EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Third Quarter Ended September 30, 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.

Equity Financial Holdings Inc.

September 30, 2016

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EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED BALANCE SHEETS

(unaudited)

	As at	
($000s Canadian dollars)	**September 30, 2016**	December 31, 2015
Assets		
Cash and cash equivalents (Note 6)	**$ 56,548**	$ 44,326
Available for sale securities (Note 7)	**12,574**	-
Mortgages receivable, net (Note 8)	**663,157**	383,282
Deferred tax assets (Note 12)	**1,085**	894
Derivative assets (Note 15)	**8**	-
Other assets (Note 10)	**908**	699
Property, plant and equipment	**304**	399
Intangibles	**2,779**	1,829
	737,363	431,429
Liabilities and Shareholders' Equity		
Liabilities		
Customer deposits (Note 9)	**636,226**	332,197
Current income taxes payable	**454**	135
Deferred tax liabilities (Note 12)	**308**	251
Deferred share unit liability (Note 14)	**1,532**	837
Contingent consideration payable (Note 18)	**-**	1,000
Other liabilities (Note 11)	**4,312**	3,554
	642,832	337,974
Shareholders' Equity		
Share capital (Note 13)	**33,545**	33,515
Contributed surplus	**2,793**	2,419
Retained earnings	**58,139**	57,521
Accumulated other comprehensive income	**54**	-
	94,531	93,455
	$ 737,363	$ 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 STATEMENTS OF OPERATIONS

(unaudited)

	For the three months ended		For the nine months ended	
($000s Canadian dollars, except share and per share amounts)	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Interest income	**$ 7,472**	$ 4,069	**$ 18,450**	$ 11,688
Interest expense	**(2,909)**	(1,516)	**(7,058)**	(4,205)
Net interest income	**4,563**	2,553	**11,392**	7,483
Provision for credit losses (Note 8)	**(350)**	(106)	**(876)**	(266)
Net interest income, including provision for credit losses	**4,213**	2,447	**10,516**	7,217
Non-interest income				
Mortgage servicing fees	**486**	315	**1,197**	919
Other fee income (Note 18)	**225**	150	**600**	300
	711	465	**1,797**	1,219
Net interest income and non-interest income, including provision for credit losses	**4,924**	2,912	**12,313**	8,436
Non-interest expenses				
Staffing costs	**2,838**	1,924	**6,823**	5,575
Other operating expenses	**1,448**	1,244	**4,470**	4,002
Total non-interest expenses	**4,286**	3,168	**11,293**	9,577
Charge for contingent consideration (Note 18)	**-**	400	**-**	1,000
Income (loss) before income taxes	**638**	(656)	**1,020**	(2,141)
Income tax expense (recovery) (Note 12)				
Current	**257**	66	**536**	207
Deferred	**(42)**	(121)	**(134)**	(495)
	215	(55)	**402**	(288)
Net income (loss)	**423**	(601)	**618**	(1,853)
Net earnings (loss) per common share				
Basic earnings (loss) per share	**$ 0.04**	$ (0.06)	**$ 0.06**	$ (0.19)
Diluted earnings (loss) per share	**$ 0.04**	$ (0.06)	**$ 0.06**	$ (0.19)
Weighted average number of common shares outstanding				
Basic	**9,539,812**	9,533,199	**9,539,610**	9,530,334
Diluted	**9,598,067**	9,535,117	**9,560,047**	9,533,905

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 COMPREHENSIVE INCOME (LOSS)

(unaudited)

	For the three months ended		For the nine months ended	
($000s Canadian dollars, except share and per share amounts)	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Net income (loss)	**$ 423**	$ (601)	**$ 618**	$ (1,853)
Other Comprehensive Income				
Available for Sale Securities				
Net unrealized gains	**28**	-	**74**	-
Income tax expense	**8**	-	**20**	-
Total other comprehensive income	**20**	-	**54**	-
Comprehensive income (loss)	**$ 443**	$ (601)	**$ 672**	$ (1,853)

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 SHAREHOLDERS' EQUITY

(unaudited)

	For the nine months ended September 30, 2016 and 2015					
	Share Capital					
($000s Canadian dollars, except share amounts)	**Number**	**Amount**	**Contributed Surplus**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Shareholders' Equity**
Balance as at December 31, 2015	**9,539,508**	**$ 33,515**	**$ 2,419**	**$ 57,521**	**$ -**	**$ 93,455**
Other comprehensive income	**-**	**-**	**-**	**-**	**54**	**54**
Exercise of stock options (Note 13)	**4,000**	**30**	**(9)**	**-**	**-**	**21**
Net income	**-**	**-**	**-**	**618**	**-**	**618**
Share-based payment expense	**-**	**-**	**383**	**-**	**-**	**383**
Balance as at September 30, 2016	**9,543,508**	**$ 33,545**	**$ 2,793**	**$ 58,139**	**$ 54**	**$ 94,531**
Balance as at December 31, 2014	9,527,508	33,401	1,772	59,681	-	94,854
Exercise of stock options (Note 13)	12,000	114	(29)	-	-	85
Net loss	-	-	-	(1,853)	-	(1,853)
Share-based payment expense	-	-	522	-	-	522
Balance as at September 30, 2015	9,539,508	$ 33,515	$ 2,265	$ 57,828	$ -	$ 93,608

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)

	For the nine months ended	
($000s Canadian dollars)	**September 30, 2016**	September 30, 2015
Operating Activities		
Net income (loss) for the period	**$ 618**	$ (1,853)
Adjustments to determine cash flows relating to operating assets and liabilities		
Amortization of premium/discount on securities	**30**	-
Depreciation of property, plant and equipment	**196**	172
Amortization of intangible assets	**171**	354
Realized loss on impaired mortgages	**(95)**	(54)
Share-based payments	**383**	522
Provision for credit losses	**876**	266
Changes in operating assets and liabilities		
Income tax expense (recovery)	**402**	(288)
Income tax (paid) received	**(237)**	310
Increase in mortgages receivable	**(280,656)**	(42,956)
Increase in customer deposits	**304,029**	49,868
Increase in deferred share unit liability	**695**	330
(Decrease) increase in contingent consideration payable	**(1,000)**	1,000
Increase in derivative assets	**(8)**	-
Increase in other assets	**(209)**	(377)
Increase (decrease) in other liabilities	**758**	(1,385)
Cash flows provided by operating activities	**25,953**	5,909
Financing Activities		
Shares issued pursuant to stock options exercised	**21**	85
Cash flows provided by financing activities	**21**	85
Investing Activities		
Additions to property, plant and equipment	**(101)**	(19)
Additions to intangible assets	**(1,121)**	(23)
Purchase of securities	**(12,530)**	-
Cash flows used in investing activities	**(13,752)**	(42)
Net increase in cash and cash equivalents during the period	**12,222**	5,952
Cash and cash equivalents at the beginning of the period	**44,326**	33,231
Cash and cash equivalents at the end of the period	**$ 56,548**	$ 39,183
Supplementary Disclosure of Cash Flow Information		
Cash interest received	**$ 17,386**	$ 11,537
Cash interest paid	**(3,932)**	(3,548)
Non-cash transactions: Deferred share unit grants	**442**	517

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. 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. Additional updated accounting policies relevant to these interim financial statements have been described below.

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 November 08, 2016.

b. Financial Instruments

Securities

Financial assets

Held for trading securities are financial assets purchased for resale, primarily held for liquidity requirements or are derivatives (except for a derivative that is a designated and effective hedging instrument in an accounting hedge). Held for trading securities are measured at fair market value and related realized and unrealized gains and losses are reported in income under non-interest income.

Available for sale securities are financial assets purchased for longer-term investment that may be sold in response to, or in anticipation of, changes in market conditions or liquidity requirements. Interest income from available for sale securities, which includes amortization of premiums and discounts, is recognized using the effective interest rate method and is included in interest income in the consolidated statements of operations. Available for sale securities are measured at their fair market value, using published bid prices, as at the consolidated balance sheet dates. Unrealized gains and losses, net of related taxes, are included in accumulated other comprehensive income (AOCI) until the security is sold or an impairment loss is recognized, at which time the cumulative gain or loss is transferred to net income.

2. Significant Accounting Policies continued

b. Financial Instruments continued

Securities continued

At each reporting date, the Corporation assesses whether there is objective evidence that available for sale securities are impaired. Objective evidence that a security is impaired can include significant financial difficulty of the issuer, indications that an issuer will enter bankruptcy or the lack of an active market for the security. The amount of the cumulative loss reclassified is the difference between the acquisition cost (net of any principal repayment, amortization and cumulative losses recognized in net income) and current fair value. Subsequent increases in fair value of debt securities that can be objectively related to an event occurring after the impairment loss was recognized result in a reversal of the impairment loss through net income.

c. Derivative financial instruments

The Corporation utilizes derivatives to manage interest rate risk. Derivatives are carried at fair value and reported as assets if they have a positive fair value and as liabilities if they have a negative fair value. The Corporation applies hedge accounting to derivatives that meet the criteria for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The Corporation utilizes fair value hedges for accounting purposes.

In order to qualify for hedge accounting, a hedge relationship must be designated and formally documented in accordance with IAS 39. The Corporation's documentation, in accordance with the requirements, includes the specific risk management objective and strategy being applied, the specific financial asset or liability being hedged, the hedging instrument and how hedge effectiveness is assessed. To qualify for hedge accounting, there must be a correlation of between 80% and 125% in the changes in fair values between the hedged and hedging items.

Hedge effectiveness is assessed at the inception of the hedge and on an ongoing basis, at least quarterly. Hedge ineffectiveness occurs when the changes in the fair value of the hedging item differ from the fair value changes in the hedged risk in the hedged item. Hedge ineffectiveness is recognized immediately in non-interest income.

The Corporation uses interest rate swap derivatives to hedge changes in the fair value of fixed-rate liabilities (the hedged items) attributable to interest rate risk. Changes in fair value due to hedged risk of the hedged items are recorded as part of the carrying value of the hedged items and are recognized in net realized and unrealized gain (loss) on derivatives in the statements of operations. Changes in fair value of the hedging item (interest rate swap) are also recognized in net realized and unrealized gain or (loss) on derivatives.

If the hedging instrument expires, or is settled or sold, or if the hedge no longer meets the criteria for hedge accounting under IAS 39, the hedge relationship is terminated and the fair value adjustment on the hedged item is then amortized over the remaining term of the hedged item. If the hedged item is settled, the unamortized fair value adjustment is recognized in income immediately.

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 have 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 are 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 $94,531 as at September 30, 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 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 strategic objectives. 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 of potential scenarios 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”), which EFT adopted effective January 1, 2013. 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 2018 in the current period.

As at September 30, 2016, EFT held CET 1 on an “all-in” basis of $84,813, compared to $84,200 as at December 31, 2015.

Basel III leverage ratio

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 19 to 20 of the Corporation's Management Discussion and Analysis ("MD&A") for the third quarter ended September 30, 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	September 30, 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	**$ 34,737**	$ 33,912
Retained earnings	**52,405**	51,697
Accumulated other comprehensive income	**54**	-
Common Equity Tier 1 capital before regulatory adjustments	**87,196**	85,609
Common Equity Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Common Equity Tier 1	**(2,383)**	(1,409)
Common Equity Tier 1 capital (CET1)	**84,813**	84,200
Tier 1 capital	**84,813**	84,200
Total capital	**84,813**	84,200
Total risk-weighted assets	**274,478**	169,246
Capital ratios		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	**30.9 %**	49.8 %
Tier 1 (as a percentage of risk-weighted assets)	**30.9 %**	49.8 %
Total capital (as a percentage of risk-weighted assets)	**30.9 %**	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	September 30, 2016	December 31, 2015
Leverage ratio exposure	**$ 757,370**	$ 441,842
Leverage ratio (Tier 1 capital / leverage ratio exposure)	**11.2 %**	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 risk exposures and how it manages those risks can be found in the shaded sections of pages 22 to 24 of the Corporation's MD&A for the third quarter ended September 30, 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 September 30, 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 September 30, 2016	Floating Rate	Less than 1 Year	1 to 2 Years	Greater than 2 Years	Non-interest Sensitive	Total
Assets:						
Cash and cash equivalents	$ 56,548	$ -	$ -	$ -	$ -	$ 56,548
Effective interest rate	0.93 %	-	-	-	-	0.93 %
Available for sale securities	-	-	-	12,574	-	12,574
Effective interest rate	-	-	-	1.44 %	-	1.44 %
Mortgages receivable, net	-	456,706	143,395	63,056	-	663,157
Effective interest rate	-	5.02 %	4.84 %	4.91 %	-	4.94 %
Other assets	-	-	-	-	5,084	5,084
Total assets	$ 56,548	$ 456,706	$ 143,395	$ 75,630	$ 5,084	$ 737,363
Liabilities:						
Customer deposits	$ -	$ 363,666	$ 164,712	$ 107,848	$ -	$ 636,226
Effective interest rate	-	1.97 %	2.15 %	2.34 %	-	2.08 %
Other liabilities	-	-	-	-	6,606	6,606
Shareholders' equity	-	-	-	-	94,531	94,531
Total liabilities and shareholders' equity	-	363,666	164,712	107,848	101,137	737,363
Off-balance sheet items	-	(14,000)	10,000	4,000	-	-
Interest rate sensitivity gap	56,548	79,040	(11,317)	(28,218)	(96,053)	-
Cumulative gap	$ 56,548	$ 135,588	$ 124,271	$ 96,053	$ -	$ -
Cumulative gap as a percentage of total assets	7.7 %	18.4 %	16.9 %	13.0 %	-	-

$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 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 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 September 30, 2016, the Corporation estimates that a 100 basis point decrease in interest rates would decrease net interest income over the next 12 months by $506 (December 31, 2015 – $229 decrease). A 100 basis point increase in interest rates would increase net interest income over the next 12 months by $684 (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) Available for sale securities

Available for sale securities are carried at fair value on the consolidated balance sheets. The disclosed fair value of available for sale securities is determined by using published bid prices.

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

5. Financial instruments continued

(ii) 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.

(iii) 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.

(iv) 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.

(v) Derivative financial instruments

Derivative financial instruments are carried at fair value on the consolidated balance sheets. The disclosed fair value of derivative financial instruments is determined based on commonly used pricing methodologies (primarily discounted cash flow models) that incorporate observable market data. Frequently applied valuation techniques incorporate various inputs such as stock prices, bond prices and interest rate curves into present value calculations.

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 September 30, 2016
	Held for Trading	Available for Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over Carrying Value
Financial assets:						
Available for sale securities	$ -	$ 12,574	$ -	$ 12,574	12,574	$ -
Mortgages receivable, net	-	-	663,157	663,157	666,542	3,385
Derivative assets	8	-	-	8	8	-
Total financial assets	8	12,574	663,157	675,739	679,124	3,385
Financial liabilities:						
Customer deposits	-	-	636,226	636,226	640,250	4,024
Total financial liabilities	$ -	$ -	$ 636,226	$ 636,226	$ 640,250	$ 4,024

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

5. Financial instruments continued

					As at December 31, 2015
	Fair Value Through Income	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over Carrying Value
Financial assets:					
Mortgages receivable, net	$ -	$ 383,282	$ 383,282	$ 384,855	$ 1,573
Total financial assets	-	383,282	383,282	384,855	1,573
Financial liabilities:					
Customer deposits	-	332,197	332,197	334,755	2,558
Contingent consideration payable	1,000	-	1,000	1,000	-
Total financial liabilities	$ 1,000	$ 332,197	$ 333,197	$ 335,755	$ 2,558

(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 which 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.

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

5. Financial instruments continued

								As at September 30, 2016
		Level 1		**Level 2**		**Level 3**		**Total**
Financial assets:								
Available for sale securities	**$**	**12,574**	**$**	**-**	**$**	**-**	**$**	**12,574**
Mortgages receivable, net		**-**		**-**		**666,542**		**666,542**
Derivative assets		**-**		**8**		**-**		**8**
Total financial assets		**12,574**		**8**		**666,542**		**679,124**
Financial liabilities:								
Customer deposits		**-**		**-**		**640,250**		**640,250**
Total financial liabilities	**$**	**-**	**$**	**-**	**$**	**640,250**	**$**	**640,250**

								As at December 31, 2015
		Level 1		Level 2		Level 3		Total
Financial assets:								
Mortgages receivable	$	-	$	-	$	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

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

6. Cash and cash equivalents

As at		**September 30, 2016**		December 31, 2015
Deposits with regulated financial institutions	**$**	**56,548**	$	42,328
Short-term investments		**-**		1,998
Total cash and cash equivalents	**$**	**56,548**	$	44,326

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

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

7. Available for sale securities

The following table presents the analysis of securities at carrying value, by type and maturity or reprice date, is as follows:

					September 30, 2016	December 31, 2015
	Within 1 Year	**1 to 3 Years**	**3 to 5 Years**	**Over 5 Years**	**Total Fair Value**	**Total Fair Value**
Debt securities guaranteed by						
a province or municipality	$ -	$ -	$ 12,574	$ -	$ 12,574	$ -
	$ -	$ -	$ 12,574	$ -	$ 12,574	$ -

Included in securities guaranteed by a province is $255 of restricted investments, held as collateral for a swap facility.

The following table represents the analysis of unrealized gains and losses on securities reflected on the consolidated balance sheet:

				September 30, 2016	December 31, 2015
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Total Fair Value**	**Total Fair Value**
Debt securities guaranteed by					
a province or municipality	$ 12,500	$ 74	$ -	$ 12,574	$ -
	$ 12,500	$ 74	$ -	$ 12,574	$ -

Net unrealized gains and losses are included in accumulated other comprehensive income and presented in the table above.

Unrealized gains or losses represent the differences between the amortized cost of a security and its current fair value. The Corporation regularly monitors its investments and market conditions for indications of impairment. As of September 30, 2016, the Corporation assessed its investments for evidence of impairment and has not identified adverse credit events in relation to its securities.

During the three and nine months ended September 30, 2016, the Corporation did not recognize any impairment losses on available for sale securities.

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

8. Mortgages receivable

a. Mortgages receivable

										As at September 30, 2016
		Gross Amount		**Individual Allowance**		**Collective Allowance**		**Total**		**Net Amount**
Mortgages	**$**	**663,828**	**$**	**87**	**$**	**1,861**	**$**	**1,948**	**$**	**661,880**
Accrued interest		**1,277**		**-**		**-**		**-**		**1,277**
Balance	**$**	**665,105**	**$**	**87**	**$**	**1,861**	**$**	**1,948**	**$**	**663,157**

										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 in urban and suburban areas of Ontario.

As at September 30, 2016, the current portion of mortgages due within one year is $456,706 (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 September 30, 2016 is 4.94% (December 31, 2015 – 4.86%).

The Corporation has outstanding commitments to make future advances on mortgage loans of $52,000 as at September 30, 2016 (December 31, 2015 – $19,300). Commitments for the loans remain open for various dates through January 2017.

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

8. Mortgages receivable continued

b. Allowance for credit losses

	For the nine months ended September 30, 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 credit losses	**89**	**787**	**876**	132	33	165
Realized losses	**(95)**	**-**	**(95)**	(54)	-	(54)
Balance, end of period	**$ 87**	**$ 1,861**	**$ 1,948**	$ 93	$ 1,074	$ 1,167

c. Past due mortgages 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 date.

As at	**September 30, 2016**	December 31, 2015
1 to 30 days	**$ 20,040**	$ 10,376
31 to 60 days	**2,256**	1,714
61 to 90 days	**834**	317
Over 90 Days	**1,436**	1,866
	$ 24,566	$ 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.

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

8. Mortgages receivable continued

d. Impaired mortgage continued

The following table presents the carrying values of impaired mortgages.

As at		September 30, 2016		December 31, 2015
Gross amount of impaired loan	**$**	**240**	$	500
Individual allowance		**(87)**		(93)
Net amount	**$**	**153**	$	407

The total appraised value of the collateral for the impaired mortgage as at September 30, 2016 was $185.

9. Customer deposits

As at		September 30, 2016		December 31, 2015
Term Deposit Principal	**$**	**631,645**	$	329,068
Accrued interest		**6,410**		4,068
Deferred Broker Commissions		**(1,829)**		(939)
	$	**636,226**	$	332,197

Customer deposits are comprised of Guaranteed Investment Certificates ("GICs") with fixed maturity dates over a period of thirty days to five years. As at September 30, 2016, the current portion of customer deposits due within one year is $363,666 (December 31, 2015 – $174,376) and the average term to maturity is 1.2 years (December 31, 2015 – 1.3 year). The weighted average effective interest rate as at September 30, 2016 is 2.08% (December 31, 2015 – 2.13%).

Term deposit principal include $14,000 of deposits designated in qualifying fair value interest rate hedging relationships and are measured at fair value with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates which have occurred since the deposits were issued and the fair value adjustment as at September 30, 2016 is $8 (December 31, 2015 - $nil). Refer to Note 15 - Derivative Financial Instruments for further details.

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

10. Other assets

As at		September 30, 2016		December 31, 2015
Accounts receivable	$	272	$	159
Prepaids and other current assets		636		540
	$	908	$	699

11. Other liabilities

As at		September 30, 2016		December 31, 2015
Accounts payable and accrued liabilities	$	3,876	$	3,271
Deferred revenue		436		283
	$	4,312	$	3,554

12. Income taxes

The operations of the Corporation 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				For the nine months ended			
		September 30, 2016		September 30, 2015		**September 30, 2016**		September 30, 2015
Income (loss) before income taxes	$	638	$	(656)	$	1,020	$	(2,141)
Income tax expense (recovery) at statutory rate		169		(174)		270		(567)
Non-taxable portion of charge for contingent consideration		-		53		-		133
Adjustments to prior years		-		18		-		-
Share-based payment expense not deductible for tax purposes		43		43		121		138
Non-deductible expenses for tax purposes		3		5		11		8
Income tax expense (recovery)	$	215	$	(55)	$	402	$	(288)

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

12. 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 September 30, 2016**
Deferred tax assets			
Non-capital losses	$ 651	$ 8	**$ 659**
Deferred acquisitions, financing and share issuance costs	21	(1)	**20**
Mortgage provision for credit losses	31	21	**52**
DSU liability	222	184	**406**
Charge for contingent consideration	133	(133)	**-**
Other	37	6	**43**
Deferred tax assets	1,095	85	**1,180**
Deferred tax liabilities			
Property, plant and equipment	(114)	51	**(63)**
Licence costs	(338)	-	**(338)**
Other	-	(2)	**(2)**
Deferred tax liabilities	(452)	49	**(403)**
Net deferred tax assets	643	134	**777**
Consolidated Balance Sheets:			
Deferred tax assets	894	191	**1,085**
Deferred tax liabilities	(251)	(57)	**(308)**
Net deferred tax assets	$ 643	$ 134	**$ 777**

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

12. 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 September 30, 2015
Deferred tax assets			
Non-capital losses	$ 483	$ 179	$ 662
Deferred acquisitions, financing and share issuance costs	85	(48)	37
Mortgage provision for credit losses	28	6	34
DSU liability	99	88	187
Charge for contingent consideration	-	133	133
Other	32	4	36
Deferred tax assets	727	362	1,089
Deferred tax liabilities			
Property, plant and equipment	(315)	133	(182)
Licence costs	(338)	-	(338)
Deferred tax liabilities	(653)	133	(520)
Net deferred tax assets	74	495	569
Consolidated Balance Sheets:			
Deferred tax assets	641	245	886
Deferred tax liabilities	(567)	250	(317)
Net deferred tax assets	$ 74	$ 495	$ 569

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

13. 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 at December 31, 2015	**9,539,508**	**$**	**33,515**
Exercise of stock options (a)	**4,000**		**30**
Issued and outstanding at September 30, 2016	**9,543,508**		**33,545**
Issued and outstanding at December 31, 2014	9,527,508		33,401
Exercise of stock options (b)	12,000		114
Issued and outstanding at September 30, 2015	9,539,508	$	33,515

a. Transactions completed during the nine months ended September 30, 2016:

An Employee of the Corporation exercised 4,000 stock options at a weighted average exercise price of $5.35 per share for total proceeds of $21. The weighted average share price at the time of exercise was $9.65 per share. Share capital also increased by a reclassification from contributed surplus of $9, which is the amount previously recognized as share-based payment expense for these options.

b. Transactions completed during the nine months ended September 30, 2015:

Employees and Directors of the Corporation exercised 12,000 stock options at a weighted average exercise price of $7.08 per share for total proceeds of $85. The weighted average share price at the time of exercise was $7.76 per share. Share capital also increased by a reclassification from contributed surplus of $29, which is the amount previously recognized as share-based payment expense for these options.

14. Share-based payments

a. Stock options

The amended Stock Option Plan (the “Plan”) was approved by the shareholders of the Corporation on May 26, 2016. The purpose of the Plan is to provide additional incentives to key employees, 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 September 30, 2016 was 954,351 (December 31, 2015 – 953,951).

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

14. Share-based payments continued

	For the nine months ended September 30, 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	**(4,000)**	**5.35**	(12,000)	7.08
Options expired	**(21,334)**	**9.94**	(1,834)	10.80
Options forfeited	**(70,666)**	**9.86**	(7,666)	9.41
Ending Balance	**734,910**	**9.35**	656,860	9.78
Vested options	**146,620**	**$ 10.03**	100,503	$ 9.91

The weighted average remaining contractual life for all options outstanding as at September 30, 2016 is 3.06 years (December 31, 2015 - 3.41 years). During the nine months ended September 30, 2016, the Corporation recognized $383 (2015 - $360) as share-based payment expense related to stock options within staffing costs.

During the nine months ended September 30, 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 grant date.

A summary of the 2016 option grants are presented below:

For the nine months ended September 30, 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, which 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 September 30, 2016, there were 162,575 DSUs outstanding (December 31, 2015 – 103,840) representing a liability of $1,532 (December 31, 2015 – $837). DSUs of 58,735, with a grant date fair value of $442 were granted during the nine months ended September 30, 2016 (December 31, 2015 – 72,912). For the nine months ended September 30, 2016, an

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

14. Share-based payments continued

b. Deferred share units continued

expense of $695 was recorded relating to DSUs issued and outstanding during the period (September 30, 2015 – $283). The DSUs are revalued at each reporting date based on the closing price of the Corporation's shares.

Details of the outstanding deferred share units are as follows:

As at		September 30, 2016		December 31, 2015
Units				
Outstanding, beginning of period		**103,840**		36,230
Granted		**58,735**		72,912
Redeemed		**-**		(5,302)
Outstanding, end of period		**162,575**		103,840
Liability				
Balance, beginning of period	**$**	**837**	$	375
Expense recognized in the statements of operations and comprehensive loss		**695**		511
Redeemed		**-**		(49)
Balance, end of period	**$**	**1,532**	$	837

15. Derivative financial instruments

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Fair value for derivatives is determined from swap curves adjusted for credit risks. Swap curves are obtained from market sources or calculated from market prices.

Fair Value Hedging Relationships

The Corporation uses interest rate swaps to hedge changes in fair value of fixed-rate liabilities, which are associated with changes in market interest rates. Fair value hedges are hedges of fixed-rate customer deposit liabilities.

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

15. Derivative financial instruments continued

The following table presents gains or losses related to fair value hedged included in the Corporation's financial results:

	For the three months ended		For the nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Fair value changes recorded on interest rate swaps	$ -	$ -	$ 8	$ -
Fair value changes of hedged fixed-rate liabilities for interest rate risk	-	-	(8)	-
Hedge ineffectiveness recognized in non-interest income	$ -	$ -	$ -	$ -

As at September 30, 2016 and December 31, 2015, the outstanding interest rate swap position is as follows:

							As at September 30, 2016	As at December 31, 2015
	Notional Amount	Current Replacement Cost	Credit Equivalent Amount	Risk-weighted Balance	Derivative Asset	Derivative Liability	Net Fair Market Value	Net Fair Market Value
Swaps designated as accounting hedges								
1 to 5 years	$ 14,000	$ 8	$ 78	$ 24	$ 8	$ -	$ 8	$ -

The notional amount is not recorded as an asset or liability as it represents the face amount of the contract to which the rate is applied in order to calculate the amount of cash exchanged. Notional amounts do not represent the potential gain or loss associated with market risk and are not indicative of the credit risk associated with the derivative. The current replacement cost represents the cost of replacing all contracts that have a positive fair value, using current market rates. It reflects the unrealized gains on derivative instruments. The credit equivalent amount represents the total replacement cost plus an amount representing the potential future credit exposure, as outlined in OSFI's Capital Adequacy Requirements Guideline. The risk-weighted balance is determined by applying the standardized approach for counterparty credit risk to the credit equivalent amount, as prescribed by OSFI.

16. Related party transactions

During the nine months ended September 30, 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.

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

17. Commitments

In addition to the commitments disclosed in the annual audited consolidated financial statements for the financial year ended December 31, 2015, the Corporation entered into an operating lease agreement on July 4, 2016 for new Toronto office space to replace the existing lease expiring in January 2017. The new lease has a term of ten years plus a free rent period, expiring in 2027. The office space lease agreement provides for a five-year renewal at the expiry of the lease at occupancy rates equivalent to fair market value at time of renewal.

The future minimum payment for this commitment is as follows:

	Not later than one year	Later than one year and not later than five years	Later than five years	Total
Total commitment	**$ -**	**$ 3,504**	**$ 6,306**	**$ 9,810**

18. 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 April 2016, in accordance with the terms of the sale agreement, the Corporation paid $1,000 in consideration based on the future capital requirements of the transfer agent and corporate trust service business.

Since the date of sale, transfer agent and corporate trust business relationships have been managed by a third party for its economic benefit, including the administration of segregated funds. During the three and nine months ended September 30, 2016, the Corporation earned other fee income of $225 (2015 - $150) and $600 (2015 - $150) related to EFT's transitional status as trustee for these client relationships. As at September 30, 2016, this transitional period has concluded with client relationships and segregated funds were fully transferred to another entity.