Audited Consolidated Financial Statements
December 31, 2015

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Management's Responsibility for Financial Information

The consolidated financial statements and Management's Discussion and Analysis ("MD&A") of Street Capital Group Inc. (the "Company") are prepared by management. Management is responsible for the integrity and fairness of the information presented. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises, which are International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2015. The consolidated financial statements reflect amounts which must, of necessity, be based on management's best judgments and estimates, with appropriate consideration regarding materiality. The financial information presented elsewhere in this report is consistent with the information in the consolidated financial statements. The MD&A has been prepared in accordance with the requirements of securities regulators.

Management is responsible for the fairness and integrity of the consolidated financial statements and other financial information, and for the implementation of supporting accounting systems. Management therefore maintains and monitors a system of internal controls. These controls are designed to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that the financial records are accurate and complete. Management also administers a program of ethical business conduct, whose controls include quality standards in hiring and training employees, written policies and procedures, authorization limits for managers, appropriate management information systems, and a corporate code of conduct. As at December 31, 2015, the Company's Chief Executive Officer and Chief Financial Officer have determined that the Company's internal control over financial reporting is effective.

Ernst & Young LLP has been appointed as external auditors by the shareholders to perform an annual audit of the Company's consolidated financial statements. Their report follows.

The Company's Board of Directors is responsible for reviewing and approving the consolidated financial statements and MD&A. Its Audit Committee is responsible for oversight of management's preparation and presentation of the consolidated financial statements, management's maintenance of internal controls, and management's assessment of significant transactions and related party transactions. The Audit Committee is also responsible for selecting the external auditors. The Audit Committee is composed solely of Independent Directors.

W.E. Gettings
Chief Executive Officer

Marissa Lauder, CPA, CA
Chief Financial Officer

Toronto, Canada
March 8, 2016

Independent Auditors’ Report

To the Shareholders of Street Capital Group Inc.

We have audited the accompanying consolidated financial statements of Street Capital Group Inc. (“Street”), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of operations and comprehensive income, changes in shareholders’ equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

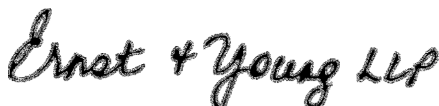
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Street as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants
Licensed Public Accountants

Toronto Canada
March 8, 2016

STREET CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015 and 2014
(In thousands of Canadian dollars)

	Notes	December 31, 2015	December 31, 2014 (reclassified) (Note 28)	January 1, 2014 (reclassified) (Note 28)
		$	$	$
Assets				
Cash and cash equivalents	4	**8,846**	23,022	4,866
Restricted cash	4	**13,078**	13,130	12,714
Non-securitized mortgage loans	6	**16,741**	4,285	3,618
Securitized mortgage loans	7	**167,762**	50,318	-
Deferred placement fees receivable	8	**46,442**	38,749	29,000
Prepaid portfolio insurance	9	**66,672**	50,888	39,457
Portfolio investments	11	**13,506**	40,010	53,220
Deferred income tax assets	16	**14,135**	9,939	10,224
Other assets	12	**13,333**	17,994	13,033
Intangible assets	10	**5,399**	6,123	5,594
Goodwill	10	**23,465**	23,465	24,919
		389,379	277,923	196,645
Assets of discontinued operations	25	**1,338**	1,341	71,782
Total assets		**390,717**	279,264	268,427
Liabilities				
Bank facilities	13	**15,817**	9,773	-
Loans payable	14	**8,972**	9,134	20,728
Securitization liabilities	7	**167,380**	50,546	-
Accounts payable and accrued liabilities	15	**37,763**	45,964	29,471
Deferred income tax liabilities	16	**37,250**	26,219	19,573
Contingent consideration	5	**-**	4,908	8,570
		267,182	146,544	78,342
Liabilities of discontinued operations	25	**1,166**	1,167	20,868
Total liabilities		**268,348**	147,711	99,210
Shareholders' equity				
Capital stock	19	**242,178**	204,263	203,333
Contributed surplus		**61,800**	62,311	64,809
Retained earnings (deficit)		**(185,733)**	(155,698)	(152,035)
Total shareholders' equity		**118,245**	110,876	116,107
Non-controlling interest	11	**4,124**	20,677	53,110
Total equity		**122,369**	131,553	169,217
Total liabilities and equity		**390,717**	279,264	268,427
Commitments and contingencies	18			

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

On behalf of the Board:

W.E. Gettings
Chief Executive Officer

Lea Ray, CPA, ICD.D
Chair of Audit Committee

STREET CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Canadian dollars, except per share data)

	Notes	Year ended December 31, 2015	2014
		$	$
Revenue			
Gain on sale of mortgages	8	**164,796**	138,965
Acquistion costs		**(88,728)**	(82,481)
Net gain on sale of mortgages		**76,068**	56,484
Net interest and other income (expense)	17	**(1,052)**	5,788
Total revenue		**75,016**	62,272
Expenses			
Salaries and benefits		**28,147**	24,056
Selling, general and admininstrative expenses		**14,642**	13,736
Restructuring costs	2	**50,240**	-
Total expenses		**93,029**	37,792
Income (loss) before fair value adjustments		**(18,013)**	24,480
Fair value adjustments	11	**(11,892)**	26,983
Income (loss) before income taxes and discontinued operations		**(29,905)**	51,463
Income taxes	16	**6,835**	7,045
Income (loss) from continuing operations		**(36,740)**	44,418
Income (loss) from discontinued operations	25	**17**	(11,594)
Net income (loss)		**(36,723)**	32,824
Net income (loss) attributable to non-controlling interest	11	**(6,688)**	19,895
Net income (loss) attributable to shareholders		**(30,035)**	12,929
Basic and diluted net income (loss) per share			
Continuing operations	20	**(0.27)**	0.25
Discontinued operations		**0.00**	(0.12)
Basic and diluted net income (loss) per share		**(0.27)**	0.13
Weighted average number of common shares outstanding (in thousands) - basic and diluted		**111,005**	99,142

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

STREET CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Canadian dollars)

	Year ended December 31,	
	2015	2014
	$	$
Net income (loss)	**(36,723)**	32,824
Other comprehensive loss		
Reclassification of cumulative currency translation adjustment - continuing operations to income, net of tax	**-**	(440)
Reclassification of cumulative currency translation adjustment - discontinued operations to loss, net of tax	**-**	(2,028)
	-	(2,468)
Comprehensive income (loss)	**(36,723)**	30,356
Comprehensive income (loss) attributable to:		
Shareholders	**(30,035)**	10,407
Non-controlling interest	**(6,688)**	19,949
	(36,723)	30,356

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

STREET CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Canadian dollars)

	Attributable to shareholders of the Company						
	Share capital (Note 19)	Contributed surplus	Foreign currency translation	Retained earnings (deficit)	Total	Non-controlling interest	Total equity
	$	$	$	$	$	$	$
Balance - December 31, 2013	**203,333**	**62,417**	**2,392**	**(152,035)**	**116,107**	**53,110**	**169,217**
Exercise of stock options and deferred share units	549	(524)	-	-	25	-	25
Net reduction in non-controlling interest investment	-	-	54	-	54	(52,382)	(52,328)
Employee share purchase loan	381	-	-	-	381	-	381
Share-based compensation	-	418	-	-	418	-	418
Foreign currency translation adjustment	-	-	(2,446)	(76)	(2,522)	54	(2,468)
Dividends declared (in-kind)	-	-	-	(16,516)	(16,516)	-	(16,516)
Net income	-	-	-	12,929	12,929	19,895	32,824
Balance - December 31, 2014	**204,263**	**62,311**	**-**	**(155,698)**	**110,876**	**20,677**	**131,553**
Issuance of shares	**36,300**	**-**	**-**	**-**	**36,300**		**36,300**
Share issue costs	**(399)**				**(399)**		**(399)**
Exercise of stock options	**2,014**	**(860)**	**-**	**-**	**1,154**	**-**	**1,154**
Net reduction in non-controlling interest investment	**-**	**-**	**-**	**-**	**-**	**(9,865)**	**(9,865)**
Share-based compensation	**-**	**349**	**-**	**-**	**349**	**-**	**349**
Net loss	**-**	**-**	**-**	**(30,035)**	**(30,035)**	**(6,688)**	**(36,723)**
Balance - December 31, 2015	**242,178**	**61,800**	**-**	**(185,733)**	**118,245**	**4,124**	**122,369**

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

STREET CAPITAL GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands of Canadian dollars)

	Notes	2015	2014
		$	$
Operating activities			
Income (loss) from continuing operations		**(36,740)**	44,418
Non-cash items			
Deferred income taxes		**6,835**	7,045
Foreign exchange on loans payable		**538**	231
Share issuance - restructuring	2	**35,345**	-
Depreciation and amortization		**1,593**	1,297
Amortization of deferred financing and other costs		**-**	199
Gain on sale of business unit		**-**	(4,125)
Fair value adjustments		**12,130**	(26,979)
Share based compensation		**349**	418
Changes in operating assets and liabilities			
(Increase) decrease in restricted cash		**52**	(416)
Increase in securitized mortgage loans		**(117,444)**	(50,318)
Increase in non-securitized mortgage loans		**(12,456)**	(667)
Increase in deferred placement fees receivable		**(7,693)**	(9,755)
Increase in prepaid portfolio insurance		**(15,784)**	(11,431)
(Increase) decrease in other assets		**5,345**	(1,310)
Increase (decrease) in bank facilities		**6,044**	(2,052)
Increase in securitization liabilities		**116,834**	50,546
Increase in restructuring accruals	2	**11,145**	-
Increase (decrease) in private equity distributions payable		**(16,819)**	15,995
Increase (decrease) in other accounts payable and accrued liablities		**(2,527)**	508
Cash provided by (used in) continuing operations		**(13,253)**	13,604
Cash provided by discontinued operations		**19**	1,686
Cash provided by (used in) operating activities		**(13,234)**	15,290
Investing activities			
Net distributions from portfolio investments		**4,590**	8,541
Purchase of capital assets		**(1,405)**	(1,485)
Purchase of intangible assets		**(155)**	(944)
Cash provided by investing activities		**3,030**	6,112
Financing activities			
Proceeds (repayments) from loans payable		**(700)**	801
Share issue costs		**(399)**	-
Exercise of stock options		**1,154**	25
Payment of contingent liability		**(4,027)**	(4,027)
Cash used in financing activities		**(3,972)**	(3,201)
Increase (decrease) in cash and cash equivalents		**(14,176)**	18,201
Cash and cash equivalents - beginning of period		**23,022**	4,866
Cash and cash equivalents - end of period		**8,846**	23,067
Less: Cash - discontinued operations		**-**	45
Cash and cash equivalents - continuing operations		**8,846**	23,022
Supplementary information			
Cash paid (received) during the year			
Interest received		**(3,438)**	(1,014)
Interest paid		**3,963**	2,370
Income taxes		**12**	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		**1,981**	842
Non-cash investing and financing activities:			
Dividend-in-kind of Heritage Global Inc.		**-**	16,516
Sale of real estate investment		**-**	1,000

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

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

1. Corporate information

Street Capital Group Inc. (“Street Capital” or “the Company”) is a public corporation traded on the Toronto Stock Exchange under the ticker symbol “SCB”. The Company was incorporated in the province of Ontario in 1979. The address of its registered office is 1 Toronto Street, Suite 700, P.O. Box 3, Toronto, Ontario, M5C 2V6. On June 23, 2015 the Company’s name was changed to Street Capital Group Inc. from Counsel Corporation (see Note 2 – Corporate realignment and restructuring charges, below).

The Company operates principally as a mortgage lending business through its subsidiary, Street Capital Financial Corporation (“Street Capital Financial”), a Canadian residential mortgage lender that was founded in 2007 and acquired by the Company on May 31, 2011. In the first quarter of 2013, the Company discontinued its non-core operating businesses, namely, Asset Liquidation (through Heritage Global Inc.), Case Goods (through Fleetwood Fine Furniture LP) and Real Estate. Asset Liquidation and Case Goods were exited in the first quarter of 2014, and consequently Street Capital Financial is now the Company’s sole operating business.

The Company also controls a private equity business (“Private Equity”) through a wholly owned subsidiary, Knight’s Bridge Capital Partners Inc. (“Knight’s Bridge”). Knight’s Bridge is responsible for managing a private equity investment fund (“KBCP Fund I”), the legal entity that holds the Company’s Private Equity portfolio investments. KBCP Fund I was founded in 2008 and is in the process of being liquidated. The Company is a Limited Partner (“LP”) of KBCP Fund I and holds approximately 14% of its units.

The Company's principal subsidiaries and its respective ownership interest in each subsidiary as at December 31, 2015 and December 31, 2014 are as follows:

	December 31, 2015	December 31, 2014
Street Capital Financial Corporation	**100%**	100%
Knight's Bridge Capital Partners Inc.	**100%**	100%

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 8, 2016.

2. Corporate realignment and restructuring charges

During the second quarter of 2015, as part of the Company’s transition from operating multiple businesses in diverse markets to becoming a focused financial services company, and in alignment with the Company’s goal to strengthen its capital position and flexibility as it makes this transition, the Company made significant changes to its organizational structure.

On June 23, 2015, in exchange for 20 million common shares of the Company and $2,900 in cash, the Company purchased, from certain members of Street Capital Financial’s management, all of the issued and outstanding Class C shares of Street Capital Financial. Subject to the occurrence of certain events, the vendors of the Class C shares agreed not to transfer or sell the common shares issued to them except that i) 25% of such shares may be transferred on or after June 1, 2017; ii) 50% of such shares may be transferred on or after June 1, 2018; and iii) 100% of such shares may be transferred on or after June 1, 2019. As part of the exchange of the Class C shares of Street Capital Financial for common shares of the Company, the contingent liability attached to the Class C shares could be reliably measured, and both it and potential earn-out payments attached to the Class C shares were extinguished. This resulted in restructuring charges during the second quarter.

The issuance of common shares, the extinguishment of the contingent liability, and additional reorganization expenses relating to severance payments and legal costs were recognized as charges to income in the second quarter. These were recorded as restructuring expenses on the condensed consolidated interim statements of operations, as shown below:

		June 30, 2015
Issuance of 20 million common shares of Street Capital Group Inc. (1)	$	36,300
Cash consideration		2,919
Settlement of contingent liability		(955)
Cost to extinguish contingent liability		**38,264**
Restructuring costs and severance		11,976
Total restructuring costs	**$**	**50,240**

(1) Calculated at $2.42 per share , which was the market closing stock price on June 23, 2015 less a 25% discount reflecting the sale retrictions on the shares issued.

As part of the realignment, the Company's name was changed from Counsel Corporation to Street Capital Group Inc.

3. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises, which are International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in effect at December 31, 2015. The Company's functional currency, and the presentation currency of its consolidated financial statements, is Canadian dollars. The comparative audited consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2015 audited consolidated financial statements, as detailed in Note 28.

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Use of judgment and estimates

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain, and that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities, in the consolidated financial statements and accompanying notes. Key areas of such judgment and estimation are: allowance for credit losses, valuations of receivables (i.e. duration factors on deferred placement fees receivable), the useful life and residual value of certain assets including prepaid portfolio insurance, intangibles and goodwill, portfolio investments, provisions, and accounting for deferred income taxes. Actual results may differ from these estimates.

The allowance for mortgage credit losses represents management's best estimate of losses incurred on the Company's mortgage loan portfolio at the date of the consolidated financial statements and requires management's judgment in making assumptions and estimations primarily related to default and loss rates. The Company does not have an allowance for mortgage credit losses as virtually all mortgage assets on-balance sheet are fully insured or deemed fully collectible. All other originated mortgages are sold to investors.

The measurement of deferred placement fees receivable represents management's best estimate of expected future cash flows and requires management's judgment in making assumptions about the duration of the underlying assets on which the fees are based.

The residual value of prepaid portfolio insurance represents management's best estimate of the future value of the asset and requires significant management judgment in making assumptions about prepayment and renewal behaviors.

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

The determination of the fair value of the portfolio investments that are not traded in an open market requires management judgment regarding valuation techniques and inputs to valuation models.

The determination of a provision on a non-trade receivable is based on management's judgment regarding collectibility.

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

Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Management has exercised judgment in the application of its accounting policies. In particular, management has applied judgment in the application of its accounting policies related to derecognition of mortgage loans that are either sold through whole loan sales or used in its securitization programs. In the case of whole loan sales, management has determined that it has transferred substantially all the risk and rewards of ownership of the mortgage loan to the purchaser, and it therefore derecognizes the mortgage loans. Mortgage loans that have been securitized by the Company are not derecognized, based on management's judgment that the Company has not transferred all the risks and rewards of ownership of the mortgage loans.

Consolidation
The consolidated financial statements include the assets, liabilities and results of operations of the Company and its consolidated subsidiaries, which are entities over which the Company has control, and which are identified in Note 1. Control exists when the Company has exposure to variable returns from its investment in the investee, along with the power, directly or indirectly, to govern the financial and operating policies of the investee so as to affect its returns. Non-controlling interests in the equity and results of the Company's subsidiaries are shown separately in the consolidated statement of changes in shareholders' equity. Intercompany balances and transactions among the Company and its subsidiaries are eliminated on consolidation.

Non-controlling interest
Non-controlling interest primarily represents the interests in controlled assets owned by outside investors in Fleetwood Fine Furniture LP and the Company's private equity business. The share of net assets attributable to non-controlling interest is presented as a separate component within equity. The non-controlling interest share of net income is presented separately in the consolidated statements of operations. Changes in the Company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Foreign currency translation
Functional and presentation currency
The financial statements of the Company's consolidated entities are presented in the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Street Capital's functional currency.

The financial statements of entities that have a functional currency different from that of Street Capital ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the consolidated statements of financial position; and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in the consolidated statements of operations.

Transactions and balances
Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions, as well as those from the period-end translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of operations.

Financial instruments
The Company classifies its financial instruments as follows:

(i) Financial assets and liabilities at fair value through profit or loss ("FVTPL")
A financial asset or liability is classified as at FVTPL if acquired principally for the purpose of selling or repurchasing in the short-term, or if designated as at FVTPL at acquisition. Financial instruments in this category are recognized initially and subsequently at fair value, with gains and losses arising from changes in fair value presented in the consolidated statements of operations in the period in which they occur. The fair values of financial assets that are not traded in an active market (for example, portfolio investments) are determined by using valuation techniques appropriate for each asset or class of assets. The Company classifies cash and cash equivalents, marketable securities and portfolio investments as at FVTPL.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include non-securitized and securitized mortgage loans, deferred placement fees receivable and accrued gain on sale, accounts receivable and non-mortgage loans receivable.

Mortgage loans are recorded at amortized cost using the effective interest rate method. Interest income is allocated over the expected term of the loan by applying the effective interest rate to the carrying amount of the loan. The effective interest rate is the rate that exactly discounts future cash receipts over the life of the loan. Net origination costs and any premium or discount relating to mortgage origination are amortized to income on an effective yield basis over the term of the loans to which they relate, and are included in interest income in the consolidated statements of operations. Loans are carried net of any credit allowances that are deemed necessary.

A loan is recognized as being impaired when the Company is no longer reasonably assured of timely collection of the full amount of principal and interest. Mortgage loans guaranteed by the Government of Canada ("insured mortgages") are not considered impaired until payment is contractually 365 days past due. Material credit losses are generally not expected on insured mortgages.

Other loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the receivables to fair value. Subsequently, receivables are measured at amortized cost using the effective interest rate method, less any allowance for impairment that is deemed necessary.

(iii) Financial liabilities at amortized cost
Financial liabilities at amortized cost include bank facilities, accounts payable and accrued liabilities, mortgages and loans payable, securitization liabilities and contingent consideration. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest rate method. Mortgages and loans payable, as well as securitization liabilities, are recognized initially at fair value net of any transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

The Company's individual financial instruments are discussed in more detail below.

Cash and cash equivalents
Cash and cash equivalents includes cash deposited with regulated financial institutions, restricted cash, and other short-term highly liquid investments with original maturities of three months or less. Interest income earned on cash and cash equivalents is included in interest income in the consolidated statements of operations.

Restricted cash
Restricted cash includes cash and cash equivalents that are contractually restricted and are primarily related to principal and interest payments collected on behalf of mortgage servicers.

Non-securitized mortgage loans
Non-securitized mortgage loans primarily consist of either mortgages intended for sale to investors, or insured mortgages awaiting securitization and sale. They are carried at amortized cost, using the effective interest rate method. Interest income earned is included in interest income in the consolidated statements of operations.

Securitized mortgage loans and securitization liabilities
Securitized mortgage loans result from the Company's participation in the Government of Canada's National Housing Act Mortgage-Backed Securities ("NHA MBS") program, which is facilitated by Canada Mortgage and Housing Corporation ("CMHC"). The securitized mortgage loans are carried at amortized cost using the effective interest rate method, plus accrued interest. Interest income is recognized over the expected life of the mortgage by applying the effective interest rate to the mortgage's carrying amount.

Securitization liabilities, which correspond to the securitized mortgage loans, are recorded at amortized cost using the effective interest rate method, plus accrued interest. Any premiums or discounts and transaction costs incurred in obtaining the secured financing are amortized to income on an effective yield basis over the term of the liabilities to which they relate, and are included in interest expense in the consolidated statements of operations. Interest expense is allocated over the expected term of borrowing by applying the effective interest rate to the carrying amount of the liability, and is included in interest expense in the consolidated statements of operations.

Deferred placement fees receivable
When mortgages are sold to investors on a fully serviced basis, the Company charges the investor a servicing fee that is received over the life of the underlying mortgage. The present value of the servicing fee charged, less the Company's cost of servicing, is recognized as gain on sale of mortgages in the consolidated statements of operations, and a resulting deferred placement fee receivable is recognized in the consolidated statements of financial position.

As well, in some cases an excess interest rate spread is received over the remaining term of the mortgage. The present value of the excess interest rate spread is recognized as gain on sale in the consolidated statements of operations, and a resulting deferred placement fee receivable is recognized in the consolidated statements of financial position. The present value of this excess spread is calculated based on a duration factor of the underlying mortgages sold.

Any difference between the cash collected and the amortization of the deferred placement fee receivable is recognized as income or loss in the consolidated statements of operations, through net interest and other income.

Prepaid portfolio insurance

The Company purchases portfolio mortgage insurance on some of its low ratio insurable mortgages, which provides coverage over the amortization, rather than the contractual, period of the original underlying mortgage pools. The portfolio insurance is capitalized and amortized into income over a maximum period of 15 years, using a declining balance method that estimates the pattern of consumption based on management's assumptions about prepayments and renewals.

Capital assets

The Company's capital assets consist of office furniture, fixtures and equipment, computer hardware and software, leasehold improvements, and artwork. Capital assets other than artwork are recorded at cost, which includes expenditures that are directly attributable to the acquisition of the assets, and amortized over their useful lives on the following basis:

Office furniture, fixtures and equipment	Straight-line over periods from 3 to 10 years
Leasehold improvements	Straight-line over the shorter of the term of the lease or estimated useful life of the asset
Computer hardware and software	Straight-line over 1 to 3 years

At each reporting date, the Company assesses whether there are any indications that a capital asset may be impaired. If indicators of impairment exist, the Company performs an impairment test to determine whether an impairment loss should be recognized.

Artwork is recorded at appraised value, which represents deemed cost.

Intangible assets

The Company recognizes intangible assets when their cost can be reliably measured and it is probable that associated future economic benefits will accrue to the Company. Acquired intangible assets are recorded at fair value upon acquisition and amortized on a straight-line basis over their estimated lives. Subsequent to acquisition, acquired intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Internally generated intangible assets include all directly attributable costs necessary to create an asset such that it is capable of operating as intended by management. Overhead, research and training costs are excluded, as are costs incurred after the asset is substantially complete and available for use. Internally generated intangible assets are amortized on a straight-line basis over their estimated lives.

At each reporting period the Company assesses its intangible assets for indicators of impairment. If such indicators exist, an impairment test is conducted to determine whether the carrying amount of an intangible asset is less than its recoverable amount. If so, an impairment loss is recognized in the consolidated statements of operations for the amount of the difference between the carrying and recoverable amounts.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the fair values allocated to the net identifiable tangible and intangible assets acquired. Goodwill acquired through a business combination is allocated to each cash generating unit ("CGU"), or group of CGUs, that is expected to benefit from the business combination. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of those from other assets or groups of assets. Each unit to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Such units may not be higher than an operating segment.

Subsequent to acquisition, goodwill is carried at cost less accumulated impairment losses. It is tested annually for impairment, and more frequently if events or changes in circumstances indicate that it may be impaired. Goodwill is considered to be impaired if the carrying value of a CGU, including its allocated goodwill, exceeds the CGU's recoverable amount. If so, an impairment loss is recognized in the consolidated statements of operations for the amount of the difference between the carrying and recoverable amounts.

Portfolio investments

The Company's portfolio investments are carried at fair value. Changes in fair value, inclusive of foreign exchange, are recorded as fair value adjustments and recognized in net income through profit and loss.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on the difference between their carrying value and their tax basis. Any change in the net amount of deferred income tax assets and liabilities is included in income. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws that are expected to apply to the Company's taxable income for the periods in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable that they will be recovered.

Income taxes consist of both current and deferred tax. Income taxes are recognized in the consolidated statements of operations except to the extent that they relate to items recognized directly in equity, in which case the income taxes are also recognized directly in equity.

Current taxes are the expected taxes payable on the taxable income for the reporting period, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustments to taxes payable in respect of previous years.

Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned, or that meets the criteria to be classified as held for sale.

Discontinued operations are presented in the consolidated statements of comprehensive income (including the comparative period) as a single line that consists of the post-tax profit or loss of the discontinued operation. Where relevant, it includes the post-tax gain or loss recognized on the re-measurement to fair value less costs to sell, or on disposal.

Revenue recognition

Mortgage lending

The majority of the Company's revenue is earned from the placement, servicing and securitization activities of its mortgage lending business. The Company sells whole loan mortgages to third parties and receives up to four forms of compensation:

- Cash premium – The cash premium received for the mortgages sold is recognized as gain on sale of mortgages on the consolidated statements of operations.

- Servicing fees – Mortgages are sold on a fully serviced basis. The Company charges the institutional investor a servicing fee, which is received over the life of the underlying mortgage. The present value of the servicing fee less the Company's cost of servicing is recognized as gain on sale of mortgages in the consolidated statements of operations, and a resulting deferred placement fees receivable is recognized in the consolidated statements of financial position.

- Excess interest rate spread – In some cases, an excess interest rate spread is received over the remaining term of the mortgage. The present value of the excess interest rate spread is recognized as gain on sale in the consolidated statements of operations, and a resulting deferred placement fees receivable is recognized in the consolidated statements of financial position.

- Mortgage prepayment penalty fees and mortgage life insurance referral fees are recorded as revenue when received.

Private equity
The Company's Private Equity business earns management fees related to the investments that it manages. The Company recognizes management fees as earned.

Stock-based compensation plans
The Company and its subsidiaries issue share-based awards to certain employees and non-employee directors. The cost of equity-settled share-based transactions is determined as the fair value of the options on the grant date using a fair value model. The cost of the stock options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant.

Employee benefits
The Company's contributions to the Group Retirement Savings Plan are expensed when paid.

Carried interest
The Company, through its 100% owned subsidiary, Knight's Bridge Capital Partners GP, L.P., which is the General Partner of KBCP Fund I, is entitled to a carried interest of 20% of the total profits realized by KBCP Fund I after the investors (the LPs) in the fund have received the return of their contributed capital and a minimum 8% per annum preferred return on their capital.

The unrealized carried interest is calculated based on the fair values of the underlying investments of KBCP Fund I and in accordance with the limited partnership agreements. The unrealized carried interest reduces the amount due to the LPs (non-controlling interest) and will be paid upon the realization of the underlying KBCP Fund I investments. The change in net carried interest attributable to the Company is recognized through the attribution of the LPs' interests (net income (loss) attributable to non-controlling interest).

Earnings per share
Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments, which for the Company consist of options and deferred share units. The number of shares included with respect to dilutive instruments is computed using the treasury stock method.

Future accounting changes

IFRS 9 – Financial Instruments In July 2014, the IASB issued the final version of *IFRS 9 – Financial Instruments* ("IFRS 9"), which replaces *IAS 39 – Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Upon adoption of IFRS 9, the Company will also be required to adopt amendments to *IFRS 7 – Financial Instruments: Disclosures*, which will require more extensive disclosures relating to such areas as classification, impairment and hedge accounting. The Company's assessment of the impact of the new standard and the amendments on its results of operations, financial position and disclosures is in progress.

IFRS 15 – Revenue From Contracts with Customers In May 2014 the IASB issued *IFRS 15 – Revenue From Contracts with Customers* ("IFRS 15"), which supersedes all current revenue recognition requirements under IFRS. The standard establishes a single, five-step, structured model for recognizing revenue from contracts with customers. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company's assessment of the impact of the new standard on its results of operations, financial position and disclosures is in progress.

IAS 1 – Presentation of Financial Statements In December 2014, the IASB issued amendments to *IAS 1 – Presentation of Financial Statements*, which clarifies judgments that management can make with respect to the presentation of information in an entity's financial reporting. The amendments are effective for annual periods beginning on or after January 1, 2016, with early application permitted. The Company's assessment of the impact of the amendments on its consolidated financial statements is in progress, but as these amendments relate only to disclosure, it is not expected that they will result in material changes.

IFRS 16 – Leases In January 2016 the IASB issued *IFRS 16 – Leases* ("IFRS 16"), which supersedes *IAS 17 - Leases* and its interpretive guidance. The standard applies a control model to the identification of leases, and distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The most significant changes are to lessee accounting, since the standard removes the distinction between operating and finance leases, and requires assets and liabilities to be recognized for all leases, with limited exceptions. The standard does not significantly change the accounting by lessors. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that have also adopted IFRS 15. The Company's assessment of the impact of the new standard on its results of operations, financial position and disclosures is in progress. Implementation of IFRS 16 may result in changes to the consolidated statements of financial position in the form of right of use assets and associated lease obligations.

4. Cash and cash equivalents, and restricted cash

The Company had the following cash and cash equivalents, and restricted cash, as at December 31, 2015 and 2014:

	December 31, 2015	December 31, 2014
Deposits with regulated financial institutions	**$ 8,846**	$ 23,022
Cash and cash equivalents	**$ 8,846**	$ 23,022
Restricted cash - servicing	**$ 10,114**	$ 11,976
Restricted cash - securitization	**2,964**	1,154
Total restricted cash	**$ 13,078**	$ 13,130

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

5. Contingent consideration

In connection with the Company's acquisition of Street Capital Financial in May 2011, the Company agreed to pay earn-out payments if specified future events occurred (the "contingent consideration"). Under the contingent consideration arrangement, the Company expected to pay certain members of Street Capital Financial management a total of approximately $13,870 in cash, beginning in 2013, upon the achievement of specific earnings targets. The contingent consideration was valued at $10,353 on acquisition, and recorded as part of the purchase price. During 2013, 2014 and 2015, respectively, $4,026, $4,027 and $4,027 of

consideration was paid. In June 2015, in connection with the corporate realignment and restructuring discussed in Note 2, all contingent consideration was extinguished and no further payments will be required.

6. Non-securitized mortgage loans

Non-securitized mortgage loans are primarily made up of either mortgages intended for whole loan sales to various purchasers, or insured mortgages awaiting securitization and sale through the NHA MBS program, with any remaining amounts consisting of mortgages or loans that the Company intends to hold until maturity. As at December 31, 2015, $13,524 of mortgages were being held for securitization (December 31, 2014 - $2,407).

Mortgage loans carry interest rates ranging from 1.9% to 7.70% with maturities up to 5 years (2014 – 2.6% to 8.00%), as shown below:

	Within 1 Year	1 -3 Years	3 -5 Years	December 31, 2015 Total book value
Maturities	$ 3,024	$ 610	$ 13,107	$ 16,741

7. Securitization activity

The Company securitizes insured single-family residential mortgage loans by participating in the NHA MBS program. Through the program, the Company issues securities backed by residential mortgage loans that are insured against borrowers' default (MBS). Following securitization of the mortgage loans, the Company assigns the underlying mortgages to CMHC and sells the related MBS to the investors. As the issuer of the MBS, the Company is responsible for advancing all scheduled principal and MBS interest payments to CMHC, whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered are ultimately expected to be recovered from the insurer.

The Company retains certain prepayment and/or interest rate risks and rewards related to the transferred mortgages. Due to retention of these risks and rewards, transferred mortgages are not derecognized and the securitization proceeds are accounted for as secured borrowing transactions. There are no expected credit losses on the securitized mortgage assets as the mortgages are insured against default. Insured mortgages are considered impaired when they are more than 365 days in arrears. At December 31, 2015 and 2014, none of the transferred mortgages were 365 or more days in arrears, and therefore the Company has not recorded a provision for credit losses.

The gross carrying amounts of mortgages and related assets assigned in securitization transactions are recorded on the consolidated statements of financial position as securitized mortgage loans. Deferred securitized mortgage acquisition costs are directly attributable to the acquisition of securitized mortgage loans and are amortized into income using the effective interest rate method.

NHA MBS securitization liabilities are repaid on a monthly basis as the securitized loans principal and interest payments are collected. Accrued interest on securitization liabilities is recorded in securitization liabilities on the consolidated statements of financial position and is based on the underlying MBS coupon**.** Premiums, discounts and transaction costs from the issuance of NHA MBS securities are amortized through interest expense using the effective interest rate method.

The table below presents the carrying amounts of the securitized mortgages and the corresponding liabilities:

	December 31, 2015	
	Carrying amount of securitized mortgage loans	**Carrying amount of securitization liabilities**
Securitized mortgage loans	**$ 164,451**	**$ 166,766**
Deferred securitized mortgage acquisition costs	**3,311**	**-**
Deferred transaction costs	**-**	**614**
	$ 167,762	**$ 167,380**

	December 31, 2014	
	Carrying amount of securitized mortgage loans	Carrying amount of securitization liabilities
Securitized mortgage loans	$ 48,159	$ 49,255
Deferred securitized mortgage acquisition costs	2,159	-
Deferred transaction costs	-	1,291
	$ 50,318	$ 50,546

The table below presents the expected principal repayments to be received with respect to the Company's securitized mortgage loans receivable:

	Within 1 Year	**1 -3 Years**	**3 -5 Years**	**December 31, 2015 Total**
Projected repayments	**$ 19,398**	**$ 59,002**	**$ 85,852**	**$ 164,252**

The principal amount of NHA MBS securitization liabilities are estimated to be paid as follows:

	Within 1 Year	**1 -3 Years**	**3 -5 Years**	**December 31, 2015 Total**
Projected payments	**$ 21,660**	**$ 59,002**	**$ 85,852**	**$ 166,514**

Securitization liabilities include $2,964 (2014 - $1,154) that has been collected from the securitized mortgages but not yet paid to the MBS holders to settle securitization liabilities.

8. Mortgage sale activity

Gain on sale of mortgages and deferred placement fees receivable

The Company originates mortgages, the majority of which are sold to institutional investors, who assume the contractual right to receive the associated mortgage cash flows. Since the Company has transferred substantially all the risks and rewards of ownership of these mortgages, they are removed from the consolidated statements of financial position, and the Company recognizes income from multiple sources:

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

The present value of (i) the difference between the servicing fee and fair value of servicing and (ii) the excess spread, is recorded as gain on sale of mortgages on the consolidated statements of operations and as deferred placement fees receivable on the consolidated statements of financial position. As well, in some cases an excess interest rate spread is received over the remaining term of the mortgage. The present value of the excess interest rate spread, calculated based on a duration factor of the underlying mortgage sold, is recognized as gain on sale of mortgages in the consolidated statements of operations, and a resulting deferred placement fee receivable is recognized in the consolidated statements of financial position.

The table below presents the mortgages sold and the associated gain on sale for the years ended December 31:

	Year ended December 31,	
	2015	2014
Mortgages sold	**$ 9,037,178**	$ 7,753,292
Cash premium at sale	**142,372**	117,541
Deferred gain on sale	**22,424**	21,424
Acquisition costs	**(88,728)**	(82,481)
Net gain on sale of mortgages	**$ 76,068**	$ 56,484
% Gain	**0.842%**	0.729%

The difference between the cash collected and the amortization of the deferred placement fees receivable is recognized as income or loss in the consolidated statements of operations through net interest and other income. The net deferred placement fees at December 31 are shown below:

	December 31, 2015			December 31, 2014		
	Capitalized at sale	**Accumulated Amortization**	**Net book value**	Capitalized at sale	Accumulated Amortization	Net book value
Deferred placement fees receivable	**$ 102,897**	**$ 56,455**	**$ 46,442**	$ 80,106	$ 41,357	$ 38,749

Mortgages under administration

In accordance with respective agreements with third party mortgage servicers, the Company administers mortgages purchased by third parties. As at December 31, 2015, total mortgages under administration, including mortgages sold to third parties, amounted to $24.75 billion (2014 - $21.59 billion).

9. Prepaid portfolio insurance

Prepaid portfolio insurance is amortized into income over a maximum period of 15 years, using a declining balance method that estimates the pattern of consumption based on management's assumptions about prepayments and renewals.

For portfolio mortgage insurance purchased prior to May 14, 2015, the Company was entitled to substitute prepaid mortgage amounts with another mortgage of equal value at no additional cost. The substitution period varied, by insurer, from 5 to 25 years. When estimating the pattern of amortization for portfolio mortgage pools purchased prior to this date, assumptions included the substitution feature.

For portfolio mortgage insurance purchased after May 14, 2015, there are no substitutions permitted, except for replacements of loans to the same borrower. This has the effect of speeding up the pattern of amortization compared to pools with substitution eligibility, while maintaining the maximum 15-year amortization period. This change only applies to portfolio mortgage insurance purchased after May 14, 2015.

The net unamortized amount of prepaid portfolio insurance at December 31, 2015 and 2014 is shown below, together with a continuity schedule of the years ended December 31, 2015 and 2014.

	December 31, 2015			December 31, 2014		
	Capitalized at purchase	**Accumulated Amortization**	**Net book value**	Capitalized at purchase	Accumulated Amortization	Net book value
Prepaid portfolio insurance	**$ 83,546**	**$ 16,874**	**$ 66,672**	$ 62,123	$ 11,235	$ 50,888

	December 31, 2015	December 31, 2014
Balance, beginning of year	**$ 50,888**	$ 39,457
Capitalized at purchase	**21,423**	16,416
Amortization during the year	**(5,639)**	(4,985)
Balance, end of year	**$ 66,672**	$ 50,888

10. Intangible assets and goodwill

Intangible assets

At December 31, 2015, the Company has both acquired and internally generated intangible assets. The acquired intangible asset relates to the mortgage renewal stream associated with the Company's 2011 acquisition of Street Capital Financial. The internally generated intangible assets consist of internally developed systems and software. At December 31, 2015 and 2014, there were no external or internal indicators that required impairment testing of the assets.

Details of the Company's intangible assets are as follows:

	December 31, 2015	December 31, 2014
Acquired:		
Mortgage renewal stream	**$ 6,869**	$ 6,869
Accumulated amortization	**(2,262)**	(1,768)
	$ 4,607	$ 5,101
Internally developed:		
Systems and software	**$ 2,763**	$ 2,608
Accumulated amortization	**(1,971)**	(1,586)
	$ 792	$ 1,022
	$ 5,399	$ 6,123

Amortization expense for the mortgage renewal stream, which is related to the acquisition of Street Capital Financial, was $494 for the year ended December 31, 2015 (2014 - $493). The amortization period of 15 years is based on historical renewal rates and industry benchmarks, and at December 31, 2015 the remaining amortization term was 10.5 years.

Amortization expense for the internally developed systems and software assets for the year ended December 31, 2015, was $385 (2014 - $345). The amortization period of 5 years is based on their estimated useful life, and at December 31, 2015 the remaining amortization terms varied from 2.5 to 5 years. The amortization expense relating to intangible assets is reported in selling, general and administrative expenses in the consolidated statements of operations.

Goodwill

	December 31, 2015	December 31, 2014
Acquisition of Street Capital Financial Corporation	**$ 23,465**	$ 23,465

The Company's sole CGU is Street Capital Financial, and therefore all of the acquired goodwill is assigned to Street Capital Financial. In testing the goodwill for impairment, the Company's market capitalization was used as the CGU's recoverable amount, given that the market value of the Company's shares is associated solely with Street Capital Financial's net assets and operations. The market capitalization was determined at December 31, 2015 and it exceeded Street Capital Financial's carrying value by approximately $29,000. The same test was performed using the Company's lowest share price during 2015, resulting in an excess of approximately $18,000. Management therefore concluded that there was no impairment at December 31, 2015.

11. Portfolio investments and non-controlling interest

Investments

The Company's portfolio investments, and its net interest in those investments, are shown below:

	December 31, 2015	December 31, 2014
Private Equity investments	**$ 13,506**	$ 30,910
Fleetwood Fine Furniture International LP	**-**	9,000
The H Company Holdings, LLC	**-**	100
Total portfolio investments	**$ 13,506**	$ 40,010
Portfolio investments attributable to non-controlling interest	**(10,343)**	(25,202)
Portfolio investments attributable to shareholders	**$ 3,163**	$ 14,808

A reconciliation of the carrying amount of portfolio investments from December 31, 2013 to December 31, 2015 is set out below:

Balance at December 31, 2013	**$ 53,220**
Acquisitions and investments	9,000
Fair value adjustments	24,882
Foreign exchange adjustments	3,916
Distributions	(50,488)
Other	(520)
Balance at December 31, 2014	**$ 40,010**
Fair value adjustments	(16,054)
Foreign exchange adjustments	4,005
Distributions	(14,455)
Balance at December 31, 2015	**$ 13,506**

The Company's non-publicly traded investment in Fleetwood Fine Furniture International LP ("Fleetwood"), a provider of high-quality customized case goods to large, upscale hotel chains, consists of 100% of the non-voting Class A partnership units. Based on management's review of Fleetwood's financial position at December 31, 2015, the fair value of the investment was determined to have decreased to zero, and therefore a fair value adjustment of $9.0 million was recognized in 2015, $2.589 million of which was allocated to the non-controlling interest.

The Company's Private Equity business was established in 2008. Although the Company holds only approximately 14% of the Private Equity business, it controls, and therefore consolidates, this business, due to its ability to influence its management and investments. In addition to the preferred return and profit the Company earns as an LP, the Company is entitled to a carried interest of 20% of the total profits realized after the contributed capital and an 8% per annum preferred return on the capital have been returned to all LPs. To date, the Company has received approximately $6.1 million as its carried interest. The Company has also earned a 2% per annum management fee over the lifetime of the Private Equity business, based on committed and/or invested capital.

At December 31, 2015, the Private Equity business retained two investments. Only one of these investments, a high-end apparel company, was material. The management of this investment had entered into purchase and sale agreements (the "Agreements"), with independent third parties, that would result in this investment becoming a publicly traded company. Although the Agreements had not been finalized at December 31, 2015, the Company was able to use the share price of the publicly traded company as an input to the valuation of the investment. The agreements received shareholder approval on January 15, 2016.

Non-controlling interest
The net income (loss) attributable to the non-controlling interest associated with Fleetwood Fine Furniture LP was $(3,636) for the year ended December 31, 2015 (2014 - $833). The non-controlling interest in Fleetwood Fine Furniture LP amounts to $(6,804) at December 31, 2015 (2014 - $(3,168)).

The net income (loss) attributable to the non-controlling interest associated with the Private Equity business was $(3,052) for the year ended December 31, 2015 (2014 - $19,062). The non-controlling interest in the Private Equity business amounts to $10,928 at December 31, 2015 (2014 - $23,845).

12. Other assets

The Company's other assets consist of:

		December 31, 2015		December 31, 2014
Gain on sale receivable	**$**	**2,902**	$	5,041
Loans receivable (net of credit allowance)		**3,382**		6,045
Capital assets		**4,373**		3,683
Accounts receivable		**1,446**		1,840
Prepaid and other assets		**1,230**		1,385
	$	**13,333**	$	17,994

Gain on sale receivable represents amounts not yet received on mortgage sale activities. Loans receivable include loans made to companies held as portfolio investments. Accounts receivable includes mortgage insurance receivables, trade receivables, and any other amounts receivable.

At December 31, 2015, as part of the review of Fleetwood discussed above in Note 11, management also determined that a $2,675 demand loan receivable from Fleetwood was impaired. A credit allowance of $1,675 was therefore recorded against the loan receivable, which was recognized in net interest and other income in the consolidated statements of operations. The non-controlling interest was allocated $482 of this amount.

13. Bank facilities

	Maturity date	Interest rate	December 31, 2015	December 31, 2014
			Outstanding as at	
Revolving credit facility - Insured loans (i)	Demand	BA + 1.25%	**$ 8,200**	$ -
Revolving credit facility - Conventional insurable loans (i)	Demand	BA + 2.50%	**2,600**	-
Revolving credit facility - Operating line (i)	Demand	BA + 2.50%	**5,017**	-
Term debt (ii)	Demand	30 day BA	**-**	7,341
Credit facility (ii)		prime +2.0%	**-**	2,432
			$ 15,817	$ 9,773

Details of bank facilities are as follows:

(i) At December 31, 2015, the Company had a total credit facility of $165 million with a syndicate of Schedule I Canadian banks that was available in three tranches dependent on use of funds. Under the terms of the facility, the Company had $125 million available to fund a maximum of 98% of insured mortgage loans, and $25 million available to fund a maximum of 80% of conventional insurable mortgage loans, both of which must be on Canadian properties. Draws on the facility for funding mortgage loans are supported and secured by the underlying mortgages, and repaid from the proceeds of securitization and/or sale of the mortgage loans. An operating line of $15 million can be drawn at any time providing the Company has met certain affirmative and financial covenants. As at December 31, 2015, the Company has met all required covenants under the agreement. The entire credit facility is secured by a general security agreement.

(ii) In March 2014, the Company extended an existing term debt and a credit facility, to a maturity date of the earlier of May 29, 2015 or when the Company or its subsidiaries obtain a licence to carry on business as a bank. The Company repaid the term debt and the credit facility on March 25, 2015.

14. Loans payable

Details of loans payable are as shown below:

	Maturity date	Interest rate	December 31, 2015	December 31, 2014
			Outstanding as at	
Corporate loans	Jan 15/2017	6.00%	**$ 7,472**	$ 6,934
Corporate loan	Demand	5.00%	**100**	100
Corporate loans	Demand	6.00%	**1,400**	2,100
			$ 8,972	$ 9,134

The loans are not subject to security or covenants. The loans of $1,400 and $100 were repaid in full in January and February 2016, respectively.

15. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are as shown below:

	December 31, 2015	December 31, 2014
Payment due to mortgage servicers	$ 10,114	$ 11,976
Accrued mortgage acquisition costs	8,626	8,811
Accrued restructuring costs	11,145	-
Accrued compensation	5,226	6,012
Private equity distributions payable	114	16,933
Other	2,538	2,232
	$ 37,763	$ 45,964

The accrued restructuring costs are related to the corporate realignment discussed in Note 2. The significant decrease in private equity distributions payable is due to the fact that the Company has exited from the majority of its investments, as discussed in Note 11.

16. Income taxes

The Company recognized the following tax expense in its income (loss) from continuing operations:

	Year ended December 31, 2015	2014
Deferred tax expense - current year	$ 6,433	$ 7,178
Deferred tax attributable to changes in tax rates and laws	402	(133)
Total income tax expense recognized in the current year in income (loss)	$ 6,835	$ 7,045

The Company's provision for income taxes differs from the provision computed at statutory rates as follows for the years ended December 31:

	Year ended December 31, 2015	2014
Income (loss) before income taxes, non-controlling interest and discontinued operations	$ (29,905)	$ 51,463
Income tax expense (recovery) based on a statutory income tax rate of 26.50% (2014 - 26.50%)	$ (7,925)	$ 13,638
Increase (decrease) in income taxes resulting from:		
Utilization (benefit) of previously unrecognized tax losses	-	(7,570)
Unrecognized tax losses	4,223	-
Non-deductible item - restructuring costs	10,865	-
Other non-deductible items	182	665
Higher (lower) future tax rate of domestic subsidiaries	402	(237)
Other	(912)	549
Income tax expense recognized in income (loss) from continuing operations	$ 6,835	$ 7,045

The combined Canadian federal and provincial statutory income tax rate used for 2015 is 26.50% (2014 - 26.50%).

The composition of the Company's net deferred income tax liabilities as at December 31 is as shown below:

	December 31, 2015		
	Opening balance	Recognized in income (loss)	Closing balance
Capital assets	$ 93	$ 284	**$ 377**
Intangible assets	(3,543)	131	**(3,412)**
Incorporation costs	299	(2)	**297**
Deferred financing and other costs	176	68	**244**
Accrued liabilities	516	2,534	**3,050**
Other financial liabilities	(77,918)	(15,947)	**(93,865)**
Deferred portfolio insurance	(13,281)	(4,386)	**(17,667)**
Other	2,200	(75)	**2,125**
	(91,458)	(17,393)	**(108,851)**
Tax losses - non capital	72,975	9,603	**82,578**
Tax losses - restricted non capital	2,203	955	**3,158**
	$ (16,280)	**$ (6,835)**	**$ (23,115)**

	December 31, 2014				
	Opening balance	Recognized in income (loss)	Other	Reclassified to discontinued operations	Closing balance
Capital assets	$ 256	$ (163)	$ -	$ -	$ 93
Intangible assets	(3,543)	-	-	-	(3,543)
Incorporation costs	300	(1)	-	-	299
Deferred financing and other costs	194	(18)	-	-	176
Accrued liabilities	80	108	328	-	516
Other financial liabilities	(62,766)	(15,152)	-	-	(77,918)
Deferred portfolio insurance	(10,369)	(2,912)	-	-	(13,281)
Other	459	(3)	311	1,433	2,200
	(75,389)	(18,141)	639	1,433	(91,458)
Tax losses - non-capital	62,884	11,867	(711)	(1,065)	72,975
Tax losses - restricted non-capital	2,788	(771)	186	-	2,203
Tax losses - capital	368	-		(368)	-
	$ (9,349)	$ (7,045)	$ 114	$ -	$ (16,280)

The composition of the Company's net deferred income tax asset and net deferred income tax liability as presented on the balance sheet as at December 31, 2015 are shown separately below:

	December 31, 2015		
Deferred tax assets:	Opening balance	Recognized in income (loss)	Closing balance
Capital assets	$ 200	$ 8	**$ 208**
Intangible assets	-	131	**131**
Incorporation costs	258	(3)	**255**
Deferred financing and other costs	3	35	**38**
Accrued liabilities	(194)	2,531	**2,337**
Other	216	(73)	**143**
	483	2,629	**3,112**
Tax losses - non-capital	7,252	613	**7,865**
Tax losses - restricted non-capital	2,204	954	**3,158**
	$ 9,939	**$ 4,196**	**$ 14,135**

Deferred tax liabilities:	Opening balance	Recognized in income (loss)	Closing balance
			December 31, 2015
Capital assets	$ (121)	$ 276	**$ 155**
Intangible assets	(1,352)	-	**(1,352)**
Incorporation costs	10	-	**10**
Deferred financing and other costs	69	33	**102**
Accrued liabilities	686	2	**688**
Other financial liabilities	(77,951)	(15,947)	**(93,898)**
Deferred portfolio insurance	(13,282)	(4,386)	**(17,668)**
	(91,941)	(20,022)	**(111,963)**
Tax losses - non-capital	65,722	8,991	**74,713**
	$ (26,219)	**$ (11,031)**	**$ (37,250)**

The composition of the Company's net deferred income tax asset and net deferred income tax liability as presented on the balance sheet as at December 31, 2014 are shown separately below:

Deferred tax assets:	Opening balance	Recognized in income (loss)	Other	Closing balance
				December 31, 2014
Capital assets	$ 191	$ 11	$ (2)	$ 200
Intangible assets	-	-	-	-
Incorporation costs	258	(1)	1	258
Deferred financing and other costs	21	(18)	-	3
Accrued liabilities	(321)	(73)	200	(194)
Other	(91)	(132)	439	216
	58	(213)	638	483
Tax losses - non-capital	7,377	585	(710)	7,252
Tax losses - restricted non-capital	2,789	(771)	186	2,204
	$ 10,224	$ (399)	$ 114	$ 9,939

Deferred tax liabilitites:	Opening balance	Recognized in income (loss)	Other	Closing balance
				December 31, 2014
Capital assets	$ 51	$ (172)	$ -	$ (121)
Intangible assets	(1,483)	131	-	(1,352)
Incorporation costs	10	-	-	10
Deferred financing and other costs	69	-	-	69
Accrued liabilities	505	181	-	686
Other financial liabilities	(62,798)	(15,153)	-	(77,951)
Deferred portfolio insurance	(10,369)	(2,913)	-	(13,282)
	(74,015)	(17,926)	-	(91,941)
Tax losses - non-capital	54,442	11,280	-	65,722
	$ (19,573)	$ (6,646)	$ -	$ (26,219)

The composition of the Company's aggregate unrecognized deductible temporary differences and unused tax losses as at December 31 is as shown below:

		December 31, 2015		December 31, 2014
Investment property	$	2,722	$	2,615
Tax losses - non-capital - legacy businesses		6,597		5,801
Tax losses - capital - legacy businesses		80,940		30,007
	$	90,259	$	38,423

17. Net interest and other income

The table below details the breakdown of the Company's net interest and other income (loss):

	Year ended December 31,			
		2015		2014
Interest income - mortgage lending	$	3,485	$	946
Interest expense - mortgage lending		(3,717)		(1,589)
Net interest income (loss) - mortgage lending		(232)		(643)
Servicing and fee income		1,263		1,819
Net other interest income (loss)		(675)		(180)
Other income (loss)		267		4,792
Credit provisions		(1,675)		-
	$	(1,052)	$	5,788

Interest income – mortgage lending primarily includes the interest the Company earns on mortgages it holds on-balance sheet where a mortgage has either been securitized by the Company through the NHA MBS program, or is held on-balance sheet prior to securitization or sale funding.

Interest expense – mortgage lending includes the interest expense from the securitization liabilities resulting from the issuance of NHA MBS to fund the securitized mortgages. The expense also includes interest expense on the credit facilities used to fund mortgages prior to take out funding.

Servicing and fee income is the net servicing fees and trailing interest spread earned by the Company, and represents the difference between the cash received by the Company and the amortization of the deferred placement fees. The amount realized is dependent both on the size of the portfolio and the extent to which actual experience differs from the assumptions made at the time of sale of the mortgages.

Net other interest income (loss) is the net interest on loans receivable and payable that are associated with the Company's legacy businesses, and interest expense on the Company's operating line.

Other income (loss) is largely comprised of items associated with the Company's legacy businesses. These include management fees and other income earned by the Private Equity business, offset by some associated costs.

Credit provisions are allowances on loans and other receivables that are not part of the Company's mortgage lending business.

18. Commitments and contingencies

In addition to the securitization liabilities, bank facilities, and loans discussed in Notes 7, 13 and 14, the Company has other commitments as detailed below.

Lease commitments

The Company is committed to operating leases for office premises located in Toronto, Vancouver and Calgary. These contracts are renewable upon their expiration. Additionally, the Company is committed to various automotive and equipment leases. The total lease payments recognized as an expense during the period totalled $2,119, of which $971 consisted of operating expenses that were in addition to the minimum lease payments (2014 - $2,090, including operating expenses of $962). The future minimum annual payments are shown below:

	December 31, 2015	December 31, 2014
Within 1 year	$ 1,036	$ 1,024
1 to 5 years	1,609	2,461
Over 5 years	-	-
	$ 2,645	$ 3,485

In January 2016, the Company entered into new premises lease agreements that extend until September 30, 2025, which require future minimum annual payments totaling $6,118 in addition to the amounts disclosed above as of December 31, 2015.

Contingencies

The Company, from time to time, is involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company is not aware of any pending or threatened proceedings that would have a material adverse effect on the consolidated financial condition or future results of the Company. Contingent consideration associated with potential earn-out payments related to the purchase of Street Capital Financial was extinguished on the share exchange in the second quarter of 2015 (see Note 2).

19. Share capital

The authorized capital stock consists of an unlimited number of common and preferred shares with no par value:

				For the year ended
Common shares		**December 31,**		December 31,
Issued and outstanding (000s)		**2015**		2014
	Number of Shares	**Amount**	**Number of Shares**	**Amount**
Outstanding, beginning of year	99,358	$ 206,680	99,063	$ 206,131
Options exercised	1,868	2,014	38	25
Shares issued (net of share issue costs)	20,000	35,901	257	524
	121,226	244,595	99,358	206,680
Share purchase loans	-	(2,417)	-	(2,417)
Outstanding, end of year	121,226	$ 242,178	99,358	$ 204,263

Share purchase loans were granted to certain key employees and former employees. The loans are collateralized by the shares purchased and personal guarantees. At December 31, 2015, the share purchase loans outstanding were for the purchase of 780,000 (December 31, 2014 – 780,000) common shares of the Company. These loans have various maturity dates through to December 31, 2020, and all of them are non-interest bearing.

There are no preferred shares outstanding.

20. Net income (loss) per share

The following is a reconciliation of the numerators and denominators used in computing net income (loss) per share for the years ended December 31:

		Year ended December 31,		
Basic and diluted net income (loss) per share:		**2015**		**2014**
Numerator:				
Income (loss) from continuing operations	**$**	**(36,740)**	$	44,418
Income (loss) attributable to non-controlling interest		**(6,688)**		19,335
Income (loss) attributable to shareholders - continuing operations		**(30,052)**		25,083
Income (loss) from discontinued operations		**17**		(11,594)
Income (loss) attributable to non-controlling interest		**-**		560
Income (loss) attributable to shareholders - discontinued operations		**17**		(12,154)
Net income (loss) attributable to shareholders	**$**	**(30,035)**	$	12,929
Denominator:				
Weighted average common shares outstanding (000's) - basic and diluted		**111,005**		99,142
Basic and diluted net income (loss) per share from continuing operations	**$**	**(0.27)**	$	0.25
Basic and diluted net income (loss) per share from discontinued operations	**$**	**0.00**	$	(0.12)
Basic and diluted net income (loss) per share	**$**	**(0.27)**	$	0.13

In computing the diluted net income (loss) per share for the years ended December 31, 2015 and 2014, the Company included in the calculation potential common share equivalents, which are comprised of incremental shares from stock options, and the outstanding deferred share units held by directors. The inclusion of such common share equivalents was not sufficiently dilutive to change the earnings per share amounts for either year.

21. Stock-based compensation plans

Stock options

The Company has two stock option plans available for the grant of options to its directors, officers, employees and any other person or company engaged to provide ongoing management or consulting services for the Company. These plans are i) the Director, Officer and Employee Stock Option Plan (the "1992 Plan"), and ii) the 1997 Stock Option Plan (the "1997 Plan"). Under both plans, the exercise price of each option equals, at a minimum, the market price of the Company's common shares on the date of grant. Unless otherwise provided, the maximum term of the grant is six years from the date of the grant and options vest 20% on the date of grant and 20% on each of the first through fourth anniversaries of the grant date. All unvested options vest upon a change of control of the Company.

A summary of the status of the Company's stock option plans and changes during the years ended December 31 is as follows:

Stock Options Outstanding and exercisable (000`s except price)	Number of shares		Weighted-average exercise price	Number of shares		Weighted-average exercise price
	December 31, 2015			December 31, 2014		
Outstanding, beginning of year	**5,025**	**$**	**0.87**	4,667	$	0.79
Granted	**250**		**2.32**	396		1.78
Exercised	**(1,868)**		**0.62**	(38)		0.65
Outstanding, end of year	**3,407**	**$**	**1.11**	5,025	$	0.87
Exercisable, end of year	**2,682**	**$**	**0.99**	3,654	$	0.79
Weighted-average market price per share at date of exercise		**$**	**2.05**		$	1.69
Weighted-average remaining contractual life in years			**2.74**			3.01

For the year ended

In 2011, the 1997 Plan was amended such that the maximum number of common shares subject to options under the 1997 Plan and all other share compensation arrangements is 10% of the total issued and outstanding common shares. At December 31, 2015, under the 1997 Plan, 3,407,131 options were outstanding (2014 – 5,025,131 options) and 7,849,545 options were available for grant (2014 – 4,044,745 options). No options under the 1992 Plan were outstanding at either December 31, 2015 or 2014, and 53,000 options remained available for grant at both dates.

The fair value of option grants is estimated on the grant date using the Black-Scholes option pricing model, with expected volatilities based on the Company's historic pricing data. The following weighted average assumptions were used for option grants in 2015: risk-free interest rate of 1.29% (2014 – 1.80%), expected dividend yield of nil% (2014 – nil %), expected life of five years (2014 – five years), and expected volatility of 57.7% (2014 – 66.8%).

The weighted average fair value of the options granted during the year was $1.17 (2014 - $1.00). The fair value of stock options is amortized as salaries and benefits expense in the consolidated statements of operations over the vesting period, with a corresponding credit to contributed surplus. For the year ended December 31, 2015, total compensation expense related to stock options was $349 (2014 - $418). When stock options are exercised, the amount of the proceeds, together with the amount recorded in contributed surplus, is reported as a credit to capital stock. For the year ended December 31, 2015, this was $2,014 (2014 - $25).

The following table summarizes the stock options outstanding and exercisable as at December 31, 2015:

	Options outstanding			Options exercisable	
Range of exercise prices $	**Number outstanding (000s)**	**Weighted average remaining contractual life (yrs)**	**Weighted average exercise price $**	**Number exercisable (000s)**	**Weighted average exercise price $**
0.65 to 0.91	**2,615**	**2.13**	**0.85**	**2,315**	**0.84**
1.70 to 2.32	**792**	**4.77**	**1.96**	**367**	**1.89**
	3,407	**2.74**	**1.11**	**2,682**	**0.99**

Deferred Share Units

The Company implemented a Deferred Share Unit Plan ("DSU Plan") in March 2006, under which the Company's independent directors received annual grants of deferred share units ("DSUs"). The terms of the DSU plan provided that when a DSU holder ceased to be a director, the DSUs were to be paid out based on the closing price of the Company's common stock at that time. In June 2011, the Company ceased granting DSUs, but the outstanding DSUs retained the same terms and conditions. In 2013, the DSU Plan was amended to provide for payment in shares rather than cash. Approximately 813,000 DSUs, which are equivalent to that number of the Company's common shares, were outstanding at December 31, 2015 and 2014. Approximately 666,000 of these are held by retired directors and must be exchanged for common shares by the end of 2016.

22. Compensation of key management personnel and employee benefits

The remuneration of directors and key management personnel in continuing operations during the year was as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Short-term benefits	**$ 8,742**	$ 4,998
Share-based compensation	**294**	321
	$ 9,036	$ 5,319

The total compensation benefits for 2015 for the Company within continuing operations were $28,561 (2014 - $24,348). This included $528 (2014 - $438) in Company contributions to the employee group registered retirement savings plan.

23. Capital management

The Company's objective is to maintain a strong simplified capital base in order to maintain investor confidence and support the future development of the business, while allocating capital for maximum economic benefit. Management defines capital as the Company's equity and deficit. The Company's wholly owned subsidiary, Street Capital Financial, has minimum net worth requirements as stipulated under the bank facilities discussed in Note 13. As at December 31, 2015, Street Capital Financial far exceeded the minimum, and was compliant throughout the year.

Street Capital Financial has applied to Canada's Minister of Finance for approval to operate as a Schedule I bank. In anticipation of Street Capital Financial receiving this approval, the Company has developed a Board-approved Capital Management Policy that will govern the quantity and quality of capital held. The objective of the policy is to ensure that, in addition to ensuring the Company has adequate capital to support its strategic and business objectives, it also has adequate capital to absorb potential unexpected losses and meet the minimum regulatory capital requirements as stipulated by the Office of the Superintendent of Financial Institutions, Canada ("OSFI"). Street Capital Financial 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 Financial's common equity and retained earnings. Two regulatory capital requirements are addressed in Street Capital Financial's policy: the Leverage Ratio and the Risk-Based Capital Ratios.

24. Financial instruments and financial risk management

The amounts set out in the following table represent the fair value and the current/non-current classification of the Company's financial instruments.

	December 31, 2015				December 31, 2014	
	Due within one year	Due after one year	Total carrying value	Fair value	Total carrying value	Fair value
Financial assets						
Cash and cash equivalents (i)	8,846	-	8,846	8,846	23,022	23,022
Restricted cash (i)	13,078	-	13,078	13,078	13,130	13,130
Non-securitized mortgage loans (ii)	3,562	13,179	16,741	16,922	4,285	4,348
Securitized mortgage loans (ii)	20,507	147,255	167,762	171,217	50,318	51,643
Deferred placement fees receivable (ii)	9,413	37,029	46,442	46,442	38,749	38,749
Other assets (ii)	4,463	3,382	7,845	7,845	13,345	13,345
Portfolio investments (i)	13,506	-	13,506	13,506	40,010	40,010
	73,375	200,845	274,220	277,856	182,859	184,247
Financial liabilities						
Bank facilities (iii)	15,817	-	15,817	15,817	9,773	9,773
Loans payable (iii)	1,500	7,472	8,972	8,972	9,134	9,134
Securitization liabilities (iii)	22,162	145,218	167,380	168,702	50,546	52,031
Accounts payable and accrued liabilities (iii)	37,490	273	37,763	37,763	45,964	45,964
Contingent consideration (i)	-	-	-	-	4,908	4,908
	76,969	152,963	229,932	231,254	120,325	121,810

(i) Fair value through profit or loss
(ii) Loans and receivables at amortized cost
(iii) Financial liabilities at amortized cost

The valuation methods and assumptions are described below.

The estimated fair values approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly market transaction in the principal or most advantageous market accessible to the Company.

The following assumptions and methods were used to determine the fair values of financial instruments:

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

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

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

Portfolio investments – fair value is determined by using various valuation techniques and market prices (see Note 11).

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

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

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

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

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

The following tables present the financial instruments measured at fair value at December 31, 2015 and 2014 as classified by the fair value hierarchy set out above:

				December 31, 2015
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	8,846	-	-	8,846
Restricted cash	13,078	-	-	13,078
Non-securitized mortgage loans	-	-	16,922	16,922
Securitized mortgage loans	-	-	171,217	171,217
Deferred placement fees receivable	-	-	46,442	46,442
Other assets	-	-	7,845	7,845
Portfolio investments	-	13,322	184	13,506
	21,924	13,322	242,610	277,856
Financial liabilities				
Bank facilities	15,817	-	-	15,817
Loans payable	-	8,972	-	8,972
Securitization liabilities	-	-	168,702	168,702
Accounts payable and accrued liabilities	-	-	37,763	37,763
	15,817	8,972	206,465	231,254

During the third quarter of 2015, one of the Company's portfolio investments was transferred from Level 3 to Level 2. As described in Note 11, purchase and sale agreements among independent third parties were in progress, and therefore established a fair value for this investment, based primarily on observable prices.

				December 31, 2014
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash equivalents	23,022	-	-	23,022
Restricted cash	13,130	-	-	13,130
Non-securitized mortgage loans	-	-	4,348	4,348
Securitized mortgage loans	-	-	51,643	51,643
Deferred placement fees receivable	-	-	38,749	38,749
Other assets	312	107	12,926	13,345
Portfolio investments	-	18,519	21,491	40,010
	36,464	18,626	129,157	184,247
Financial liabilities				
Bank facilities	9,773	-	-	9,773
Loans payable	-	9,134	-	9,134
Securitization liabilities	-	-	52,031	52,031
Accounts payable and accrued liabilities	-	-	45,964	45,964
Contingent consideration	-	-	4,908	4,908
	9,773	9,134	102,903	121,810

The Company is exposed to various risks given the nature of its business activities and exposure to financial instruments. The Company has established policies and processes to measure and manage the risks, as set out below.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations.

The Company's credit risk is mainly associated with its mortgage lending business, in the form of the risk of default on the part of the borrower. The vast majority of the mortgages that the Company underwrites are sold to institutional investors and are insured or insurable against default with CMHC and other government backed private insurers, such that the residual credit risk to the Company is immaterial overall. Given that the vast majority of these mortgages are sold to institutional investors, their credit quality remains an important measure in ensuring continued demand from these investors. If mortgages that the Company sold or securitized in the past perform poorly, it may adversely affect the perceived value, or reduce the quantity, of any future mortgages it attempts to sell or securitize.

Even though the Company is not exposed to material levels of credit risk associated with its mortgage lending business, the Company applies a detailed set of Board approved credit policies and underwriting procedures, to ensure mortgages are insurable and meet investor requirements. 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 risk ranked, 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 credit risk on liquid assets, the vast 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 has credit risk associated with specific loans receivable that are related to its discontinued Real Estate, Asset Liquidation and Case Goods businesses. The balance of these loans at December 31, 2015 was $5.6 million (2014 - $6.5 million). The Company evaluated the collectibility of these loans at December 31, 2015 and determined that a credit allowance of $1.7 million was required on its receivable from Fleetwood, reducing the net loans receivable to $3.9 million.

The maximum credit exposures of the financial assets are their carrying values as reflected on the consolidated statements of financial position. The Company does not have any significant concentrations of credit risk within any geographic region or group of customers.

Liquidity risk

Liquidity risk is the risk that the Company is unable 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, investing and other business activities. The Company manages liquidity risk through both daily monitoring and measurement of the Company's liquidity position, and regular liquidity forecasting to ensure it has sufficient liquidity to meet all expected cash outflows, both in ordinary market conditions and during periods of market stress.

The Company's main sources of operating liquidity are the cash premiums received from the sale of mortgages to investors, cash received from the Company's share of servicing fees and excess spread, and, to a lesser extent, the sale of NHA MBS. In order to maintain strong investor demand for Street Capital Financial's mortgages, and target the maximum gain on sale, Street Capital Financial invests only in high quality mortgages and maintains stringent underwriting and quality assurance processes. If mortgages that the Company sold or securitized in the past perform poorly, it may adversely affect the perceived value, or reduce the quantity, of any future mortgages it attempts to sell or securitize.

The Company holds liquid assets primarily in the form of cash in bank deposits. At December 31, 2015 the Company had $8.9 million in cash and cash equivalents on deposit with a Schedule I Canadian bank.

The Company has a $165 million credit facility with a syndicate of Schedule I Canadian banks, which is available in three tranches depending on the use of funds. Up to $125 million can be used to fund up to 98% of the value of insured high ratio mortgages, up to $25 million can be used to fund up to 80% of conventional, low ratio insurable mortgages, and up to $15 million is available as an operating line. The Company had $149 million total available capacity under these facilities at December 31, 2015 (2014 – nil, as facility was acquired in 2015). As an approved NHA MBS issuer, the Company can also access the NHA MBS market to fund insured mortgages.

The Company periodically receives cash related to its Private Equity business, in connection with the disposition of KBCP Fund 1's investments. In 2015 the net receipts were approximately $4.5 million. As discussed above, management expects that KBCP Fund 1 will exit from its remaining material investment in 2016 or 2017, at which time the Company will receive its proportionate share, and no further cash flows will be received.

Liquidity risk associated with mortgage commitments is limited, as the investors commit to funding the vast majority at the time of mortgage commitment. For the small number of mortgage commitments without an upfront investor commitment, the Company utilizes its available credit facility prior to issuing NHA MBS or sale to an investor.

Interest rate risk

Interest rate risk is the risk of lost earnings or capital due to changes in interest rates. The objective of interest rate risk management is to ensure that the Company is able to realize stable and predictable earnings, over specific time periods, despite fluctuations in interest rates. The Company manages interest rate risk to minimize its exposure to fluctuations in interest rates by assessing the potential impact of interest rate changes on net interest income. The Company's primary exposure to interest rate risk arises from fluctuations in interest rates on its mortgages and loans payable, which depend on prevailing rates at renewal.

The Company is not exposed to a material level of interest rate risk arising from mortgage commitments, because the purchase price for mortgages sold to investors is based on customer commitment rates rather than the funded rate, thereby passing on the interest rate risk to the investors. Where the Company securitizes its mortgages directly, 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, but this has been immaterial given low relative volumes.

At December 31, 2015 an immediate and sustained 100 basis point change in interest rates would result in a $53 (2014 - $114) before tax decrease in net interest income over the next 12 months.

Investment Risk

Investment risk is the risk of loss due to impairment in the fair value of investments. The Company's investment risk arises from its portfolio investments, which are carried at fair value. At December 31, 2015 these portfolio investments had a fair value of $13.5 million, of which $10.3 million is attributable to the Company's non-controlling interests. At December 31, 2015 the Company has two primary valuation risks with respect to its portfolio investments. The fair value of the investment in Fleetwood, which management concluded was zero at December 31, 2015 is based on management's analysis of Fleetwood's financial position and projections, as well as management's estimate of an appropriate discount rate and time horizon. The inclusion of significant unobservable inputs increases the risk that the investment fair value is not correct. The fair value of the Private Equity investments includes fewer unobservable inputs, as virtually all of those inputs at December 31, 2015 consist of either expected cash proceeds or publicly traded stock. The primary valuation risk is the potential for a decline in the share price of the common stock prior to exiting the investment. An additional risk specific to Private Equity is that the investments are primarily in US

dollars and therefore are also subject to the risk of an increase in the value of the Canadian dollar relative to the US dollar.

25. Discontinued operations

In the first quarter of 2013, The Company's Board of Directors approved a plan to dispose of the Company's non-core operating business segments. The decision reflected the Company's strategy, undertaken in recent years, to focus on mortgage lending through Street Capital Financial. Discontinued operations have been presented on a segmented basis to enhance the reader's understanding of the financial information presented.

A summary of the carrying value of the assets and liabilities in discontinued operations is as follows:

	December 31, 2015	December 31, 2014
Assets:		
Current		
Cash and cash equivalents	**$ 45**	$ 45
Other assets	**1,293**	1,296
Total assets	**$ 1,338**	$ 1,341
Liabilities:		
Current		
Accounts payable and accrued liabilities	**1,166**	1,167
Total liabilities	**$ 1,166**	$ 1,167

All of the assets and liabilities in discontinued operations at December 31, 2015 and 2014 related to the Real Estate segment.

The composition of earnings (loss) from discontinued operations for the years ended December 31 is as follows:

	Year ended December 31, 2015			
	Asset Liquidation	**Case Goods**	**Real Estate**	**Total**
Revenues	**$ -**	**$ -**	**$ 36**	**$ 36**
Expenses				
Selling, general and administrative expense	**-**	**-**	**8**	**8**
Other	**-**	**-**	**11**	**11**
Income before income taxes	**-**	**-**	**17**	**17**
Income tax provision	**-**	**-**	**-**	**-**
Net income	**-**	**-**	**17**	**17**
Net income attributable to non-controlling interest	**-**	**-**	**-**	**-**
Net income attributable to shareholders	**$ -**	**$ -**	**$ 17**	**$ 17**

	Year ended December 31, 2014			
	Asset Liquidation	Case Goods	Real Estate	Total
Revenues	$ 1,591	$ 3,026	$ 154	$ 4,771
Expenses and other (income) losses:				
Operating costs	231	1,417	-	1,648
Selling, general and administrative expense	2,388	576	309	3,273
Foreign exchange gain	(1,147)	(521)	-	(1,668)
Interest expense	70	-	2	72
Other	114	30	252	396
Income (loss) before fair value adjustments and income taxes	(65)	1,524	(409)	1,050
Fair value adjustments	(12,762)	-	-	(12,762)
Income (loss) before income taxes	(12,827)	1,524	(409)	(11,712)
Income tax recovery	(115)	-	(3)	(118)
Net income (loss)	(12,712)	1,524	(406)	(11,594)
Net income (loss) attributable to non-controlling interest	(273)	833	-	560
Net income (loss) attributable to shareholders	$ (12,439)	$ 691	$ (406)	$ (12,154)

The Asset Liquidation business was carried on through entities that were wholly owned by the Company's subsidiary, Heritage Global Inc. ("HGI"), and consisted of the acquisition and disposition of distressed and surplus assets throughout the United States and Canada.

The Case Goods business was carried on through Fleetwood, which provides high-quality customized case goods for large, upscale hotel chains, primarily in North America.

Real Estate encompasses the ownership and development of properties as well as the provision of real estate property and asset management services to third parties.

All three segments were discontinued as at March 31, 2013. In the first quarter of 2014, the Case Goods business was sold to third parties, resulting in a gain of approximately $1,500. In addition, the Company extinguished a debt related to the Case Goods business, resulting in a gain of $4,125. The Asset Liquidation business was distributed to the Company's shareholders as a dividend-in-kind, which was declared on March 20, 2014 with a payment date of April 30, 2014. Upon the declaration of the dividend-in-kind, the Company's investment in HGI was reclassified from discontinued operations to shares "available for sale". This required the shares to be recorded at fair value, ultimately resulting in a fair value adjustment of $(12,762).

26. Related party transactions

In addition to the shareholder loans described in Note 19, the Company has the following additional transactions.

Beginning in December 2004, HGI and the Company entered into successive annual management services agreements (collectively, the "Agreement"). Under the terms of the Agreement, HGI agreed to pay the Company for ongoing management and financial services provided to HGI by the Company personnel.

Following the Company's disposition of its investment in HGI in April 2014, as described in Note 25, HGI and the Company entered into a replacement management services agreement (the "Services Agreement"). Under the terms of the Services Agreement, the Company remained as external manager and provided the same services, at similar rates. The Services Agreement had an initial term of one year, with a provision for automatic renewal for successive one-year terms, and could be terminated at any time upon mutual

agreement of HGI and the Company. Following changes to HGI's executive officers and directors that were effective on May 5, 2015, HGI and the Company determined that the Services Agreement would be terminated in the third quarter of 2015, and this termination took place effective August 31, 2015. The Company charged HGI US$290 for the year ended December 31, 2015 (2014 – US$435) under the Services Agreements. In addition, at December 31, 2015, the Company had a loan receivable of US$1,721 (2014 – US$2,985) from HGI.

The accounts receivable balance as at December 31, 2015 includes a $565 interest free loan made to a senior executive of the company.

27. Subsequent events

The Company has evaluated events subsequent to December 31, 2015 through to the date of approval of the consolidated financial statements by the Board of Directors for disclosure. There were no material subsequent events requiring disclosure.

28. Reconciliation of comparative consolidated financial statements

Consolidated statements of financial position

	Reclassified December 31, 2014 $	Original December 31, 2014 $	Reclassified January 1, 2014 $	Original December 31, 2013 $
Assets (a)				
Cash and cash equivalents	23,022	36,152	4,866	17,580
Restricted cash	13,130	-	12,714	-
Securities (d)	-	419	-	410
Mortgages, loans, accounts and deferred fees receivable (b)	-	29,366	-	22,004
Non-securitized mortgage loans	4,285	-	3,618	-
Securitized mortgage loans	50,318	4,731	-	-
Deferred placement fees receivable	38,749	-	29,000	-
Portfolio investments	40,010	30,910	53,220	-
Prepaid porfolio insurance	50,888	-	39,457	-
Prepaid expenses (c)	-	7,058	-	4,655
Deferred income tax assets	9,939	-	10,224	-
Intangible assets	6,123	-	5,594	-
Other assets (d)	17,994	-	13,033	-
Goodwill	23,465	-	24,919	-
Assets of discontinued operations	1,341	854	71,782	18,415
	279,264	109,490	268,427	63,064
Non-current assets (a)				
Deferred fees and mortgages receivable	-	26,594	-	19,403
Securitized mortgage loans	-	45,587	-	-
Prepaid expenses (c)	-	44,796	-	35,557
Property, plant and equipment	-	4,706	-	3,079
Portfolio investments	-	9,100	-	53,220
Intangible assets	-	5,101	-	5,594
Goodwill	-	23,465	-	24,919
Deferred income tax assets	-	9,939	-	10,224
Assets of discontinued operations	-	486	-	53,367
Total assets	279,264	279,264	268,427	268,427
Liabilities (a)				
Bank facilities (e)	9,773	-	-	-
Loans payable	9,134	11,973	20,728	14,025
Accounts payable and accrued liabilities	45,964	45,961	29,471	29,458
Income taxes payable	-	3	-	4
Deferred income tax payable	26,219	-	19,573	-
Securitization liabilities	50,546	4,576	-	-
Contingent consideration	4,908	2,600	8,570	4,027
Liabilities of discontinued operations	1,167	1,017	20,868	20,550
	147,711	66,130	99,210	68,064
Non-current liabilities (a)				
Loans payable	-	6,934	-	6,703
Securitization liabilities	-	45,970	-	-
Contingent consideration	-	2,308	-	4,543
Deferred income tax liabilities	-	26,219	-	19,573
Derivative liability	-	-	-	9
Liabilities of discontinued operations	-	150	-	318
Total liabilities	147,711	147,711	99,210	99,210
Equity	131,553	131,553	169,217	169,217
Total liabilities and equity	279,264	279,264	268,427	268,427

(a) The Company reclassified the statement of financial position from a current/non-current presentation to a liquidity presentation

(b) Reclassified to non-securitized mortgages, deferred placement fees receivable and other assets

(c) Prepaid expenses primarily reclassifed as prepaid portfolio insurance

(d) Other assets consists of loans and accounts receivable, capital assets, other prepaid expenses, and securities.

(e) Bank facilities reclassified from loans payable

Consolidated statements of operations

	Year ended December 31, 2014	
	Reclassified	Original
	$	$
Revenues		
Gain on sale of mortgages	138,965	138,964
Acquisition costs (a)	(82,481)	-
Net gain on sale of mortgages	56,484	138,964
Net interest and other income (b)	-	8,348
Net interest and other income (loss)	5,788	-
	62,272	147,312
Expenses		
Operating costs (a)	-	84,300
Salaries and benefits (c)	24,056	-
Selling, general and administrative expense (c)	13,736	34,492
Foreign exchange	-	(83)
Depreciation and amortization	-	1,297
Interest expense (b)	-	2,826
	37,792	122,832
Income before other charges	24,480	24,480
Fair value adjustments	26,983	26,983
Income tax provision	7,045	7,045
Income (loss) from discontinued operations	(11,594)	(11,594)
Net income (loss)	32,824	32,824
Net income attributable to non-controlling interest	19,895	19,895
Net income attributable to shareholders	12,929	12,929

(a) Operating costs represent direct costs to acquire mortgages and are reclassified to revenues as acquisition costs (reduction to gain on sale of mortgages)

(b) Interest expense was reclassified to revenues and combined with interest and fee income to net interest and other income (loss)

(c) Salaries and benefits costs were segregated and reclassified from selling, general and administrative expense.