STREET CAPITAL GROUP INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2018

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INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the results of operations of Street Capital Group Inc. ("Street Capital" or "the Company") for the three months ended March 31, 2018, and its financial condition as at March 31, 2018, is based on the Company's unaudited condensed consolidated interim financial statements prepared in accordance with accounting principles generally accepted 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 with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017. The effective date of this MD&A is May 11, 2018.

The discussion and analysis are primarily concerned with 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 out the majority of the Company's operations.

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 consolidated financial statements, Annual Information Form, Notice of Annual Meeting of Shareholders, and Proxy 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 May 11, 2018 the Company had 122,184,182 common shares issued and outstanding.

FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking statements and forward-looking information (collectively, forward-looking statements) that are based on management's exercise of business judgment as well as estimates, projections and assumptions made by, and information available to, management at the time the statement was made. When used in this document, the words "may", "will", "anticipate", "believe", "estimate", "expect", "intend", "forecast", "project" and "plan", and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect management's current view of future events and are subject to certain risks and uncertainties as outlined in this MD&A and in the Company's Annual Information Form and other filings made with securities regulators, which are available on SEDAR (www.sedar.com). These factors include, without limitation: expansion opportunities, technological changes, regulatory changes or regulatory requirements, changes to mortgage insurance rules and changes to the business and economic environment, including, but not limited to, Canadian housing market conditions and activity, interest rates, mortgage backed securities markets, and employment conditions, which may impact the Company, its mortgage origination volumes, its gain on sale rates and net interest margins earned, launch of new products at planned times, investments and capital expenditures, and competitive factors that may impact revenue and operating costs. Any of these factors, amongst others, could cause actual results to vary materially from current results or from the Company's currently anticipated future results and financial condition. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results could differ materially from those anticipated in these forward-looking statements. 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. Although management believes that its expectations are based on reasonable assumptions, management can give no assurance that its expectations will materialize.

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 (*www.streetcapital.ca*), which was founded in 2007, was approved on December 13, 2016 to commence business operations as a federally regulated Schedule I bank, and 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.

In prior years, the Company also had operations in other business areas. In the first quarter of 2013, the Company's board of directors (the "Board of Directors") approved a plan to dispose of these non-core operating business segments in order to focus on financial services through Street Capital Bank. The dispositions were completed by the end of the first quarter of 2014. Please see *Legacy Business*, below, for a more detailed discussion.

BUSINESS OVERVIEW

Prime Insurable Residential Lending ($27.44 B MUA at March 31, 2018)

Since inception, the Bank's primary operations have centered on the origination and subsequent sale of both high ratio and conventional prime insurable residential mortgages at competitive interest rates in all provinces of Canada, with the exception of Quebec. Since 2007 this business line has grown to more than $27 billion in mortgages under administration ("MUA"). Prime insurable residential mortgages are originated primarily through the Bank's network of approved independent mortgage brokers. The vast majority of these mortgages are subsequently sold at the time of commitment to top-tier financial institutions in return for a cash premium, a servicing fee over the life of the mortgage, and, in some cases, an excess interest rate spread over the life of the mortgage.

Any remaining mortgages are either securitized through the National Housing Act Mortgage Backed Securities ("NHA MBS") program or held directly by the Bank. By selling the majority of its originated prime insurable residential mortgages, the Bank transfers substantially all of the risks of ownership to the purchaser and/or the party insuring the mortgage.

Even with the sale and transfer of credit risk, the Bank has always focused on, and been committed to, the credit quality of the mortgages it underwrites, and it maintains stringent underwriting and robust quality assurance processes. This credit quality contributes to the strong wholesale demand from institutional purchasers for the Bank's prime insurable mortgages. Since the Bank's institutional purchasers commit to the purchase of prime insurable mortgages at the point of mortgage commitment, the Bank mitigates its exposure to both interest rate and liquidity risk. Much less frequently, the Bank may sell funded prime insured loans on a whole loan basis. These sale transactions may expose the Bank to interest rate and liquidity risk, which are within its risk limits, for short periods of time.

The Bank also has a secondary source of liquidity for prime insurable mortgages. As an approved issuer of NHA MBS and an approved seller under the Canada Mortgage Bonds ("CMB") program, the Bank can securitize the mortgages and access the market directly. However, although direct securitization of prime insured mortgages can be more profitable over the life of the mortgage, 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 the leverage ratio prescribed by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Given that the Bank can earn a better rate of return on capital on its uninsured mortgage product, "Street Solutions", which was launched in Q2 2017 and which is discussed further below, in the short term the Bank does not intend to make prime insured mortgage securitization a major part of its funding model.

The Bank outsources the servicing of its MUA to third party service providers, but continues to administer the mortgages, and therefore the Bank 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. Renewals are highly profitable due to their much lower acquisition costs compared to newly originated mortgages. Additionally, the customer relationships can be the source of potential cross-sell opportunities for the Bank's new products as its banking operations expand. Mortgage renewals are expected to remain an important part of the business model, and the Bank generally targets a renewal rate in the range of 75% - 80% of prime mortgages eligible for renewal, while maximizing the financial returns of the renewal portfolio.

Deposit Products ($382 MM at March 31, 2018)

The Bank offers CDIC insurance-eligible deposits through a network of licensed investment dealers. Products include one to five-year guaranteed investment certificates ("GICs") and a 90-day cashable GIC, all at competitive interest rates. Currently, the Bank does not offer demand deposit products such as High Interest Savings Accounts ("HISAs"). The GIC deposit base funds the Bank's uninsured residential mortgage lending products; 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.

Street Solutions Uninsured Residential Mortgage Lending ($294 MM at March 31, 2018)

In May 2017 the Bank introduced, initially through a small group of the Bank's existing network of approved mortgage brokers, the Street Solutions program. The program is based around the Bank's uninsured mortgage product suite, which is designed to provide alternative lending options for achieving the goal of home ownership. It targets a market segment that consists of credit-worthy, but under-served, borrowers who may not qualify for a prime residential mortgage, such as:

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

The Street Solutions uninsured mortgage products are currently funded on the Bank's balance sheet, and earn both net interest margin and fee income.

Immediately following the introduction of the Street Solutions program, it was evident that there was a strong demand in the Canadian market for alternative mortgage solutions. In mid-October 2017 the Bank put a hold on issuing new commitments with 2017 closing dates, since it had achieved its funding and lending commitment targets for Street Solutions products for the year. The Bank resumed the Street Solutions lending program in Q1 2018, and originated approximately $98.3 million during the quarter. The Company still expects that it will achieve its 2018 target originations of $600 to $700 million.

BUSINESS COMMENTARY AND 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 2.

The first quarter of 2018 saw soft housing sales and slower housing market activity across the Company's lending areas, resulting in lower prime insurable mortgage originations in the quarter. As expected, the tighter mortgage lending rules imposed from regulatory changes over the last two years, along with higher interest rates and the forecasted decline in GDP growth, have begun to slow housing activity. Management views a general softening as a positive course towards more normalized and sustainable housing markets.

While management believes that housing market fundamentals remain supportive, housing markets, and thus mortgage origination volumes, continue to face policy-related headwinds. Recently, this has included the provincial policy measures in B.C. and Ontario, and a new qualification stress test on a large segment of mortgage applications. Additionally, interest rates have risen and are widely expected to rise further this year. The combination of higher interest rates and stress tests makes it harder for homebuyers to qualify for the mortgage they may require. As a result, some homebuyers will be likely to stay on the sidelines amid heightened housing market uncertainty, and continue saving for a larger down payment before purchasing. These factors are largely expected to contribute to lower housing activity in the first half of 2018 as the market adjusts to the changing landscape. Current forecasts continue to predict relatively stable employment and high immigration rates, which are largely supportive of an expected modest rebound of activity in the second half of 2018 as housing market uncertainty begins to fade.

The Company experienced materially lower prime insurable mortgage originations in the quarter, 31% lower than the same period last year. While the decline is consistent with overall housing market softness in the quarter, it is also due to both the relatively higher level of originations in Q1 2017 ahead of the mortgage insurance eligibility changes, and the Company's access to prime uninsurable funding early in 2017, which increased the size of its addressable market. Offsetting the relatively disappointing prime insurable originations was the continued growth in the revenue contribution of both prime renewal activity and the Street Solutions portfolio, where combined revenue grew $3.9 million over Q1 2017.

Also on a positive note, the Company has secured an initial round of funding for prime uninsurable mortgages, a product the Company was largely locked out of in 2017 after the mortgage insurance eligibility rule changes. The Company has begun taking commitments for this product in the second quarter, effectively increasing its product shelf offering. The ultimate success and sustainability of the prime uninsurable mortgage product, given the Company's current business model, will be the development of a sufficiently liquid and active non-government sponsored Residential Mortgage Backed Securities (RMBS) market. Until this market develops, management is not including material volumes or profit for this product in its forecasts.

Management continues to expect that 2018 will be both a pivotal and foundational year for the Company as it continues to adapt to the changing business and market landscape, grows its balance sheet, builds the foundational elements to enable realization of its strategy, and improves its financial performance for the full year. The Company recognizes that challenges remain in the market. The business model, by its nature, is affected by the strength and health of the mortgage and real estate markets, as well as the changing regulations and policies that govern these markets. Part of the Company's strategic imperative over the medium to long term is to continue to transform the business model from a mono-line prime mortgage originator into a full suite mortgage lender with access to multiple on- and off-balance sheet funding channels that both support growth objectives and diversify revenue sources.

Prime Mortgage Originations

As management expected, the competition for prime insurable mortgages remained high in the first quarter and it is anticipated to remain this way through the remainder of the year. Combined with slower housing market activity in the first half of the year, this will likely lead to overall prime insurable mortgage activity that is flat to moderately declining compared to 2017. This view reflects the current economic forecasts, moderating housing prices, and expected interest rate increases. Rising bond yields and price competition for prime insurable mortgages have continued to put negative pressure on the gain on sale rates earned for these mortgages into 2018. While the Company has seen some improvement over the quarter, given competition and the start of the spring season, it is still too early to determine if gain on sale rates will improve noticeably in the short-term.

As discussed above, the Company has secured funding for a prime uninsurable mortgage product. This may offset some of the pressure on the prime insurable originations volumes. As indicated, the profitability and sustainability of this product is not yet clear; however, management is cautiously optimistic on the development of the market, and will provide updates on progress once there is better clarity.

Prime Mortgage Renewals

Softness in new originations of prime insurable mortgages continues to be partly offset by the Bank's expected highly profitable mortgage renewal activity in 2018. Management continues to expect renewal origination in the range of $2.20-$2.40 billion.

This activity will be at lower net gain on sale rates compared to 2017 due to a few factors. First, from the period January 2011 – July 2015, the Company offered brokers a Loyalty Program that pays a trailer commission upon mortgage renewal. The bulk of mortgages originated under this program are due to mature between 2018 and 2020, effectively increasing acquisition costs for renewals. Second, the Company has differing contracts with funders, which determine the premiums paid on renewal. A higher relative proportion of renewals in 2018 with a funder who pays a lower premium on renewal will put some downward pressure on gain on sale rates. And, third, renewals are subject to the same margin pressure as new prime originations. Even with these pressures on the gain on sale rates for renewals, they are still materially more profitable than new originations and will continue to significantly contribute to improved financial results.

It should be noted that optimizing contribution from mortgage renewals is a strategic priority for management. In that regard the Bank will continue to focus on its service and retention activities. The Bank's over $27 billion of prime MUA provides both a sustainable portfolio of quality revenue generating assets and a customer base to drive significant value over the coming years as the Bank expands into additional product areas.

Street Solutions Uninsurable Residential Mortgage Lending

The Bank launched its uninsured mortgage product, Street Solutions, in Q2 2017. The market response was positive and demand was strong, with many existing mortgage broker partners welcoming another provider in this segment. In mid-October 2017 the Bank put a hold on new commitments for closings in 2017 as it had met its funding targets for that year, but continued to accept commitments for 2018. The Bank is experiencing continued strong demand for the Street Solutions product, at high levels of credit quality, and expects to meet its target originations of $600 - $700 million for this product in 2018 with net interest margins within 2.0% - 2.35% for those funded on-balance sheet.

Funding and Liquidity

As noted above under *Prime Insurable Residential Lending*, when investors purchase prime insurable mortgages at commitment, the Company transfers substantially all of the risks associated with the mortgage. The Company's access to this funding is more than adequate, and the Bank remains competitive in this mortgage segment. Also, as mentioned above, the Company has been successful in obtaining initial funding for a prime uninsurable mortgage product.

Deposit balances, sourced through the investment broker network, were $382.5 million at the end of the quarter, increasing $89.5 million from the end of 2017 and $380.1 million from one year ago. The Company continues to onboard new brokers in order to increase diversification and volume in the channel, and will remain very active in this regard.

The funding strategy continues to be to originate deposits across tenors and focus on deposits with fixed terms in order to manage liquidity risk.

Operating Expenses

Given the seasonality of revenue in the current business model, positive operating leverage was not achieved as measured on a quarterly basis, however; the Company continues to target the achievement of positive operating leverage for the full year of 2018. This will involve careful management of expenses, as the Company balances improving efficiency against making the appropriate investments in people and technology to enable its strategic priorities and the strengthening of the Company's risk and compliance management programs.

UPDATE ON STRATEGIC PRIORITIES

In its 2017 Q4 and Annual Report the Company set out five strategic priorities that have time horizons over the short to long-term. During the first quarter of 2018 the Company made progress on several fronts including:

- Diversifying funding sources by: (i) obtaining new funding for a prime uninsurable mortgage product, broadening its mortgage shelf; and (ii) continuing to add deposit brokers. Broker-sourced deposits increased by $89.5 million, supporting the origination of $98.3 million in Street Solutions mortgages.

- Building momentum in a new addressable market by increasing Street Solution balances to $294.5 million, which generated $1.4 million in net interest income (including other non-securitized assets), with the net interest margin growing to 1.66%, up 39 bp from 1.27% last quarter.

- Also continuing expansion in a new addressable market that the Company entered in Q3 2017 was the securitization and sale of 10-year insured NHA MBS mortgage loans on a multi-unit residential property.

- Driving customer retention, and generating $6.7 million in net revenue from mortgage renewals. Renewals in the quarter were $0.52 billion, with a renewal rate of 75%.

- Enhancing the risk and control governance framework by expanding the internal enterprise risk governance committee into separate monthly management risk committees that deal with all risk types.

- Taking steps to further transform the organization by entering exclusive negotiations with a core banking platform provider and premier cloud platform partner as the Company works towards a digital banking launch in 2019.

Please see *Q1 2018 Summary and Highlights*, and *Q1 2018 Earnings Review*, below, for discussion of the Company's Q1 2018 results.

FINANCIAL TARGETS – 2018 to 2020

The Company is maintaining the financial targets it set out in its Q4 2017 report as shown below.

Note: The Bank may not realize the financial targets indicated below if business or competitive conditions, the regulatory environment, the housing market, or general economic conditions change, or if any of the other management assumptions do not materialize in the amount or within the timeframes expected. Please refer to the Forward-Looking Information on page 2.

	2017 Actual	2018	2019	2020
Prime New Originations [1]	$5.37 billion	Maintain market share	Maintain market share	Maintain market share
Prime Renewal Volume	$1.86 billion	$2.20-$2.40 billion	$2.40-$2.60 billion	$2.60-$2.80 billion
Street Solutions Originations	$204 million	$600-$700 million	$850-$950 million	$1.0-$1.2 billion
Operating Leverage [2]	N/A	Positive operating leverage [3]	Positive operating leverage [3]	Positive operating leverage [3]

[1] Estimating future prime insurable originations in the markets where the Company does business remains challenging, given the continued changes in the regulatory landscape. The market for this business has been reduced, and at times there has been spread compression leading to unprofitable transactions that the Company avoids. The projections reflect management's current views only and are subject to change over time.

[2] As revenues from balance sheet lending begin to grow, the Bank will begin to measure itself on operating leverage.

[3] Positive operating leverage is defined as: percentage growth in net revenue, minus percentage growth in expenses, is greater than zero. It will be measured over a 12-month period.

Dividends

The Company and its management are committed to consistently creating shareholder value. At the present time, this is best achieved through the retention of earnings and the allocation of capital to the business opportunities within the growing potential of the bank platform. Over the longer term, it is the Company's intention that the creation of shareholder value will include consideration of an allocation between retaining and investing earnings, and distributing common shareholder dividends.

Sustainable Tax Advantage

The Company continues to generate a sustainable tax advantage, given the differing treatment between accounting and income tax rules for gains on sale. Its tax loss carryforwards were approximately $305 million at March 31, 2018. This represents a real and sustainable tax advantage as the Company is not paying cash taxes.

Q1 2018 SUMMARY AND HIGHLIGHTS

Table 1 – Financial Highlights

(in thousands of $, except where defined)	**For the three months ended or as at**		
	March 31, 2018	**December 31, 2017**	**March 31, 2017**
Financial performance			
Shareholders' net income (loss)	**$ (1,365)**	$ 1,239	$ (2,574)
Shareholders' diluted earnings (loss) per share	**$ (0.01)**	$ 0.01	$ (0.02)
Adjusted shareholders' net income (loss) (i)	**$ (1,481)**	$ 1,544	$ 69
Adjusted shareholders' diluted earnings (loss) per share (i)	**$ (0.01)**	$ 0.01	$ 0.00
Total revenue (net of acquisition costs)	**$ 11,593**	$ 14,788	$ 11,572
Net gain on sale - new - excluding portfolio insurance (ii)	**$ 5,818**	$ 8,536	$ 9,405
Net gain on sale - new - % excluding portfolio insurance (ii)	**0.70%**	0.75%	0.78%
Net gain on sale of mortgages - renewals	**$ 6,709**	$ 7,376	$ 4,239
Net gain on sale - renewals - % of renewals	**1.29%**	1.39%	1.39%
Net interest income (expense) - non-securitized assets	**$ 1,402**	$ 828	$ (10)
Net interest margin - non-securitized assets	**1.66%**	1.27%	N/A
Return on tangible equity (i)	**(4.5%)**	4.9%	(9.3%)
Adjusted return on tangible equity (i)	**(4.9%)**	6.1%	0.7%
Mortgages originated and under administration			
Mortgages under administration ***(in billions of $)***	**$ 27.83**	$ 28.02	$ 27.81
Prime mortgages originated and sold	**$ 826,528**	$ 1,138,274	$ 1,213,257
Prime mortgage renewals sold	**519,686**	531,080	304,597
Total prime mortgages sold	**$ 1,346,214**	$ 1,669,354	$ 1,517,854
Total Street Solutions originations	**$ 98,285**	$ 62,116	N/A
Credit quality - mortgages			
Provision for Street Solutions credit losses	**$ (61)**	$ (80)	N/A
Provision for Street Solutions credit losses - rate	**0.10%**	0.19%	N/A
Allowance for Street Solutions credit losses	**$ 330**	$ 216	N/A
Allowance for Street Solutions credit losses - % of Street Solutions assets	**0.11%**	0.11%	N/A
Regulatory Capital Ratios - Street Capital Bank			
Risk-weighted assets	**$ 409,705**	$ 388,187	$ 286,132
Common equity Tier 1 (CET1) ratio	**23.81%**	25.39%	32.24%
Total capital ratio	**23.81%**	25.39%	32.24%
Leverage ratio	**12.67%**	13.76%	20.86%
Equity and share information			
Shareholders' equity	**$ 137,056**	$ 138,162	$ 131,998
Shares outstanding end of period (000s)	**122,184**	122,184	121,580
Book value per share	**$ 1.12**	$ 1.13	$ 1.09
Market capitalization	**$ 91,638**	$ 125,850	$ 182,370
Share price at close of market	**$ 0.75**	$ 1.03	$ 1.50

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, 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.

Significant or Non-Recurring Financial Developments in Q1 2018

- As part of an update to the Company's executive compensation plan, in Q1 2018, related to the 2017 performance year, the Company awarded officers and members of senior management 2.412 million options to purchase shares of the Company's common stock. The options vest over 4 years, in four tranches of 25%, beginning on the first anniversary of the grant date. These particular option grants increased salaries and benefits expense by $0.05 million in the quarter.

- Also related to the update of the executive compensation plan, in Q1 2018 the Company introduced a Restricted Share Unit plan (the "RSU Plan"), an incentive plan designed to work in tandem with the Company's stock option plan. Upon introduction, the Company awarded officers and members of senior management 0.615 million RSUs. The RSUs vest and are paid out over 3 years, in three equal tranches, beginning on the first anniversary of the grant date. The RSU grants increased salaries and benefits expense by $0.03 million in the quarter.

- During Q1 2018 the Company recorded net fair value gains of $0.4 million, due to an increase in the value of its $US Private Equity investment, inclusive of foreign exchange fluctuations. $0.2 million was allocated to the Company's non-controlling interests. The net gain is incorporated into the determination of non-GAAP adjusted performance measures.

Significant or Non-Recurring Financial Developments in Q4 2017

- During Q4 2017 the Company recorded $0.2 million in restructuring expenses. The expenses are incorporated into the determination of non-GAAP adjusted performance measures.

- During Q4 2017 the Company recorded net fair value losses of $0.4 million, due to a reduction in the value of its $US Private Equity investment, inclusive of foreign exchange fluctuations. $0.3 million was allocated to the Company's non-controlling interests. The net loss is incorporated into the determination of non-GAAP adjusted performance measures.

Significant or Non-Recurring Financial Developments in Q1 2017

- During Q1 2017 the Company recorded $3.6 million in restructuring expenses, associated with the retirement of the Company's former President. The expenses are incorporated into the determination of non-GAAP adjusted performance measures.

- During Q1 2017 the Company recorded net fair value gains of $0.2 million, due to net increases in the value of its Private Equity investments, inclusive of foreign exchange fluctuations. $0.08 million was allocated to the Company's non-controlling interests. The net gain is incorporated into the determination of non-GAAP adjusted performance measures.

Q1 2018 Financial Highlights

- Q1 2018 net shareholders' loss was $1.4 million, compared to a net loss of $2.6 million in Q1 2017 and net income of $1.2 million in Q4 2017. The Q1 2018 net loss includes the items discussed above under *Significant or Non-Recurring Financial Developments in Q1 2018*, and a $0.4 million loss on the sale of artworks.

- Adjusted net loss for Q1 2018, which is primarily affected by eliminating the net fair value gain, was $1.5 million (please see the *Non-Core and Non-Recurring Items* section of this MD&A for more detail) compared to adjusted net income of $0.1 million in Q1 2017 and adjusted net income of $1.5 million in Q4 2017.

- Prime new insurable mortgages originated and sold in Q1 2018 were $0.83 billion, down 31% from $1.21 billion in Q1 2017 and down 27% from $1.14 billion in Q4 2017. The reduction from 2017 reflects the general softening in the housing markets in the first quarter of 2018, as well as relatively higher activity in Q1 2017 that occurred in advance of the mortgage insurance rule changes, as well as activity associated with the Company having access to prime uninsurable funding at the beginning of 2017.

- Revenue from new prime originations was $3.2 million in Q1 2018, down from $7.1 million in Q1 2017, and $6.0 million in Q4 2017. The declines reflect both lower origination volumes and lower net gain on sale rates of 0.39% compared to 0.59% in Q1 2017 and 0.52% in Q4 2017.

- The gross gain on sale rate for prime insurable mortgages was 1.75% in the quarter, down 9 bp from 1.84% in Q1 2017 and down 19 bp from 1.94% in Q4 2017. The decline from Q4 2017 results from several factors, the most material being the run-down of a specific premium promotion with an investor for certain mortgage products. The decline from last year mostly reflects product mix and tighter market spreads.

- The acquisition cost rate for new prime insurable mortgages, excluding the effect of portfolio insurance amortization was 1.04% in Q1 2018, down 2 bp from 1.06% in Q1 2017 and down 15 bp from 1.19% in Q4 2017. The decline from Q4 2017 reflects the run-off of a broker commission promotion on certain products.

- Prime renewal mortgage volumes in Q1 2018 were $0.52 billion, up, as expected, 71% from the $0.30 billion renewed in Q1 2017 and slightly down compared to $0.53 billion in Q4 2017, reflecting seasonal trends.

- Revenue from prime renewals was $6.7 million in Q1 2018, up from $4.2 million in Q1 2017 on higher volumes, and down from $7.4 million in Q4 2017 due to lower net gain on sale rates and slightly lower volumes.

- The gross gain on renewals was steady at approximately 1.50% in each quarter. However, increases in acquisition costs in Q1 2018, largely due to trailing commissions on the Company’s former Loyalty Program, reduced the net gain on renewal sales to 1.29% in Q1 2018 compared to 1.39% in both Q1 2017 and Q4 2017.

- Street Solutions uninsured mortgage originations were $98.3 million in Q1 2018 compared to $62.1 million in Q4 2017. The increase reflects the Company’s return to lending in this segment in the quarter. At March 31, 2018 the Company’s outstanding Street Solutions mortgage loans were $294.5 million compared to $200.8 million at December 31, 2017.

- Mortgages under administration were $27.83 billion at March 31, 2018 compared to $28.02 billion at December 31, 2017. The small decrease of $0.19 billion reflects a small net run-off as lower new originations were outpaced by discharges overall.

- Net interest income on non-securitized assets was $1.4 million in Q1 2018 compared to $0.8 million in Q4 2017, reflecting the continued growth of the Street Solutions portfolio. The average spread (weighted average yield on mortgages minus weighted average yield on deposits) on Street Solutions mortgages was 2.71% in Q1 2018 compared to 2.53% in Q4 2017 and 2.54% for all of 2017.

- Non-securitized net interest margin was 1.66% in Q1 2018, up from 1.27% in Q4 2017, reflecting the ongoing build of the balance sheet. As the balance sheet reaches scale the Company expects net interest margin in the range of 2.0-2.35% over a twelve-month period.

- The Company adopted *IFRS 9 – Financial Instruments* on January 1, 2018. As detailed in Note 2 of the unaudited condensed consolidated interim financial statements, and in *Expected credit losses* under *Credit Risk Management*, below, the adoption of IFRS 9 required the Company to record a small increase of $0.053 million in its allowance for credit losses on that date, with an offsetting adjustment to retained earnings. In Q1 2018 the Company recorded a net $0.014 million recovery of expected credit losses. This was due to the recovery of a $0.075 million credit provision on a bridge loan, which exceeded additional expected credit loss provisions of $0.061 million recorded for the non-securitized portfolio in the quarter. The allowance for total expected credit losses was $0.33 million or 0.11% of the portfolio at the end of Q1 2018.

- Adjusted operating expenses were $13.4 million in Q1 2018, up from $11.6 million in Q1 2017 and $12.2 million in Q4 2017. Increases include additional expenses related to the awards of share-based compensation, and expenses associated with strategic objectives. Management is still targeting positive operating leverage for the full year.

- The serious arrears rate on the prime mortgages under administration was 0.10% at March 31, 2018 compared to 0.08% at December 31, 2017 and 0.12% at March 31, 2017. While the Company is not directly exposed to the credit risk of its prime insured MUA, credit and underwriting quality, as measured by the serious arrears rate, is a key performance indicator of a portfolio's quality. A relatively high-quality portfolio helps to maintain strong wholesale demand from liquidity providers. There were no impaired loans on the Company's balance sheet at the end of the quarter.

Q1 2018 EARNINGS REVIEW

Prime Single-Family Mortgage Activity and MUA

Table 2 - Prime Single-Family Mortgages Sold and Gains on Sale

	For the three months ended or as at							
		March 31, 2018			**December 31, 2017**			**March 31, 2017**
Mortgages sold and mortgages under administration ***(in thousands of $)***								
Prime mortgages originated and sold	**$**	**826,528**	**61.4%**	$	1,138,274	68.2%	$	1,213,257	79.9%
Prime mortgage renewals sold		**519,686**	**38.6%**		531,080	31.8%		304,597	20.1%
Total prime mortgages sold	**$**	**1,346,214**		$	1,669,354		$	1,517,854	
Mortgages under administration ***(in billions of $)***	**$**	**27.83**		$	28.02		$	27.81	
Prime mortgage sale financial highlights ***(in thousands of $)***									
Cash premium at sale - new	**$**	**11,766**	**1.42%**	$	18,238	1.60%	$	19,389	1.60%
Deferred gain on sale - new		**2,673**	**0.32%**		3,898	0.34%		2,908	0.24%
Gain on sale of mortgages - new	**$**	**14,439**	**1.75%**	$	22,136	1.94%	$	22,297	1.84%
Acquisition expenses - new		**8,621**	**1.04%**		13,600	1.19%		12,892	1.06%
Gain on sale before portfolio insurance	**$**	**5,818**	**0.70%**	$	8,536	0.75%	$	9,405	0.78%
Portfolio insurance expense		**2,613**	**0.32%**		2,585	0.23%		2,281	0.19%
Net gain on sale - new	**$**	**3,205**	**0.39%**	$	5,951	0.52%	$	7,124	0.59%
Cash premium at sale - renewals	**$**	**6,461**	**1.24%**	$	6,583	1.24%	$	3,905	1.28%
Deferred gain on sale - renewals		**1,374**	**0.26%**		1,358	0.26%		684	0.22%
Gain on sale of mortgages - renewals	**$**	**7,835**	**1.51%**	$	7,941	1.50%	$	4,589	1.51%
Acquisition expenses - renewals		**1,126**	**0.22%**		565	0.11%		350	0.11%
Net gain on sale - renewals	**$**	**6,709**	**1.29%**	$	7,376	1.39%	$	4,239	1.39%

Q1 2018 v. Q1 2017

New Prime Single-Family Mortgage Sales

New sales volume was $0.83 billion in the quarter, down 31.4% compared to $1.21 billion last year. Volumes were negatively affected by the general softening of housing activity across lending regions. Additionally, Q1 last year still included some additional activity ahead of the mortgage rule changes, and activity associated with prime uninsurable mortgages as the Company had some funding for this in early 2017. Management estimates that this activity represented about 21% of the volumes last year. Sales this year also included a higher proportion of variable to fixed conversions, at 12.4% of volumes this year compared to 2.1% last year. These mortgages generate a lower gross gain on sale, but because acquisition costs are nominal, net gains on sale rates are similar to that of newly originated prime insurable mortgages.

Net revenue from new sales (excluding portfolio insurance amortization) was $5.8 million, down from $9.4 million last year, reflecting both lower volumes as described above and lower net gain on sale rates (before portfolio insurance amortization) of 0.70% compared to 0.78%.

The gross gain on sale rate was 1.75% in the quarter compared to 1.84% last year. Some of the decline, approximately 5bp, is based on conversion sale mix. As mentioned above, the relative portion of conversion sales can reduce the gross gain, but generates similar net gain on sale rates. The remaining 4bp decline reflects market spreads and product mix.

The acquisition cost rate is consistent at 1.04% compared to 1.06% last year, benefiting slightly from higher conversion volume as mentioned above.

Portfolio insurance amortization is not variable with volumes, as it represents an amortization pattern associated with the estimated remaining balances of the underlying portfolio-insured mortgages under administration.

Renewal Prime Single-Family Mortgage Sales
Renewal sales volume was $0.52 billion, up 70.6% from $0.30 billion last year. This increase is expected given the maturity profile of the MUA. Renewal rates were approximately 75% in each quarter.

Net revenue from renewal sales was $6.7 million, up from $4.2 million last year. A decrease in net gains on sale rates to 1.29% from 1.39% last year was more than offset by the increased sale volumes.

The gross gain on sale rate was 1.51% both this year and last. Despite some market spread pressure, the Company has been able to maintain relatively stable gross gain on sale rates for renewal mortgages overall. Looking ahead, management anticipates some pressure in Q2 and Q3 as a larger proportion of renewals will be with an investor that pays a discounted premium on renewal.

The acquisition cost rate was 0.22%, up from 0.11% last year. The rate is up due to the increased proportion of renewals that were part of the discontinued Loyalty Program. The program, which ran from January 2011 to July 2015, pays brokers who participated an annual trailing commission upon renewal. Upon sale the expected future cost of the Loyalty Program payments is recorded as acquisition costs.

Q1 2018 v. Q4 2017

New Prime Single-Family Mortgage Sales
New sales volume was down 27% quarter over quarter. Volumes can follow seasonal trends where Q1 is generally lower than Q4. However, Q1 was also lower given the softer markets mentioned above. Some lenders experienced an outsized Q4 2017 as borrowers pulled forward activity ahead of the January 2018 regulatory changes to OSFI's Guideline B-20 that introduced a stress test for uninsurable mortgages. The Company was not generally affected by this trend as it was not actively participating in the prime uninsurable market after the mortgage insurance rule changes in early 2017.

Net revenue from new sales (excluding portfolio insurance amortization) was down $2.7 million or 31.8%, quarter over quarter, given the lower volumes and a net gain on sale rate (excluding portfolio insurance amortization) that was 5bp lower than last quarter.

The gross gain on sale rate of 1.75% was down 19 bps from 1.94% last quarter. The decline reflects a few factors, the most material being the run-off, due to market conditions, of a specific product promotion where the Company earned higher premiums.

The acquisition cost rate decreased to 1.04% from 1.19% last quarter. The decline is primarily related to the run-off of the product specific broker commission promotion that was in place last year.

Renewal Prime Single- Family Mortgage Sales
Renewal sales volume was relatively consistent, based on the maturity profile of the MUA. The Company continues to expect higher renewal sales in the remainder of the year when compared to 2017.

Net revenue of $6.7 million was down from $7.4 million last quarter, based on slightly lower volumes and higher acquisition costs. The gross gain on sale rate was relatively consistent, but, as discussed above, acquisition costs increased due to the increase in Loyalty Program commission expenses.

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. To date, net mortgage lending interest income has been a relatively minor contributor to the Company's revenue, since the majority of originated mortgages have been sold or securitized. With the launch of the Street Solutions uninsured lending program in Q2 2017, the Company has seen a significant increase in net lending interest income, which it expects to ultimately form a significant part of its revenue.

						For the three months ended		
		March 31,	**Average**		**December 31,**	**Average**		**March 31,**	**Average**
(in thousands of $)		**2018**	**rate**		**2017**	**rate**		**2017**	**rate**
Interest income - Street Solutions	**$**	**3,184**	**5.21%**	$	2,306	5.13%	$	-	-
Interest income - bridge loans		**43**	**7.58%**	$	53	6.33%		103	8.51%
Interest income - other mortgages and loans		**83**	**2.63%**		100	3.29%		15	2.08%
Interest income - cash and liquidity		**282**	**1.44%**		137	0.83%		13	1.07%
Total interest income - non-securitized assets	**$**	**3,592**	**4.26%**	$	2,596	3.97%	$	131	4.16%
Interest expense - deposits and other		**(2,190)**	**2.65%**		(1,768)	2.81%		(141)	12.22%
Net interest income (expense) - non-securitized assets	**$**	**1,402**	**1.66%**	$	828	1.27%	$	(10)	N/A
Provision for (recovery of) credit losses		**14**			(155)			-	
Net interest income (expense) - non-securitized	**$**	**1,416**		$	673		$	(10)	
Interest income - securitized mortgages		**1,382**	**2.56%**		1,404	2.50%		1,561	2.42%
Interest expense - securitization liabilities		**(1,113)**	**2.07%**		(1,130)	2.01%		(1,220)	1.89%
Net interest income - securitized	**$**	**269**	**0.50%**	$	274	0.49%	$	341	0.53%
Total net interest income (expense) [1]	**$**	**1,685**	**1.21%**	$	947	0.91%	$	331	0.49%
Servicing and fee income - loan sales		**303**			427			(41)	
Gain on sale - CMB securitizations		**119**			247			-	
Other net interest income (expense) - non-core		**(44)**			(65)			(54)	
Other income (expense)		**(384)**			(95)			(27)	
Total fee and other income	**$**	**(6)**		$	514		$	(122)	
Credit provisions - non-core		**-**			-			-	
Total fee, interest and other income (expense)	**$**	**1,679**		$	1,461		$	209	

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

Net Interest Income – Non-Securitized

As expected, given the growth in the Street Solutions portfolio to $294.5 million from $200.8 million last quarter, net interest income has increased to $1.41 million from $0.67 million last quarter. The Company did not have Street Solutions mortgages in Q1 2017.

Net interest margin of 1.66% is up from 1.27% last quarter, as the balance sheet is gaining scale and the liquidity pool is being sized and managed. The Company is still targeting a net interest margin in the range of 2.0%-2.35% when the balance sheet is at scale, assuming market dynamics remain stable.

Provisions (Recovery) for Credit Losses

The Company adopted IFRS 9 on January 1, 2018, which affects the calculation of the provisions for credit losses. For further details please see Note 2 of the unaudited condensed consolidated interim financial statements and *Expected credit losses*, under *Credit Risk Management*, below. The adoption was not material to the current financial position of the Company.

Given the relatively small size of the Street Solutions portfolio, provisions are not yet a significant contributor to results. The small recovery in the quarter related to a recovery of $0.075 million on a bridge loan that was impaired last quarter. Net of this, the provision for Street Solutions credit losses was $0.061 million, which represents the increase in the allowance of expected credit losses. The increase is primarily related to the growth in the portfolio. 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 the related balances amortize. The Company has not securitized mortgages for its own balance sheet since Q4 2016.

Fee and Other Income

Servicing income on loan sales is composed of the net servicing fees and trailing interest spread earned by the Company on mortgage loan sales, and fee income is miscellaneous mortgage lending fees. Due to a Q2 2017 renegotiation with a service provider, the Company's servicing income increased to $0.36 million and $0.29 million in Q4 2017 and Q1 2018, respectively, compared to a $0.09 million loss in Q1 2017. Miscellaneous fee income has similarly increased over the same period as the Company has expanded its on-balance sheet lending activities.

The Q1 2018 Gain on sale from CMB securitizations was earned from the Company's securitization and sale of $15.8 million of NHA MBS mortgage loans on multi-unit residential properties. In Q4 2017, the gain on sale was generated by sales of $31.1 million. The Company was not participating in the multi-residential market in Q1 2017.

Net interest expense on non-core items relates to the Company's legacy business.

Net other expense in all quarters presented was primarily due to losses realized 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 the $3.6 million and $0.2 million reorganization expenses charged to income in Q1 2017 and Q4 2017, respectively (please see the section *Non-GAAP Measures*, and the table below).

A breakdown of the Company's adjusted operating expenses is shown below.

	For the three months ended		
(in thousands of $)	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Salaries and benefits	**$ 7,952**	$ 6,843	$ 6,792
Information Technology and Telecom	**744**	583	487
Outsourcing	**925**	2,124	1,104
Facilities and Office	**765**	735	766
Marketing and business development	**554**	889	729
Amortization & Depreciation	**368**	467	386
Other	**2,049**	582	1,297
Adjusted operating expenses	**13,357**	12,223	11,561
Restructuring costs (recoveries)	**-**	223	3,600
Total operating expenses	**$ 13,357**	$ 12,446	$ 15,161

Salaries and Benefits

Despite employee headcount declining from 244 at March 31, 2017 to 218 at December 31, 2017 and March 31, 2018, Salaries and Benefits in Q1 2018 increased compared to Q1 2017. This was in part due to an increase of $0.31 million in share-based compensation corresponding to options and restricted share units ("RSUs") that were awarded during 2017 and also in Q1 2018. The Q1 2018 awards were in accordance with the variable portion of the compensation plan for senior management that was implemented during 2017 and that will be in place during 2018. Compared to Q1 2017, the achievement of targets related to variable compensation is more readily measurable throughout the year, and therefore a portion of this variable compensation was accrued in the current quarter.

The majority of the difference between Q1 2018 and Q4 2017 also relates to variable compensation, as Q4 2017 included a downward adjustment to align the cash portion of the 2017 compensation with the year's operating results. Share-based compensation expense was approximately the same for the two periods.

Restructuring expenses in Q1 2017 related to the retirement of the Company's former President, and in Q4 2017 were connected with restructuring activity that largely occurred during Q2 and Q3 2017. The Company continues to anticipate selective increases in employee headcount during 2018 as its banking and product offerings expand.

Other operating expenses

The Q1 2018 increase in Information Technology and Telecom compared to both Q1 2017 and Q4 2017 is due to increased data center support and data center hosting costs.

Outsourcing costs in Q1 2018 decreased compared to Q1 2017 due to lower servicing fees related to the Company's reduced origination volumes. The large decrease compared to Q4 2017 is due to the fact that Q4 2017 expense included additional payments associated with contractual minimums with one of the Company's service providers.

Marketing and Business Development expenses primarily consist of promotional materials, the maintenance of the Company's website, and broker-related costs, along with sales-related travel and other business development expenses. They fluctuate according to factors such as seasonality, business initiatives and expected revenue.

The most significant items included in Other operating expense are legal, regulatory and audit costs; Board and corporate reporting costs; and professional fees. Compared to Q1 2017, the Company has assumed some additional ongoing costs associated with bank operations. Other operating expenses are up compared to Q4 2017 due to two primary offsetting factors. The first is that there was an increase in professional services and legal fees associated with strategic initiatives; the second is that the Q4 2017 expense was unusually low due to true-ups of variable expenses to align them with the year's actual operating results.

Fair Value Adjustments, Non-Controlling Interests and Discontinued Operations

The Company's fair value adjustments relate to its legacy businesses, particularly its Private Equity investments. As discussed above under *Legacy Business*, at March 31, 2018 the investments consist solely of an investment in the publicly traded common shares in DBGI. Throughout 2017, fair value fluctuations were largely driven by changes in the value of DBGI, with some contribution from the investment in The Works, which was exited in Q2 2017.

Since discontinuing its real estate business in the first quarter of 2013, the Company 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 significant transactions involving discontinued operations during the first quarter of either 2017 or 2018.

Income Taxes

The income tax recovery in Q1 2018 is related to both the operating results of Street Capital Bank and recoveries generated at the parent Company.

At March 31, 2018, the Company had approximately $305.0 million in non-capital loss carryforwards that may be used to reduce future years' taxable income until 2036.

The income tax expense or recovery reported in the statement of comprehensive income 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 carryforwards, 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.

QUARTERLY HIGHLIGHTS

The following table sets out financial highlights of the Company's consolidated quarterly results of operations for the eight quarters ended March 31, 2018. Please see the section *Non-GAAP Measures* for the definitions of adjusted net income and other related non-GAAP measures.

Table 5 – Quarterly Financial Highlights

(in thousands of $, except where defined)	**2016 Q2**	**2016 Q3**	**2016 Q4**	**2017 Q1**	**2017 Q2**	**2017 Q3**	**2017 Q4**	**2018 Q1**
Financial performance								
Shareholders' net income (loss)	$ 5,310	$ 7,491	$ 462	$ (2,574)	$ (104)	$ 3,731	$ 1,239	**$ (1,365)**
Adjusted shareholders' net income (loss)	$ 5,845	$ 6,171	$ 1,900	$ 69	$ 1,845	$ 4,297	$ 1,544	**$ (1,481)**
Shareholders' diluted earnings (loss) per share	$ 0.04	$ 0.06	$ 0.00	$ (0.02)	$ 0.00	$ 0.03	$ 0.01	**$ (0.01)**
Adjusted shareholders' diluted earnings (loss) per share	$ 0.05	$ 0.05	$ 0.02	$ 0.00	$ 0.02	$ 0.04	$ 0.01	**$ (0.01)**
Return on equity	17.1%	22.9%	1.4%	(7.7%)	(0.3%)	11.1%	3.6%	**(4.0%)**
Adjusted return on equity	18.8%	18.9%	5.7%	0.2%	5.6%	12.8%	4.5%	**(4.3%)**
Return on tangible equity	22.5%	29.6%	2.2%	(9.3%)	0.1%	14.4%	4.9%	**(4.5%)**
Adjusted return on tangible equity	24.7%	24.5%	7.6%	0.7%	7.5%	16.5%	6.1%	**(4.9%)**
Mortgages sold and under administration								
Prime mortgages sold - new	$ 2,155,761	$ 2,493,132	$ 2,101,474	$ 1,213,257	$ 1,499,930	$ 1,521,342	$ 1,138,274	**$ 826,528**
Prime mortgages sold - renewal	380,615	361,844	358,043	304,597	463,167	560,423	531,080	**519,686**
Prime mortgages sold - total	$ 2,536,376	$ 2,854,976	$ 2,459,517	$ 1,517,854	$ 1,963,097	$ 2,081,765	$ 1,669,354	**$ 1,346,214**
Total Street Solutions originations	N/A	N/A	N/A	N/A	$ 10,225	$ 131,376	$ 62,116	**$ 98,285**
Mortgages under administration ***(in billions of $)***	$ 25.67	$ 26.83	$ 27.70	$ 27.81	$ 27.81	$ 27.98	$ 28.02	**$ 27.83**
Gain on sale of mortgages	$ 46,797	$ 52,578	$ 40,793	$ 26,886	$ 37,278	$ 39,531	$ 30,077	**$ 22,274**
As a % of mortgages sold	1.85%	1.84%	1.66%	1.77%	1.90%	1.90%	1.80%	**1.65%**
Acquisition expenses	$ 26,596	$ 30,288	$ 26,538	$ 15,523	$ 20,902	$ 20,819	$ 16,750	**$ 12,360**
As a % of mortgages sold	1.05%	1.06%	1.08%	1.02%	1.06%	1.00%	1.00%	**0.92%**
Net gain on sale of mortgages	$ 20,201	$ 22,290	$ 14,255	$ 11,363	$ 16,376	$ 18,712	$ 13,327	**$ 9,914**
As a % of mortgages sold	0.80%	0.78%	0.58%	0.75%	0.83%	0.90%	0.80%	**0.74%**
Operating expenses	$ 12,710	$ 13,610	$ 12,085	$ 11,561	$ 14,510	$ 13,821	$ 12,223	**$ 13,357**
As a % of mortgages sold	0.50%	0.48%	0.49%	0.76%	0.74%	0.66%	0.73%	**0.99%**
Equity and share performance								
Shareholders' equity	$ 127,001	$ 134,402	$ 134,492	$ 131,998	$ 132,252	$ 136,590	$ 138,162	**$ 137,056**
Shares outstanding end of period **(in 000s)**	121,876	121,790	121,532	121,580	121,974	122,184	122,184	**122,184**
Book value per share	$ 1.04	$ 1.10	$ 1.11	$ 1.09	$ 1.08	$ 1.12	$ 1.13	**$ 1.12**
Market capitalization	$ 152,345	$ 219,222	$ 228,480	$ 182,370	$ 164,665	$ 171,058	$ 125,850	**$ 91,638**
Share price at close of market	$ 1.25	$ 1.80	$ 1.88	$ 1.50	$ 1.35	$ 1.40	$ 1.03	**$ 0.75**

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 in Q2 and Q3 compared to Q4 and Q1.

Q1 2018 FINANCIAL POSITION REVIEW

The following table sets out the Company's consolidated financial position as at March 31, 2018, December 31, 2017 and March 31, 2017.

Table 6 - Financial Position

(in thousands of $)	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
			As at
Assets			
Cash and cash equivalents	**$ 80,883**	$ 89,414	$ 7,196
Restricted cash	**12,561**	35,543	23,044
Street Solutions uninsured loans	**294,453**	200,804	-
Other non-securitized mortgages and loans	**15,460**	13,259	11,420
Securitized mortgage loans	**210,844**	220,774	253,165
Deferred placement fees receivable	**51,167**	52,325	50,139
Prepaid portfolio insurance	**81,157**	82,511	80,660
Deferred income tax assets	**14,644**	14,568	14,489
Other assets	**23,649**	23,788	21,377
Goodwill and intangible assets	**28,302**	28,426	28,949
Total assets	**$ 813,120**	$ 761,412	$ 490,439
Liabilities			
Bank facilities	**$ -**	$ -	$ 15,900
Deposits	**382,489**	292,976	2,358
Loans payable	**4,095**	4,039	4,220
Securitization liabilities	**211,505**	221,594	252,514
Accounts payable and accrued liabilities	**38,080**	64,802	44,480
Deferred income tax liabilities	**45,720**	45,889	43,064
Total liabilities	**681,889**	629,300	362,536
Total shareholders' equity	**137,056**	138,162	131,998
Non-controlling interests	**(5,825)**	(6,050)	(4,095)
Total liabilities and equity	**$ 813,120**	$ 761,412	$ 490,439
Total MUA *(in billions of $)*	**$ 27.83**	$ 28.02	$ 27.81

CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

Cash and cash equivalents, and restricted cash

Cash and cash equivalents at the balance sheet date represent funds on deposit with regulated Canadian financial institutions. It includes 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. Please see Note 3 of the unaudited condensed consolidated interim financial statements.

The Company's primary sources of cash are the premiums received on the sale of mortgages, deposits, the net servicing revenue and excess spread received on mortgages that have been sold, and, to a lesser extent, securitizations.

Bank Facilities

The Company previously had additional liquidity in the form of a credit facility with a syndicate of Schedule I Canadian banks. This totaled $165.00 million and was allocated between mortgage funding and an operating line. The Company had not drawn on the facility since the first quarter of 2017, and following the facility's expiry on March 22, 2018 the Company chose not to renew it as its short-term business plans do not require the facilities.

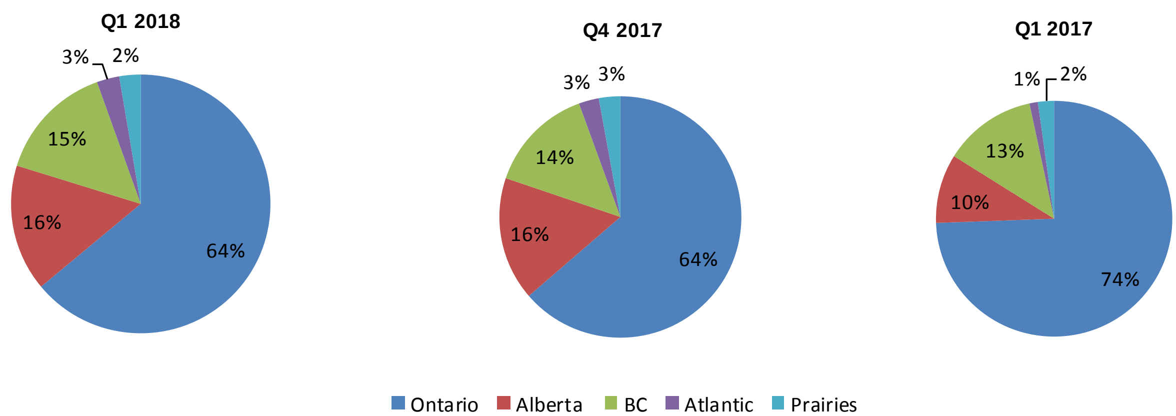
MORTGAGES UNDER ADMINISTRATION

Mortgages under administration declined to $27.83 billion at March 31, 2018 compared to $28.02 billion at December 31, 2017 due to a small net run-off as lower new origination were exceeded by discharges, including mid-term liquidations. Overall originations and discharges were approximately equal for the period from March 31, 2017 to March 31, 2018.

Geographic Distribution – Prime Mortgages

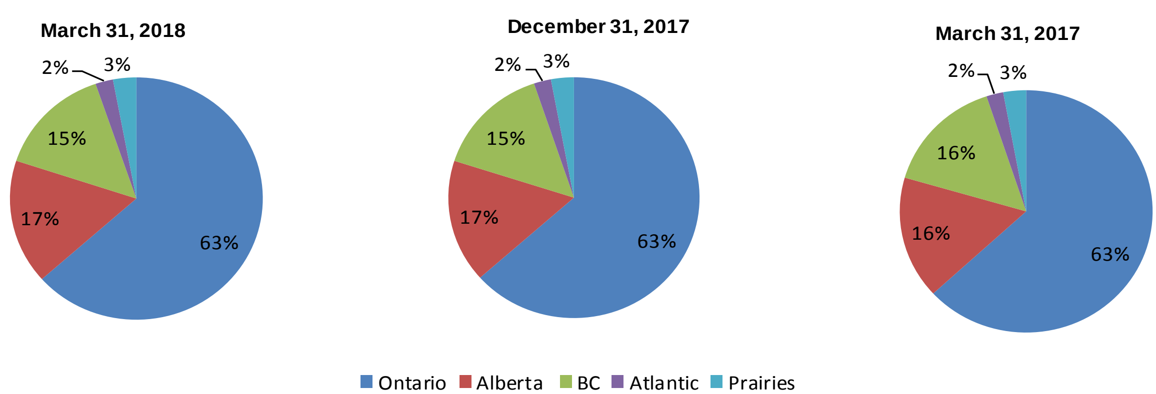
The charts below show the geographic distribution of prime mortgage originations and MUA.

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



The distribution of prime mortgage originations among provinces remained virtually identical in Q4 2017 and Q1 2018. The decline in relative originations in Ontario compared to Q1 2017 was observed throughout 2017. As discussed in prior reports, during 2017 the prime insurable market decreased. At the same time, activity in the prime uninsurable mortgage space increased ahead of expected regulatory changes, but the Company was unable to participate in that market. The relative effects of both of these factors were more pronounced in Ontario, given the size of the market and its comparatively higher housing prices.

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



As noted in prior quarters, given the volume of the Company's prime MUA, and the relatively static demographic and economic trends within the country, the relative distribution of prime MUA is essentially the same for all periods shown above. This reflects both the relative population density in urban centers of Ontario, and higher average housing prices there compared to most of Canada.

Shown below is the contractual maturity profile of the Company's prime MUA at March 31, 2018.

Table 7 – Prime MUA Maturity Table

(in billions of $)	2018	2019	2020	2021	2022	2023 and beyond	Total
	$	$	$	$	$	$	$
MUA maturities	2.84	4.50	5.82	7.07	6.07	1.14	**27.44**

ON BALANCE SHEET LENDING ASSETS

Street Solutions Uninsured Mortgages

The Company launched its uninsured lending product, Street Solutions, in Q2 2017, with the portfolio growing to $294.5 million in mortgages outstanding at March 31. Street Solutions mortgages are the largest component of the Bank's uninsured lending, and are funded from the Bank's GIC deposit base. The mortgages are originated through the Bank's broker channel, with the target market consisting of credit-worthy, but under-served, borrowers who may not qualify for a prime insurable residential mortgage in the current lending environment. These mortgages are expected to grow into a significant and long-term component of the Bank's revenue-generating assets.

Geographic Distribution

As noted previously, the geographic distribution of outstanding Street Solutions mortgages differs from that of the Company's prime insured mortgages. At March 31, 2018 approximately 89% was concentrated in Ontario compared with 10% in British Columbia and just 1% in Alberta. This reflects the Company's choice to initially focus the product on these areas of the country, which have larger urban centers and correspondingly larger populations, along with strong employment trends and liquid housing markets. As the Street Solutions lending portfolio grows, management expects that it will continue to be concentrated in larger urban centers.

The table below highlights the growth in the Street Solutions portfolio during Q1 2018, as compared to 2017 overall.

Table 8 – Street Solutions mortgage principal continuity schedule

(in thousands of $)	For the quarter ended March 31, 2018	For the year ended December 31, 2017
Balance - beginning of period	**$ 201,425**	$ -
Originations	**98,285**	203,716
Discharges	**(3,297)**	(1,511)
Repayments	**(975)**	(780)
Balance - end of period	**$ 295,438**	$ 201,425

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

Table 9 – Single-family Residential Loans by Province

(in thousands of $, except %)	Insured Residential Mortgages	Percentage of Total by Province	Uninsured Residential Mortgages	Percentage of Total by Province	Total
					As at March 31, 2018
British Columbia	**$ 18,264**	**39.0%**	**$ 28,596**	**61.0%**	**$ 46,860**
Alberta	**22,854**	**83.1%**	**4,648**	**16.9%**	**27,502**
Prairies	**2,785**	**100.0%**	**-**	**-**	**2,785**
Ontario	**173,041**	**39.5%**	**265,415**	**60.5%**	**438,456**
Atlantic	**2,772**	**92.0%**	**239**	**8.0%**	**3,011**
	$ 219,716	**42.4%**	**$ 298,898**	**57.6%**	**$ 518,614**

(in thousands of $, except %)	Insured Residential Mortgages	Percentage of Total by Province	Uninsured Residential Mortgages	Percentage of Total by Province	Total
					As at December 31, 2017
British Columbia	$ 18,848	49.6%	$ 19,143	50.4%	$ 37,991
Alberta	23,644	91.7%	2,153	8.3%	25,797
Prairies	3,222	100.0%	-	-	3,222
Ontario	179,394	49.4%	184,086	50.6%	363,480
Atlantic	2,781	92.1%	239	7.9%	3,020
	$ 227,889	52.6%	$ 205,621	47.4%	$ 433,510

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

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
					As at March 31, 2018
Balance outstanding	**$ 10,517**	**$ 178,288**	**$ 329,204**	**$ 605**	**$ 518,614**
Percentage of total	**2.0%**	**34.4%**	**63.5%**	**0.1%**	**100.0%**

(in thousands of $, except %)	≤ 20 years	> 20 and ≤ 25 years	> 25 and ≤ 30 years	> 30 and ≤ 35 years	Total
					As at December 31, 2017
Balance outstanding	$ 1,427	$ 181,668	$ 248,824	$ 1,591	$ 433,510
Percentage of total	0.3%	41.9%	57.4%	0.4%	100.0%

The table below shows the weighted average loan to value ("LTV") ratios for all uninsured mortgages originated during Q4 2017 and Q1 2018, including Street Solutions mortgages.

Table 11 – Weighted Average LTV Ratios – Uninsured Single-Family Residential Mortgages Originated Q4 2017 and Q1 2018

	For the three months ended March 31, 2018					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	**$ 9,674**	**75.4%**	**$ -**	**N/A**	**$ 9,674**	**75.4%**
Ontario	**86,086**	**72.5%**	**-**	**N/A**	**86,086**	**72.5%**
Alberta	**2,525**	**76.3%**	**-**	**N/A**	**2,525**	**76.3%**
	$ 98,285	**72.9%**	**$ -**	**N/A**	**$ 98,285**	**72.9%**

	For the three months ended December 31, 2017					
	(Held on balance sheet)		(Originated and sold)		(Total originated)	
(in thousands of $, except %)	Volume	LTV	Volume	LTV	Volume	LTV
British Columbia	$ 10,480	72.3%	$ -	N/A	$ 10,480	72.3%
Ontario	50,523	69.6%	-	N/A	50,523	69.6%
Alberta	1,113	74.1%	-	N/A	1,113	74.1%
	$ 62,116	70.1%	$ -	N/A	$ 62,116	70.1%

Other non-securitized and securitized mortgage loans

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

Between 2014 and 2016 the Company securitized and sold prime insured mortgage loans through the NHA MBS program, and it may engage in similar transactions in the future.

DEFERRED PLACEMENT FEES RECEIVABLE AND PREPAID PORTFOLIO INSURANCE

When mortgages are sold on a fully serviced basis the Company 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 over a pool of mortgages, and is amortized into income over a maximum period of 15 years, using a declining balance method.

Both Deferred placement fees receivable and Prepaid portfolio insurance decreased from December 31, 2017 due to the fact that net MUA declined during Q1 2018, and therefore amortization exceeded increases from originations. They increased slightly from March 31, 2017 due to an overall increase in MUA since that date. Please see Note 4 of the unaudited condensed consolidated interim financial statements.

DEPOSITS

The Company offers CDIC insurance-eligible GIC deposits, sourced through third party deposit agents. At March 31, 2018 deposits totaled $382.5 million, net of deferred commissions (December 31, 2017 - $293.0 million), with terms ranging from 1 to 5 years, at interest rates between 0.80% and 3.25% (December 31, 2017 - 0.80% to 3.09%). As noted above under *Street Solutions Uninsured Loans*, the deposits are the primary source of funding for the Company's Street Solutions uninsured lending program. The table below shows the original term structure of the principal amount of the Company's deposits. Please see Note 9 of the unaudited condensed consolidated interim financial statements for a schedule of the remaining term to maturity.

Table 12 – Term Structure of Deposits

							As at March 31, 2018
Contractual term	**Cashable ***	**1 Year**	**2 Year**	**3 Year**	**4 Year**	**5 Year**	**Total**
Deposit principal	**$ 3,369**	**$ 135,656**	**$ 113,969**	**$ 53,349**	**$ 14,958**	**$ 62,667**	**$ 383,968**
% of principal	**1%**	**35%**	**30%**	**14%**	**4%**	**16%**	**100%**

							As at December 31, 2017
Contractual term	Cashable *	1 Year	2 Year	3 Year	4 Year	5 Year	Total
Deposit principal	$ 3,924	$ 90,213	$ 89,622	$ 45,549	$ 13,962	$ 50,949	$ 294,219
% of principal	1%	31%	30%	16%	5%	17%	100%

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

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 Company's deposits; and liabilities associated with the Company's discontinued real estate operations. The net decrease of $26.7 million since December 31, 2017 is primarily due to a $24.2 million decrease in payments related to mortgage servicing and mortgages acquisitions and a $2.9 million decrease in accrued compensation that reflects the payment of employee bonuses accrued for 2017. Please see Note 13 of the unaudited condensed consolidated interim financial statements.

SHAREHOLDERS' EQUITY AND UPDATED SHARE INFORMATION

As shown on the Q1 2018 interim statement of changes in equity, reported in the unaudited condensed consolidated interim financial statements, upon adoption of *IFRS 9 – Financial Instruments* on January 1, 2018, the Company recorded a $0.05 million negative adjustment to retained earnings. This was associated with an increase in the Company's allowance for credit losses. Please see Note 2 of the unaudited condensed consolidated interim financial statements for discussion regarding the adoption of IFRS 9, which was not material with respect to the Company's operations or financial position.

During Q1 2018, shareholders' equity was reduced by the Company's $1.4 million comprehensive loss. This was partially offset by a $0.3 million increase to contributed surplus relating to the amortization of stock-based compensation. The Company awarded 2.4 million options during Q1 2018. There were no options exercised during the quarter. As previously reported, during 2017 the Company had a normal course issuer bid in place, which expired on March 22, 2018 and was not renewed. There were no share repurchases under the normal course issuer bid during Q1 2018.

At May 11, 2018, the Company had 122,184,182 common shares issued and outstanding. In addition, there were 8,872,497 unexercised stock options, which are, or will be, exercisable to purchase common shares for maximum proceeds of $10.4 million.

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 March 31, 2018 the Company had $97.5 million of outstanding commitments for advances on mortgage loans (December 31, 2017 - $35.9 million). These amounts are for mortgages the Company 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 Company 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 Company's liquidity management practices.

The Company has $27.31 billion in loans under administration that are not included on the Company'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's directors and officers, and other employees having authority and responsibility for planning, directing and controlling the Company's activities; and
- entities controlled by key management personnel.

The Company has few related party transactions, which are described in more detail in Note 19 to the unaudited condensed consolidated interim financial statements. At December 31, 2017 these consisted of shareholder loans to certain key employees and former employees, which have remained unchanged at March 31, 2018.

During Q1 2018, the Chair of the Company's Board of Directors purchased two artworks from the Company, at prices determined by a combination of art dealer valuations and bids by unrelated potential purchasers. The Company recognized a loss of $0.36 million on the sales, which was reported as a component of Other income (expense).

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

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 the capital requirements of its regulator, Street Capital Bank must continually monitor and assess its capital adequacy. Capital adequacy is in part affected by changes in the Company's financial performance, its business plans, or regulatory requirements that could lead to a requirement for the Company to implement strategies to improve capital adequacy.

Regulatory capital

Effective with the commencement of banking operations on February 1, 2017, Street Capital Bank is required to calculate capital ratios and regulatory capital based on the capital adequacy requirements issued by 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.

Street Capital 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. At March 31, 2018, Street Capital Bank's Leverage Ratio was 12.67%, and Street Capital Bank was fully compliant with its regulatory requirements.

Table 13 – Basel III Regulatory Capital (based only on the consolidated subsidiary, Street Capital Bank)

(000s, except %)	March 31, 2018	December 31, 2017	March 31, 2017
	All-In Basis	All-In Basis	All-In Basis
Common Equity Tier 1 capital (CET 1)			
Capital stock	**$ 16,426**	$ 16,426	$ 16,426
Contributed surplus	**1,060**	767	-
Retained earnings	**81,416**	82,726	77,317
Less: Regulatory adjustments to CET 1	**(1,340)**	(1,340)	(1,494)
Total CET 1 capital	**$ 97,562**	$ 98,579	$ 92,249
Additional Tier 1 capital	**-**	-	-
Total Tier 1 capital	**$ 97,562**	$ 98,579	$ 92,249
Total Tier 2 capital	**-**	-	-
Total regulatory capital	**$ 97,562**	$ 98,579	$ 92,249
Total risk-weighted assets	**$ 409,705**	$ 388,187	$ 286,132
Regulated capital to risk-weighted assets			
CET 1 ratio	**23.81%**	25.39%	32.24%
Tier 1 capital ratio	**23.81%**	25.39%	32.24%
Total regulatory capital ratio	**23.81%**	25.39%	32.24%
Leverage ratio	**12.67%**	13.76%	20.86%
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 well 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 lending through the Street Solutions product. The Bank expects that its capital ratios will continue to decline to target capital ratios as it continues to increase the assets on its balance sheet.

Internal Capital Adequacy Assessment Process

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. Based on management's assessment of the adequacy of the Bank's capital, the Bank is currently adequately capitalized to continue operations and execute on its 2018 business plan. However, any changes to its financial performance, its business plans, or regulatory requirements, could lead to a requirement for the Company to implement strategies to improve capital adequacy.

Normal Course Issuer Bid

The Company, with the approval of the Toronto Stock Exchange (the "Exchange") commenced a normal course issuer bid (the "NCIB") that became effective on March 23, 2016. Under the NCIB, the Company could purchase for cancellation up to 2% of its common shares outstanding, on the open market through the facilities of the Exchange and otherwise in accordance with the rules and policies of the Exchange. The original NCIB expired on March 22, 2017 and was subsequently renewed; the renewed NCIB was not renewed when it expired on March 22, 2018.

Dividends

There were no dividends declared or paid during 2017 or YTD 2018. At this time the Company's best use of capital is reinvestment into the operations and growth of Street Capital Bank.

While there is no restriction on the Company's ability to declare dividends, Street Capital 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 Company'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. In particular, through Street Capital Bank, the Company 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 Company's control. Exposure to these risks could adversely affect the Company'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 Company makes decisions with reference to its risk appetite framework. This process defines the Company's risk capacity and sets out which risks it will accept, which risks it mitigates, and which risks it will avoid. Both the framework and the principal risks to which the Company is exposed are set out below.

The Company's most significant risks, with respect to its business activities, are credit risk, liquidity and funding risk, and market risk. A detailed discussion of these and the other risks that affect the Company can be found in the Management's Discussion and Analysis section of the Company's 2017 Annual Report, under the section *Risk Management and Risk Factors*.

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, Street Capital Bank, the Company's credit risk has been 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 Company'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 Company are sold to institutional investors and are insured or insurable against default with Canada Mortgage and Housing Corporation ("CMHC") and other government backed private insurers. This makes the residual credit risk to the Company immaterial overall. 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 Company 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 Company 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 Company's serious arrears rate of 0.10% on its prime mortgages, at March 31, 2018, reflects the Company's due diligence and strong quality assurance processes. The Company plans to continue selling insured mortgages to institutional investors, and it will continue to apply these same rigorous policies and procedures. However, as the Company's portfolio of prime insured loans seasons and becomes more weighted toward high-ratio insured loans, the Company's serious arrears rate may increase over time as these loans typically experience higher delinquency rates compared to conventional insured mortgages.

In 2017 Street Capital 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 above in Tables 9, 10 and 11. In order to mitigate the credit risk associated with these products, the Company has established appropriate credit policies and underwriting requirements, and has ensured their consistent application. These policies have been developed, and will be 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 Company also mitigates its risk by targeting the market segment that consists of credit-worthy quality borrowers who may not qualify for a prime insurable residential mortgage under current regulations, and by limiting its lending areas primarily to urban locations.

In Q3 2017, Street Capital 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 Company enters into third party arrangements to manage its seller swaps, thereby mitigating its interest rate risk. As a result, the Company transfers control over the mortgage loans, and they are recognized on the Company's balance sheet only to the extent of the Company's continuing involvement in the mortgages. This is limited to a retained interest and the obligations and rights associated with servicing the mortgages, and the Company does not retain any significant risks and rewards associated with the mortgages. The Company 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 Company should be recoverable through an insurance claim.

Expected credit losses

Effective January 1, 2018, the Company adopted *IFRS 9 – Financial Instruments*, which is discussed in more detail in Note 2 of the Company's unaudited condensed consolidated interim financial statements. IFRS 9 bases the accounting for mortgage and other loan loss impairments on a forward-looking expected credit loss ("ECL") model, rather than the incurred loss approach that was applied under the previous accounting standard, IAS 39. The determination of the 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. This is recorded by the movement of financial instruments among three "stages", as described in Note 2, referenced above.

The identification and assessment of significant increases in credit risk involve significant management judgment. The assessment is made at least quarterly, and incorporates the following factors:

- increases in lifetime PD, compared to PD at initial recognition, measured on an absolute and/or percentage basis;
- qualitative reviews of internally generated credit risk data, to ensure all instruments are appropriately assigned to Stage 1, 2 or 3; and
- identification of all instruments that are 30 days past due, which are migrated to Stage 2 regardless of management's assessment of other credit risk factors.

The adoption of IFRS 9 has changed the way the Company defines impairment. Under IFRS 9, all loans that are contractually 90 days in arrears are classified as impaired and in Stage 3. Under IAS 39, the evaluation of impairment was generally the same, except that government-sponsored insured mortgages were not considered impaired until they were 365 days past due.

Due to the forward-looking nature of the ECL determined under IFRS 9, it is possible that the Company's provisions could be both larger, and more volatile, than under IAS 39. However, at this point the Company's ECL is not material with respect to either its operations or its financial position, as shown below.

Table 14 – Impact of IFRS 9 Adoption on the Company's provision for credits losses

Upon adoption of IFRS 9, the Company was required to book an adjustment to increase its ECL, as shown below.

	Allowance per IAS 39 at December 31, 2017				ECL per IFRS 9 at January 1, 2018			
	Collective Allowance	Individual Allowance	Total Allowance	Transition Adjustments	Stage 1	Stage 2	Stage 3	Total
Uninsured loans	216	75	291	53	269	-	75	344
Insured loans	-	-	-	-	-	-	-	-
	$ 216	$ 75	$ 291	$ 53	$ 269	$ -	$ 75	$ 344

The Company's ECL on uninsured mortgages at March 31, 2018, as determined under IFRS 9, is as shown below:

Table 15 – Provisions and allowances for credit losses

	Three months ended March 31, 2018			
	Stage 1 (Collective)	Stage 2 (Collective)	Stage 3 (Individual)	Total (under IFRS 9)
Uninsured mortgages and loans				
ECL allowance, beginning of period	$ 269	$ -	$ 75	$ 344
Net originations	61	-	-	61
Transfers in (out) to Stage 1	-	-	-	-
Transfers in (out) to Stage 2	-	-	-	-
Transfers in (out) to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculation	-	-	-	-
Write-offs	-	-	-	-
Recoveries	-	-	(75)	(75)
ECL allowance, end of period, uninsured mortgages	$ 330	$ -	$ -	$ 330

At December 31, 2017, the $0.07 million individual allowance shown above related to a bridge loan that was identified as impaired. The loan was repaid in full in Q1 2018. At March 31, 2018 the Bank had not recorded any write-offs in the Street Solutions portfolio, nor had it identified any loans as impaired, and 100% of Street Solutions mortgages were current. The Company 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 March 31, 2018, there are no expected credit losses on the Company's securitized mortgage assets as the mortgages are insured against default. No securitized mortgages were impaired at March 31, 2018.

As the Bank launches other financial products, the Company 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 as all counterparties are Schedule I Canadian banks with high credit ratings assigned by international rating agencies. The Company purchases highly liquid investments in the form of Government of Canada Treasury Bills ("Treasury Bills") and bankers' acceptances. The Company uses these investments 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 have not increased the Company's credit risk.

The Company has credit risk associated with specific loans receivable that are related to its discontinued real estate, asset liquidation and case goods businesses. The carrying value of these loans at March 31, 2018 was $0.3 million (December 31, 2017 - $0.5 million).

The maximum credit exposures of the financial assets are their carrying values as reflected on the unaudited condensed consolidated interim statements of financial position. The Company's uninsured mortgages that are held on-balance sheet are concentrated in the province of Ontario. Aside from this, the Company does not have any significant concentrations of credit risk within any geographic region or group of customers.

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 loan sales, securitization, lending and deposits, investing, and other business activities. As Street Capital 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 Company 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 a) are sufficient to meet all cash outflows, in both ordinary and stressed conditions, and b) are 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 Company'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 the cash premiums received from the sale of mortgages to investors, deposits, cash received from the Company's share of servicing fees and excess spread, and, to a lesser extent, securitizations. As described above, Street Capital 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 mortgage commitments is limited, as most investors commit to funding at the time of mortgage commitment.

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 Company'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. The Company's access to deposits depends upon a number of factors including general economic conditions, interest rates offered by competing lenders, and the securities markets in general. The Company's deposits have initially been 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 to deposit dealer-imposed concentration limit restrictions from time to time. Over time, the Company anticipates diversifying its deposit taking activities with additional deposit products and by offering direct-to-consumer products.

The Company holds liquid assets primarily in the form of cash in bank deposits, and, beginning Q2 2017, as Treasury Bills and bankers' acceptances. At March 31, 2018, the Company had $80.9 million in cash and cash equivalents on deposit with Schedule I Canadian banks (December 31, 2017 - $89.4 million), and no Treasury Bills and bankers' acceptances.

As an approved NHA MBS issuer, the Bank can also access the NHA MBS market to fund insured mortgages. The Company'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 Company's ability to originate mortgages, which could negatively impact future financial results.

At March 31, 2018 the Bank held $5.2 million (December 31, 2017 - $5.3 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 Street Capital Bank are shown in the table below.

Table 16 – Liquid assets (based only on the consolidated subsidiary, Street Capital Bank)

	As at	
(in thousands of $)	**March 31, 2018**	**December 31, 2017**
Deposits with regulated financial institutions	**$ 78,746**	$ 87,070
Stamped mortgages	**5,239**	5,270
Balance - end of period	**$ 83,985**	$ 92,340

The Company periodically receives cash related to its Private Equity business, in connection with the disposition of portfolio investments. There were no receipts in Q1 2018, and future receipts are not expected to be material, as the value of the Company's investment was $0.33 million at March 31, 2018.

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. Street Capital 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 techniques. 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 its assets and liabilities could have unmatched terms and/or interest rates. Generally, the Company is not exposed to material levels of interest rate risk arising from prime insurable mortgage commitments, because the purchase price for mortgages sold to investors is normally based on customer commitment rates rather than the funded rate, thereby passing on the interest rate risk to the investors. Interest rate risk also may arise if committed and allocated loans no longer qualify at funding based on individual investor criteria, and are either funded by the Company directly or sold to another investor where the loan does qualify under the specific investor's criteria. In a rate-rising environment, interest rate risk increases. Where the Company securitizes prime insured mortgages directly, or sells these loans on a whole loan basis after funding, it is exposed to interest rate risk arising from mortgage commitments issued, and from the point of loan funding to the pooling of the loan for securitization. The level of risk has historically been low overall given low relative volumes.

The table below details the results, for Street Capital Bank, of sensitivity modelling interest rate increases and decreases during the 12 month period beginning on March 31, 2018. The model is based on a number of assumptions, and actual results could vary from these assumptions should an actual rate change occur.

Table 17 – Net interest income shock (based only on the consolidated subsidiary, Street Capital Bank)

	As at March 31, 2018	
(000s, except %)	**Increase in interest rates**	**Decrease in interest rates**
100 basis point shift		
Impact on net interest income	$ 1,423	$ (1,423)
Impact on EVE	3,780	(4,609)
EVE as a % of shareholders' equity	2.55%	(3.11%)
200 basis point shift		
Impact on net interest income	$ 2,846	$ (2,846)
Impact on EVE	7,366	(9,477)
EVE as a % of shareholders' equity	4.96%	(6.39%)

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 March 31, 2018, 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 March 31, 2018 position of the Company's wholly owned subsidiary, Street Capital Bank of Canada, with regard to the interest rate sensitivity of its assets, liabilities and equity. The information presented is based on the contractual maturity date.

	March 31, 2018						
	Floating Rate	**0 to 3 Months**	**4 Months to 1 Year**	**Total Within 1 Year**	**1 Year to 5 Years**	**Non Rate Sensitive**	**Total [1]**
Assets							
Cash and restricted cash	$ -	$ 91,307	$ -	$ 91,307	$ -	$ -	$ 91,307
Weighted Average Contractual Rate	-	1.25%	-	1.25%	-	-	1.25%
Non-securitized mortgages - Street Solutions	-	5,711	255,986	261,697	33,741	(985)	294,453
Weighted Average Contractual Rate	-	5.16%	4.83%	4.84%	5.10%	-	4.89%
Non-securitized mortgages - stamped mortgages	-	-	-	-	5,239	-	5,239
Weighted Average Contractual Rate	-	-	-	-	2.55%	-	2.55%
Non-securitized mortgages - other	1,669	178	686	2,533	5,460	85	8,078
Weighted Average Contractual Rate	3.11%	3.19%	3.65%	3.26%	2.92%	-	3.00%
Bridge loans	2,143	-	-	2,143	-	-	2,143
Weighted Average Contractual Rate	8.45%	-	-	8.45%	-	-	8.45%
Securitized mortgages held on-balance sheet	73,554	-	22,378	95,932	113,398	1,514	210,844
Weighted Average Contractual Rate	2.96%	0.00%	3.30%	3.04%	2.59%	-	2.78%
Other assets	-	-	-	-	-	156,919	156,919
Weighted Average Contractual Rate				-		-	-
Total assets	$ 77,366	$ 97,196	$ 279,050	$ 453,612	$ 157,838	$ 157,533	$ 768,983
Weighted Average Contractual Rate	3.12%	1.48%	4.71%	3.74%	3.14%	-	2.85%
Liabilities							
Cashable GICs [2]	$ -	$ 3,366	$ -	$ 3,366	$ -	$ -	$ 3,366
Weighted Average Contractual Rate	-	1.12%	-	1.12%	-	-	1.12%
Non-cashable GICs	-	15,265	144,560	159,825	220,774	(1,476)	379,123
Weighted Average Contractual Rate	-	2.06%	2.17%	2.16%	2.49%	-	2.36%
Securitization liabilities	73,770	-	18,426	92,196	119,822	(513)	211,505
Weighted Average Contractual Rate	2.00%	-	2.62%	2.12%	1.76%	-	1.92%
Other liabilities	-	-	-	-	-	76,087	76,087
Weighted Average Contractual Rate	-	-	-	-	-	-	-
Shareholders' equity	-	-	-	-	-	98,902	98,902
Weighted Average Contractual Rate	-	-	-	-	-	-	-
Total liabilities and shareholders' equity	$ 73,770	$ 18,631	$ 162,986	$ 255,387	$ 340,596	$ 173,000	$ 768,983
Weighted Average Contractual Rate	2.00%	1.89%	2.22%	2.13%	2.23%	-	1.70%
Excess (deficiency) of assets over liabilities and shareholders' equity	$ 3,596	$ 78,565	$ 116,064	$ 198,225	$ (182,758)	$ (15,467)	$ -

[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.

The Company's investment risk has historically been linked to its portfolio investments, as the Company was not a deposit taking institution prior to Street Capital Bank beginning operations as a Schedule I bank. At March 31, 2018 the Company has not begun more complex investing operations, although it expects to do so as its deposit taking and uninsured lending operations expand.

The portfolio investments are carried at fair value, and at March 31, 2018 had a fair value of $1.2 million, of which $0.9 million is attributable to the Company's non-controlling interest (December 31, 2017 - $0.9 million and $0.6 million, respectively). At March 31, 2018, the Company retained an interest in only one investment, in the form of publicly traded shares in a US company. The Company's primary risk with respect to this investment is that its valuation fluctuates with both the price of its stock, and the relative strength of the Canadian and US dollars. There is therefore potential for a decline in value prior to exiting the investment.

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 Company is exposed to an inherently high level of fraud risk through the mortgage origination and underwriting processes. The Company has quality control and fraud management practices in place to mitigate these risks. As mortgage underwriting and mortgage insurance qualification requirements become more stringent (either as a result of changes in regulatory requirements, as seen through recent updates from the Department of Finance in October 2016 and most recently from OSFI in October 2017 in respect of updates to Guideline B-20, or through changes in general industry practice), the inherent risk of mortgage fraud can increase. This is particularly the case when income qualification rules are tightened. Further, the Company's mortgage sale agreements generally require the Company 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 Company 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. Significant breaches of mortgage sale agreements may also discourage mortgage purchasers from doing business with the Company, which could have a negative impact on its ability to sell mortgages and could have a material adverse effect on its business, financial condition and results of operations. As well, the Company'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 Company chooses to cease doing business with any particular broker or brokers as a result of identifying mortgage fraud, it could have a material adverse effect on the Company's financial results. The Company is aware of the inherently high level of mortgage fraud risk in the mortgage industry and the associated impact of the above risks to its business model, and believes its current practices 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.

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.

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: amount of allowance for credit losses; valuation of mortgages and other loans receivable (including estimates such as duration factors on deferred placement fees receivable); the amount of variable mortgage broker compensation; the amount of trailer commission on certain products that will be paid in future periods; the useful life and residual value of certain assets including prepaid portfolio insurance, retained interest on CMB securitizations and intangible assets and goodwill; valuation of portfolio investments; and accounting for deferred income taxes.

This MD&A should be read in conjunction with the Company's 2017 audited consolidated financial statements and the notes thereto. The significant accounting policies and critical accounting estimates are described in Note 3 of the 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. These accounting policies include the policies that relate to the commencement of Street Capital Bank's banking operations.

Future changes in accounting standards that may have an impact on the Company's financial position and results of operations are discussed in Note 3 to the 2017 audited consolidated financial statements.

The Company adopted *IFRS 9 – Financial Instruments* effective January 1, 2018. Please see the discussion above under *Credit Risk Management*, and a more detailed discussion in Note 2 of the unaudited condensed consolidated interim financial statements. There were no other changes to accounting policies during Q1 2018.

COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

Certain items in the comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2018 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 March 31, 2018 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' net income and adjusted diluted shareholders' earnings 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, and ii) 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

(in thousands of $, except per share data)	**For the three months ended**		
	March 31, 2018	**December 31, 2017**	**March 31, 2017**
Net income (loss)	**$ (1,365)**	$ 1,239	$ (2,574)
Fair value adjustments (net of non-controlling interest)	**(153)**	87	(103)
Private equity management expense (net of tax)	**37**	54	101
Restructuring expense (recovery) (net of tax)	**-**	164	2,647
Discontinued operations (net of tax)	**-**	-	(2)
Adjusted net income (loss)	**$ (1,481)**	$ 1,544	$ 69
Shareholders' diluted earnings (loss) per share	**$ (0.01)**	$ 0.01	$ (0.02)
Adjusted shareholders' diluted earnings (loss) per share	**$ (0.01)**	$ 0.01	$ 0.00

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 $)	**As at**		
	March 31, 2018	**December 31, 2017**	**March 31, 2017**
Shareholders' equity	**$ 137,056**	$ 138,162	$ 131,998
Deduct: goodwill from purchase of Street Capital Bank	**(23,465)**	(23,465)	(23,465)
Deduct: intangible assets from purchase of Street Capital Bank	**(3,497)**	(3,621)	(3,991)
Shareholders' tangible equity	**$ 110,094**	$ 111,076	$ 104,542

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.

	For the three months ended		
(in thousands of $)	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Net income (loss)	**$ (1,365)**	$ 1,239	$ (2,574)
Add back: amortization of intangible assets	**124**	123	123
Net income (loss) for return on shareholders' tangible equity	**$ (1,241)**	$ 1,362	$ (2,451)
ROTE	**(4.5%)**	4.9%	(9.3%)

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.

	For the three months ended		
(in thousands of $)	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Net adjusted income (loss)	**$ (1,481)**	$ 1,544	$ 69
Add back: amortization of intangible assets	**124**	123	123
Adjusted net income (loss) for return on shareholders' tangible equity	**$ (1,357)**	$ 1,667	$ 192
Adjusted ROTE	**(4.9%)**	6.1%	0.7%

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, less iii) restructuring expenses, plus iv) restructuring recoveries.

	For the three months ended		
(in thousands of $)	**March 31, 2018**	**December 31, 2017**	**March 31, 2017**
Expenses			
Salaries and benefits	**$ 7,952**	$ 6,843	$ 6,792
Selling, general and administrative expenses	**5,405**	5,380	4,769
Restructuring expense (recovery)	**-**	223	3,600
Total expenses	**13,357**	12,446	15,161
Deduct: restructuring expense	**-**	(223)	(3,600)
Add: restructuring recovery	**-**	-	-
Adjusted operating expenses	**$ 13,357**	$ 12,223	$ 11,561

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

Allowance for credit losses
An allowance for credit losses is a deduction from mortgages and loans receivable at a given balance sheet date. It represents management's best estimate of the amount of impaired loans that will ultimately be deemed uncollectible. It is increased by provisions for credit losses (see below) and decreased when individual loans are written off.

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 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. Upon adoption of IFRS 9, the Company 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.

Provision for credit losses

A provision for credit losses is a charge to income that represents management’s best estimate of the amount required to fully provide for impaired loans that will ultimately be deemed uncollectible.

Securitization

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