 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Gross Amount | Individual Allowance | Collective Allowance | Total | Net Amount |
| Mortgages | $ 441,709 | $ - | $ 1,239 | $ 1,239 | $ 440,470 |
| Accrued interest | 860 | - | - | - | 860 |
| **Balance** | $ 442,569 | $ - | $ 1,239 | $ 1,239 | $ 441,330 |

**$000s Canadian dollars, except per share and share amounts**

## 7. Mortgages receivable continued

| | As at December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Gross Amount | Individual Allowance | Collective Allowance | Total | Net Amount |
| Mortgages | $ 383,671 | $ 93 | $ 1,074 | $ 1,167 | $ 382,504 |
| Accrued interest | 778 | - | - | - | 778 |
| **Balance** | $ 384,449 | $ 93 | $ 1,074 | $ 1,167 | $ 383,282 |

Mortgages receivable consist of uninsured loans with terms up to five years for the purchase or refinancing of single-family homes predominantly in urban and suburban areas of Ontario.

As at March 31, 2016, the current portion of mortgages due within one year is $292,205 (December 31, 2015 – $244,757), and the weighted average term to maturity of the portfolio is 1.0 year (December 31, 2015 – 1.0 year). The weighted average effective interest rate of the portfolio as at March 31, 2016 is 4.88% (December 31, 2015 – 4.86%).

The Corporation has outstanding commitments to make future advances on mortgage loans of $34,500 as at March 31, 2016 (December 31, 2015 – $19,300). Commitments for the loans remain open for various dates through July 2016.

### b. Allowance for credit losses

| | **For the three months ended March 31, 2016** | | | For the year ended December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Individual Allowance** | **Collective Allowance** | **Total** | Individual Allowance | Collective Allowance | Total |
| Balance, beginning of period | **$ 93** | **$ 1,074** | **$ 1,167** | $ 15 | $ 1,041 | $ 1,056 |
| Provision for (reversal of) credit losses | **2** | **165** | **167** | 132 | 33 | 165 |
| Realized losses | **(95)** | **-** | **(95)** | (54) | - | (54) |
| **Balance, end of period** | **$ -** | **$ 1,239** | **$ 1,239** | $ 93 | $ 1,074 | $ 1,167 |

### c. Mortgages past due but not impaired

A loan is considered past due when a borrower has not made a payment by the contractual due date. The following table presents the carrying value of mortgages that are past due but not classified as impaired because collection efforts are reasonably expected to result in full repayment, or they have been restored to current status in accordance with the Corporation's collection policy since the consolidated balance sheet dates.

**$000s Canadian dollars, except per share and share amounts**

## 7. Mortgages receivable continued

### c. Mortgages past due but not impaired continued

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| 1 to 30 days | **$** | **16,356** | $ | 10,376 |
| 31 to 60 days | | **1,328** | | 1,714 |
| 61 to 90 days | | **1,381** | | 317 |
| Over 90 Days | | **498** | | 1,866 |
| | **$** | **19,563** | $ | 14,273 |

### d. Impaired mortgage

The Corporation classifies loans as impaired when, in the opinion of management, there is reasonable doubt as to the collectability, either in whole or in part, of principal or interest.

The following table presents the carrying value of impaired mortgages.

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Gross amount of impaired loan | **$** | **-** | $ | 500 |
| Individual allowance | | **-** | | (93) |
| **Net amount** | **$** | **-** | $ | 407 |

There were no impaired mortgages as at March 31, 2016. The total appraised value of the collateral for the impaired mortgage as at December 31, 2015 was $460.

## 8. Customer deposits

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Term deposit principal | **$** | **385,959** | $ | 329,068 |
| Term deposit accrued interest | | **4,119** | | 4,068 |
| Deferred broker commissions | | **(1,144)** | | (939) |
| | **$** | **388,934** | $ | 332,197 |

$000s Canadian dollars, except per share and share amounts

## 8. Customer deposits continued

Customer deposits comprise of Guaranteed Investment Certificates ("GICs") with fixed maturity dates over a period of thirty days to five years.

As at March 31, 2016, the current portion of customer deposits due within one year is $208,630 (December 31, 2015 – $174,376) and the average term to maturity is 1.3 years (December 31, 2015 – 1.3 years). The weighted average effective interest rate as at March 31, 2016 is 2.09% (December 31, 2015 – 2.13%).

## 9. Other assets

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Accounts receivable | $ | **457** | $ | 159 |
| Prepaids and other current assets | | **365** | | 540 |
| | $ | **822** | $ | 699 |

## 10. Other liabilities

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | **1,793** | $ | 3,271 |
| Deferred revenue | | **286** | | 283 |
| | $ | **2,079** | $ | 3,554 |

**$000s Canadian dollars, except per share and share amounts**

## 11. Income taxes

The Corporation computes an income tax provision in each of the jurisdictions in which it operates. The operations are subject to income tax rates of approximately 26.5% (2015 – 26.5%). The following table reconciles the expected income tax provision at applicable Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive income (loss):

| | For the three months ended | |
|---|---|---|
| | **March 31, 2016** | March 31, 2015 |
| Income (loss) before income taxes | **$ 248** | $ (287) |
| Income tax expense (recovery) at statutory rate | **66** | (77) |
| Share-based payment expense not deductible for tax purposes | **30** | 48 |
| Non-deductible expenses for tax purposes | **3** | 2 |
| **Income tax expense (recovery)** | **$ 99** | $ (27) |

$000s Canadian dollars, except per share and share amounts

## 11. Income taxes continued

The movements in the 2016 deferred tax assets and liabilities are as follows:

| | Opening balance as at January 1, 2016 | Recognized in Net Earnings | **Closing balance as at March 31, 2016** |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Non-capital losses | $ 651 | $ 5 | **$ 656** |
| Deferred acquisitions, financing and share issuance costs | 21 | - | **21** |
| Mortgage provision for credit losses | 31 | 2 | **33** |
| Deferred share unit liability | 222 | 73 | **295** |
| Charge for contingent consideration | 133 | - | **133** |
| Other | 37 | - | **37** |
| **Deferred tax assets** | 1,095 | 80 | **1,175** |
| **Deferred tax liabilities** | | | |
| Property, plant and equipment | (114) | 28 | **(86)** |
| Licence costs | (338) | - | **(338)** |
| **Deferred tax liabilities** | (452) | 28 | **(424)** |
| **Net deferred tax assets** | 643 | 108 | **751** |
| **Consolidated Balance Sheets:** | | | |
| Deferred tax assets | 894 | 78 | **972** |
| Deferred tax liabilities | (251) | 30 | **(221)** |
| **Net deferred tax assets** | $ 643 | $ 108 | **$ 751** |

**$000s Canadian dollars, except per share and share amounts**

## 11. Income taxes continued

The movements in the 2015 deferred tax assets and liabilities are as follows:

| | Opening balance as at January 1, 2015 | Recognized in Net Earnings | **Closing balance as at March 31, 2015** |
|---|---|---|---|
| **Deferred tax assets** | | | |
| Non-capital losses | $ 483 | $ 132 | **$ 615** |
| Deferred acquisitions, financing and share issuance costs | 85 | (15) | **70** |
| Mortgage provision for credit losses | 28 | 1 | **29** |
| Deferred share unit liability | 99 | 72 | **171** |
| Other | 32 | - | **32** |
| **Deferred tax assets** | 727 | 190 | **917** |
| **Deferred tax liabilities** | | | |
| Property, plant and equipment | (315) | 42 | **(273)** |
| Licence costs | (338) | - | **(338)** |
| **Deferred tax liabilities** | (653) | 42 | **(611)** |
| **Net deferred tax assets** | 74 | 232 | **306** |
| **Consolidated Balance Sheets:** | | | |
| Deferred tax assets | 641 | 215 | **856** |
| Deferred tax liabilities | (567) | 17 | **(550)** |
| **Net deferred tax assets** | $ 74 | $ 232 | **$ 306** |

## 12. Share capital

The authorized capital of the Corporation consists of an unlimited number of common shares without par value.

| | **Number of Shares** | **Amount** |
|---|---|---|
| **Issued and outstanding as at December 31, 2015 and March 31, 2016** | **9,539,508** | **$ 33,515** |
| Issued and outstanding at December 31, 2014 | 9,527,508 | 33,401 |
| Exercise of stock options (a) | 2,000 | 24 |
| **Issued and outstanding as at March 31, 2015** | 9,529,508 | $ 33,425 |

$000s Canadian dollars, except per share and share amounts

## 12. Share capital continued

### (a) Transactions completed during the three months ended March 31, 2015:

An employee of the Corporation exercised 2,000 stock options at a weighted average exercise price of $8.00 per share for total proceeds of $16. The weighted average share price at the time of exercise was $9.43 per share. Share capital also increased by a reclassification from contributed surplus of $8, which is the amount previously recognized as share-based payment expense for these options.

## 13. Share-based payments

### a. Stock options

The amended Stock Option Plan (the "Plan") was approved by the shareholders of the Corporation on April 2, 2013. The purpose of the Plan is to provide additional incentives to employees, executive officers, directors and consultants and to promote the success of the Corporation's business by allowing such persons to partake in the equity of the Corporation. Management proposes the issuance of options and the Board of Directors provides approval of all options granted under the Plan.

The aggregate number of shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding shares as at the date of grant of each option under the Plan, which as at March 31, 2016 was 953,951 (December 31, 2015 – 953,951).

| | **For the three months ended March 31, 2016** | | For the year ended December 31, 2015 | |
|---|---|---|---|---|
| | **Number of Stock Options** | **Weighted Average Exercise Price** | Number of Stock Options | Weighted Average Exercise Price |
| Opening balance | **656,860** | **$ 9.78** | 583,000 | $ 9.79 |
| Options granted | **174,050** | **7.90** | 95,360 | 9.38 |
| Options exercised | **-** | **-** | (12,000) | 7.08 |
| Options expired | **(8,000)** | **8.70** | (1,834) | 10.80 |
| Options forfeited | **(70,666)** | **9.86** | (7,666) | 9.41 |
| **Ending Balance** | **752,244** | **9.35** | 656,860 | 9.78 |
| Vested options | **109,623** | **$ 9.91** | 100,503 | $ 9.91 |

The weighted average remaining contractual life for all options outstanding as at March 31, 2016 is 3.48 years (December 31, 2015 – 3.41 years). During the three months ended March 31, 2016, the Corporation recognized $60 (2015 - $181) as share-based payment expense related to stock options in staffing costs.

During the three months ended March 31, 2016, 174,050 options were granted to employees under the Plan. The options will vest over a three-year period. The Black-Scholes model was used to estimate the fair value of these options at the grant date.

**$000s Canadian dollars, except per share and share amounts**

## 13. Share-based payments continued

A summary of the option grants are presented below:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | **For the three months ended March 31, 2016** |
| | | | | | **Black-Scholes assumptions** | | | | | |
| **Number of Options** | **Date Granted** | **Recipient(s)** | **Fair Value** | **Vesting Period** | **Risk-free interest rate** | **Expected life** | **Expected volatility** | **Dividend yield** | **Exercise price** | **Fair value per option** |
| 174,050 | February 12, 2016 | Employees | $ 427,544 | 3 years | 0.51% | 5 years | 35% | - | $ 7.90 | $ 2.46 |
| 174,050 | | | $ 427,544 | | | | | | | |

### b. Deferred share units

The Corporation offers a Deferred Share Unit ("DSU") Plan for members of the Board of Directors and Employees. Under the plan, Directors are granted DSUs as part of their annual compensation and vest at the time of grant. DSUs are granted to Employees as deferred incentive compensation and they vest at the end of three years. When an individual ceases to be a Director or an Employee, the DSUs shall be redeemed for cash no later than December 31 of the first calendar year thereafter. The value of each DSU will be equivalent to the closing share price of the Corporation's common shares on the cessation date.

As at March 31, 2016, there were 138,424 DSUs outstanding (December 31, 2015 – 103,840) representing a liability of $1,114 (December 31, 2015 – $837). During the three months ended March 31, 2016, DSUs of 34,584 were granted (March 31, 2015 – 30,403) in lieu of cash compensation of $289, of which $117 is deferred compensation (March 31, 2015 - cash compensation of $290, of which $nil is deferred). For the three months ended March 31, 2016, an expense of $277 was recorded relating to DSUs issued and outstanding during the period (March 31, 2015 - $269). The DSUs are revalued at each reporting date based on the closing price of the Corporation's shares.

**$000s Canadian dollars, except per share and share amounts**

## 13. Share-based payments continued

Details of the outstanding deferred share units are as follows:

| As at | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| **Units** | | | | |
| Outstanding, beginning of period | | **103,840** | | 36,230 |
| Granted | | **34,584** | | 72,912 |
| Redeemed | | **-** | | (5,302) |
| **Outstanding, end of period** | | **138,424** | | 103,840 |
| **Liability** | | | | |
| Balance, beginning of period | **$** | **837** | $ | 375 |
| Expense recognized in the statements of operations and comprehensive loss | | **277** | | 511 |
| Redeemed | | **-** | | (49) |
| **Balance, end of period** | **$** | **1,114** | $ | 837 |

### c. Employee share purchase plan

Under the ESPP plan, eligible employees can contribute between 1% and 45% of their annual gross salary towards the purchase of common shares of the Corporation. For each eligible contribution, the Corporation contributes an amount equal to one third of an eligible employee's contribution, to a maximum of 5% of their annual gross salary for the plan year.

During the three months ended March 31, 2016, the Corporation expensed $19 (March 31, 2015 - $29) under this plan.

## 14. Related party transactions

During the three months ended March 31, 2016, the Corporation entered into various transactions in the normal course of business with directors and officers of the Corporation related to director and officer compensation. All outstanding balances are due to be settled in cash after the period end date and are not secured.

## 15. 2013 sale transaction

On April 5, 2013, the Corporation closed the sale transaction for its transfer agent and corporate trust services business for a purchase price of $64,000 (the “Transaction”). In accordance with the terms of the sale agreement, the Corporation may be entitled to further proceeds or may have to pay up to $1,000 based on future capital requirements of the transfer agent and corporate trust service business. The fair value of this contingent consideration as at March 31, 2016 is the maximum amount of $1,000 (December 31, 2015 - $1,000). On April 11, 2016, the Corporation paid out this contingent consideration in full.

Since the date of sale, transfer agent and corporate trust business relationships have been managed by a third party for its

**15. 2013 sale transaction continued**

economic benefit, including the administration of segregated funds. During the three months ended March 31, 2016, the Corporation earned other fee income of $150 (March 31, 2015 - $nil) related to EFT's transitional status as trustee for these client relationships. As at March 31, 2016, EFT remains the trustee of segregated funds in the amount of $1,210,751 (December 31, 2015 – $1,428,663), which are reported off-balance sheet.