
EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Second Quarter Ended June 30, 2015

Responsibility for Consolidated Financial Statements

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

EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30,	December 31,
(\$000s Canadian dollars)	2015	2014
Assets		
Cash and cash equivalents (Note 6)	\$ 48,334	\$ 33,231
Mortgages receivable, net (Note 7)	314,086	297,375
Current income taxes receivable	164	421
Deferred tax assets (Note 11)	860	641
Other assets (Note 9)	596	599
Property, plant and equipment	511	607
Intangible assets	1,843	2,079
	\$ 366,394	\$ 334,953
Liabilities and Shareholders' Equity		
Liabilities		
Customer deposits (Note 8)	\$ 268,704	\$ 235,597
Deferred tax liabilities (Note 11)	412	567
Deferred share unit liability (Note 13)	609	375
Contingent consideration payable (Note 15)	600	-
Other liabilities (Note 10)	2,094	3,563
	272,419	240,102
Shareholders' Equity		
Share capital (Note 12)	33,425	33,401
Contributed surplus	2,124	1,772
Retained earnings	58,426	59,678
	93,975	94,851
	\$ 366,394	\$ 334,953

Approved on Behalf of the Board of Directors

/signed/ - Michael R. Jones

Director

/signed/ - Brad R. Kipp

Director

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

EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(unaudited)

	For the three months ended		For the six months ended	
	June 30,		June 30,	
(\$000s Canadian dollars, except share and per share amounts)	2015	2014	2015	2014
Interest income	\$ 3,842	\$ 5,268	\$ 7,619	\$ 10,701
Interest expense	(1,408)	(1,879)	(2,689)	(3,864)
Net interest income	2,434	3,389	4,930	6,837
(Increase) reversal in provision for credit losses (Note 7)	(128)	105	(160)	47
Net interest income, including (provision for) recovery of credit losses	2,306	3,494	4,770	6,884
Non-interest income				
Mortgage servicing fees	307	409	604	787
Other fee income (Note 15)	150	-	150	-
	457	409	754	787
Net interest income and non-interest income, including (provision for) recovery of credit	2,763	3,903	5,524	7,671
Non-interest expenses (Note 16)				
Staffing costs	\$ 1,837	2,010	\$ 3,651	4,437
Other expenses	1,524	1,441	2,758	7,473
Total non-interest expenses	3,361	3,451	6,409	11,910
Charge for contingent consideration (Note 15)	600	-	600	-
(Loss) income before income taxes	(1,198)	452	(1,485)	(4,239)
Income tax (recovery) expense (Note 11)				
Current	(64)	50	141	(229)
Deferred	(142)	132	(374)	(785)
	(206)	182	(233)	(1,014)
Net (loss) income and total comprehensive (loss) income	\$ (992)	\$ 270	\$ (1,252)	\$ (3,225)
Net (loss) earnings per common share				
Basic (loss) earnings per share	\$ (0.10)	\$ 0.03	\$ (0.13)	\$ (0.34)
Diluted (loss) earnings per share	\$ (0.10)	\$ 0.03	\$ (0.13)	\$ (0.34)
Weighted average number of common shares outstanding				
Basic	9,529,508	9,423,836	9,528,878	9,386,076
Diluted	9,534,472	9,457,952	9,535,834	9,457,952

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

EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(\$000s Canadian dollars, except share amounts)	For the six months ended June 30, 2015 and 2014				
	Share Capital		Contributed	Retained	Total
	Number	Amount	Surplus	Earnings	Shareholders' Equity
Balance as at December 31, 2014	9,527,508	\$ 33,401	\$ 1,772	\$ 59,678	\$ 94,851
Exercise of stock options (Notes 12 and 13)	2,000	24	(8)	-	16
Net loss	-	-	-	(1,252)	(1,252)
Share-based payment expense	-	-	360	-	360
Balance as at June 30, 2015	9,529,508	\$ 33,425	\$ 2,124	\$ 58,426	\$ 93,975
Balance as at December 31, 2013	9,345,840	\$ 31,735	\$ 1,778	\$ 62,597	\$ 96,110
Exercise of stock options (Notes 12 and 13)	122,501	1,103	(280)	-	823
Net loss	-	-	-	(3,225)	(3,225)
Share-based payment expense	-	-	157	-	157
Balance as at June 30, 2014	9,468,341	\$ 32,838	\$ 1,655	\$ 59,372	\$ 93,865

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

EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(\$000s Canadian dollars)	For the six months ended	
	June 30, 2015	June 30, 2014
Operating Activities		
Net loss for the period	\$ (1,252)	\$ (3,225)
Adjustments to determine cash flows relating to operating assets and liabilities		
Depreciation of property, plant and equipment	114	113
Amortization of intangible assets	236	226
Realized loss on impaired mortgages (Note 7)	(54)	-
Impairment losses on asset write-offs	-	6
Share-based payments	360	157
Provision for (reversal of) credit losses	160	(47)
Changes in operating assets and liabilities		
Income tax recovery	(233)	(1,014)
Income tax received (paid)	116	(7,751)
(Increase) decrease in mortgages receivable	(16,817)	30,296
Increase (decrease) in customer deposits	33,107	(21,725)
Increase (decrease) in deferred share unit liability	234	(919)
Increase in contingent consideration payable (Note 15)	600	-
Decrease in other assets	3	15
Decrease in other liabilities	(1,469)	(1,172)
Cash flows provided by (used in) operating activities	15,105	(5,040)
Financing Activities		
Shares issued pursuant to stock options exercised (Note 12 and 13)	16	823
Cash flows provided by financing activities	16	823
Investing Activities		
Additions to property, plant and equipment	(18)	(14)
Impairment of intangible assets	-	6
Cash flows used in investing activities	(18)	(8)
Net increase (decrease) in cash and cash equivalents during the period	15,103	(4,225)
Cash and cash equivalents at the beginning of the period	33,231	43,376
Cash and cash equivalents at the end of the period	\$ 48,334	\$ 39,151
Supplementary Disclosure of Cash Flow Information		
Cash interest received	\$ 7,602	\$ 10,346
Cash interest paid	2,855	2,287
Non-Cash Transactions: Deferred share unit grants (Note 13)	399	-

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

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

1. Nature of operations

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

2. Summary of significant accounting policies

(a) Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), using the same basis of presentation and accounting policies disclosed in the annual audited consolidated financial statements for the financial year ended December 31, 2014. Additional updated accounting policies relevant to these financial statements have been described below.

These interim consolidated financial statements should be read in conjunction with the Corporation's December 31, 2014 annual audited consolidated financial statements.

These interim consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on August 12, 2015.

(b) Financial Instruments

Financial liabilities

The financial liability related to the contingent consideration payable is measured at fair value, with any adjustments on re-measurement recognized in the consolidated statements of operations and comprehensive income (loss).

(c) Revenue recognition

Non-interest income

Non-interest income includes mortgage servicing fees and other fee income. Mortgage servicing fees include annual maintenance fees and renewal fees, non-sufficient fund fees, discharge fees, legal fees, and other miscellaneous fees. Other fee income is related to EFT's transitional status as trustee for client relationships managed by a third party.

Non-interest income is accrued and recognized as income when the associated services are rendered.

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

3. Current and future changes in accounting policies

The IASB and the International Financial Reporting Interpretations Committees (“IFRIC”) have issued a number of new or revised standards or interpretations that will become effective for future periods and could have a potential implication on the accounting policies of the Corporation. There have been no new or revised pronouncements in addition to those disclosed in the 2014 annual consolidated audited financial statements.

4. Capital management

The Corporation’s managed capital is comprised of shareholders’ equity, which totalled \$93,975 as at June 30, 2015 (December 31, 2014 – \$94,851). Senior management is responsible for managing the Corporation’s capital and the main objectives are to ensure the longevity of its capital to support continued operations and to maintain shareholders’ return on equity. To achieve these objectives, the Corporation manages capital to meet the regulatory requirements of its subsidiary, EFT, to ensure sufficient resources are available to meet day-to-day operating requirements, to allow it to enhance existing systems and develop new systems, and to have the financial ability to expand the scope of its operations and services. EFT is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions of Canada (“OSFI”).

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

Regulatory capital and capital ratios calculations are based on the Capital Adequacy Requirements Guidelines issued by OSFI. The guidelines are based on *Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework* (“Basel III”), which EFT adopted effective January 1, 2013. Under Basel III, capital is calculated two ways during the transitional period ending January 1, 2018. To measure compliance with minimum risk based capital ratio requirements, capital is calculated on the all-in basis, which includes all applicable deductions required by 2019 in the current period.

As at June 30, 2015, EFT held CET 1 on an “all-in” basis of \$84,653, compared to \$85,332 as at December 31, 2014.

Basel III leverage ratio

In January 2014, the Basel Committee on Banking Supervision (“BCBS”) released the Basel III leverage ratio framework and disclosure requirements, which replaced the leverage ratio section (Section V) of the Basel III Framework released in December 2010. On October 30, 2014, OSFI issued the final version of the Leverage Requirements Guideline, which transposes leverage requirements issued by the BCBS into OSFI guidance. The Basel III leverage ratio framework required public disclosure of the leverage ratio beginning first fiscal quarter of 2015. The Basel III leverage ratio replaced the Asset to Capital Multiple. The leverage ratio is currently defined as Tier 1 capital divided by the total exposure measure. The exposure measure is the sum of (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction (“SFT”) exposures and (d) off-balance sheet items. Federally regulated deposit-taking institutions are expected to have Basel III leverage ratios that meet or exceed 3%.

The full Basel III Pillar 3 capital and leverage ratio disclosures can be found on pages 17 to 19 of the Corporation’s Management Discussion and Analysis (“MD&A”) for the second quarter ended June 30, 2015.

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

4. Capital management (continued)

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

Capital Disclosures				
As at	June 30, 2015		December 31, 2014	
	All-in	Transitional	All-in	Transitional
Common Equity Tier 1 capital: instruments and reserves				
Directly issued qualifying common share capital plus related stock surplus	33,365	33,365	32,606	32,606
Retained earnings	52,643	52,643	54,183	54,183
Common Equity Tier 1 capital before regulatory adjustments	86,008	86,008	86,789	86,789
Common Equity Tier 1 capital: regulatory adjustments				
Total regulatory adjustments to Common Equity Tier 1	(1,355)	(542)	(1,457)	(291)
Common Equity Tier 1 capital (CET1)	84,653	85,466	85,332	86,498
Tier 1 capital	84,653	85,466	85,332	86,498
Total capital	84,653	85,466	85,332	86,498
Total risk-weighted assets	141,121	141,934	130,181	131,347
Capital ratios				
Common Equity Tier 1 (as percentage of risk-weighted assets)	60.0%	60.2%	65.5%	65.8%
Tier 1 (as percentage of risk-weighted assets)	60.0%	60.2%	65.5%	65.8%
Total capital (as percentage of risk-weighted assets)	60.0%	60.2%	65.5%	65.8%
OSFI all-in target				
Common Equity Tier 1 capital all-in target ratio	7.0%	N/A	7.0%	N/A
Tier 1 capital all-in target ratio	8.5%	N/A	8.5%	N/A
Total capital all-in target ratio	10.5%	N/A	10.5%	N/A
Leverage Ratio Disclosures				
As at	June 30, 2015		December 31, 2014	
Leverage ratio exposure	367,532		329,646	
Leverage ratio (Tier 1 capital/total exposure measure)	23.0%		25.9%	

5. Financial instruments

(a) Risks associated with financial instruments

The Corporation, similar to other financial institutions, is exposed to risks related to general economic conditions, operational errors, reliance on third party agents and outsourcing, competition, stock market volatility and government regulation, many of which are beyond the Corporation's direct control. The use of financial instruments exposes the Corporation to credit risk, liquidity risk and interest rate risk. A discussion of the Corporation's financial instruments risk exposures and how it manages those risks can be found at the shaded sections of pages 19 to 22 of the Corporation's MD&A for the second quarter ended June 30, 2015.

(i) Interest rate sensitivity

The Corporation's exposure to interest rate risk results from the difference between the maturity of interest rate sensitive assets and liabilities. The following table shows the gap positions as at June 30, 2015 and December 31, 2014 based on contractual maturities. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

5. Financial instruments (continued)

As at June 30, 2015	Floating Rate	Less than 1 Year	1 to 2 Years	Greater than 2 Years	Non-interest Sensitive	Total
Assets:						
Cash and cash equivalents	\$ 48,334	\$ -	\$ -	\$ -	\$ -	\$ 48,334
Effective interest rate	1.16%	-	-	-	-	1.16%
Mortgages receivable, net	-	196,672	77,262	40,152	-	314,086
Effective interest rate	-	5.05%	4.41%	4.50%	-	4.85%
Other assets	-	-	-	-	3,974	3,974
Total assets	\$ 48,334	\$ 196,672	\$ 77,262	\$ 40,152	\$ 3,974	\$ 366,394
Liabilities:						
Customer deposits	\$ -	\$ 178,270	\$ 58,083	\$ 32,351	\$ -	\$ 268,704
Effective interest rate	-	2.05%	2.29%	2.60%	-	2.21%
Other liabilities	-	-	-	-	3,715	3,715
Shareholders' equity	-	-	-	-	93,975	93,975
Total liabilities and shareholders' equity	\$ -	\$ 178,270	\$ 58,083	\$ 32,351	\$ 97,690	\$ 366,394
Interest rate sensitivity gap	\$ 48,334	\$ 18,402	\$ 19,179	\$ 7,801	\$ (93,716)	\$ -
Cumulative gap	\$ 48,334	\$ 66,736	\$ 85,915	\$ 93,716	\$ -	\$ -
Cumulative gap as a percentage of total assets	13.2%	18.2%	23.4%	25.6%	-	-

As at December 31, 2014	Floating Rate	Less than 1 Year	1 to 2 Years	Greater than 2 Years	Non-interest Sensitive	Total
Assets:						
Cash and cash equivalents	\$ 33,231	\$ -	\$ -	\$ -	\$ -	\$ 33,231
Effective interest rate	1.30%	-	-	-	-	1.30%
Mortgages receivable, net	-	205,417	58,651	33,307	-	297,375
Effective interest rate	-	5.32%	4.65%	4.31%	-	5.10%
Other assets	-	-	-	-	4,347	4,347
Total assets	\$ 33,231	\$ 205,417	\$ 58,651	\$ 33,307	\$ 4,347	\$ 334,953
Liabilities:						
Customer deposits	\$ -	\$ 162,177	\$ 46,986	\$ 26,434	\$ -	\$ 235,597
Effective interest rate	-	2.24%	2.28%	2.63%	-	2.24%
Other liabilities	-	-	-	-	4,505	4,505
Shareholders' equity	-	-	-	-	94,851	94,851
Total liabilities and shareholders' equity	\$ -	\$ 162,177	\$ 46,986	\$ 26,434	\$ 99,356	\$ 334,953
Interest rate sensitivity gap	\$ 33,231	\$ 43,240	\$ 11,665	\$ 6,873	\$ (95,009)	\$ -
Cumulative gap	\$ 33,231	\$ 76,471	\$ 88,136	\$ 95,009	\$ -	\$ -
Cumulative gap as a percentage of total assets	9.9%	22.8%	26.3%	28.4%	-	-

Based on the current interest rate gap position as at June 30, 2015, the Corporation estimates that a 100 basis point decrease in interest rates would decrease net interest income over the next 12 months by \$559 (December 31, 2014 – \$361 decrease). A 100 basis point increase in interest rates would increase net interest income over the next 12 months by \$518 (December 31, 2014 – \$336 increase).

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

5. Financial instruments (continued)

(b) Fair value of financial instruments

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

(i) Mortgages receivable

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

(ii) Contingent consideration payable

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

(iii) Customer deposits

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

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

				As at June 30, 2015
	Carrying Value	Fair Value	Fair Value (Under) Over Carrying Value	
Financial assets:				
Mortgages receivable, net	314,086	314,807	721	
Total financial assets	\$ 314,086	\$ 314,807	\$ 721	
Financial liabilities:				
Contingent consideration payable	600	600	-	
Customer deposits	268,704	270,316	1,612	
Total financial liabilities	\$ 269,304	\$ 270,916	\$ 1,612	

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

5. Financial instruments (continued)

				As at December 31, 2014
	Carrying Value		Fair Value	Fair Value Over Carrying Value
Financial assets:				
Mortgages receivable, net	297,375		297,236	(139)
Total financial assets	\$ 297,375	\$	297,236	\$ (139)
Financial liabilities:				
Contingent consideration payable	-		-	-
Customer deposits	235,597		236,000	403
Total financial liabilities	\$ 235,597	\$	236,000	\$ 403

(c) Fair value hierarchy

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

- Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.
- Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1.
- Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

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

					As at June 30, 2015	
	Level 1		Level 2		Level 3	Total
Financial assets:						
Mortgages receivable	-		-		314,807	314,807
Total financial assets	\$ -	\$	-	\$	314,807	\$ 314,807
Financial liabilities:						
Contingent consideration payable	-		-		600	600
Customer deposits	-		-		270,316	270,316
Total financial liabilities	\$ -	\$	-	\$	270,916	\$ 270,916

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

5. Financial instruments (continued)

					As at December 31, 2014	
	Level 1	Level 2	Level 3	Total		
Financial assets:						
Mortgages receivable, net	-	-	297,236	297,236		
Total financial assets	\$ -	\$ -	\$ 297,236	\$ 297,236		
Financial liabilities:						
Contingent consideration payable	-	-	-	-		
Customer deposits	-	-	236,000	236,000		
Total financial liabilities	\$ -	\$ -	\$ 236,000	\$ 236,000		

The following table presents the changes in fair value within Level 3:

As at	June 30, 2015	December 31, 2014
Balance, beginning of period	\$ -	\$ -
Fair value adjustment recognized in the statements of operations and comprehensive (loss) income	600	-
Balance, end of period	\$ 600	\$ -

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

6. Cash and cash equivalents

As at	June 30, 2015	December 31, 2014
Deposits with regulated financial institutions	\$ 46,338	\$ 28,239
Short-term investments	1,996	4,992
Total cash and cash equivalents	\$ 48,334	\$ 33,231

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

7. Mortgages receivable

(a) Mortgages receivable

							As at June 30, 2015		
	Gross Amount	Allowance for credit losses			Total	Net Amount			
		Individual	Collective	Total					
Mortgages	\$ 314,671	\$ 60	\$ 1,102	\$ 1,162	\$ 313,509				
Accrued interest	577	-	-	-	577				
Balance	\$ 315,248	\$ 60	\$ 1,102	\$ 1,162	\$ 314,086				

							As at December 31, 2014		
	Gross Amount	Allowance for credit losses			Total	Net Amount			
		Individual	Collective	Total					
Mortgages	\$ 297,735	\$ 15	\$ 1,041	\$ 1,056	\$ 296,679				
Accrued interest	696	-	-	-	696				
Balance	\$ 298,431	\$ 15	\$ 1,041	\$ 1,056	\$ 297,375				

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

7. Mortgages receivable (continued)

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

As at June 30, 2015, the current portion of mortgages due within one year is \$196,672 (December 31, 2014 – \$205,417) and the weighted average term to maturity of the portfolio is 1.0 year (December 31, 2014 – 1.0 year). The weighted average effective interest rate of the portfolio as at June 30, 2015 is 4.85% (December 31, 2014 – 5.10%).

The Corporation has outstanding commitments to make future advances on mortgage loans of \$21.8 million as at June 30, 2015 (December 31, 2014 – \$9.9 million). Commitments for the loans remain open for various dates through September 2015.

(b) Allowance for credit losses

	For the six months ended June 30, 2015			For the year ended December 31, 2014		
	Individual Allowance	Collective Allowance	Total	Individual Allowance	Collective Allowance	Total
Balance, beginning of period	\$ 15	\$ 1,041	\$ 1,056	\$ -	\$ 1,386	\$ 1,386
Provision for (reversal of) credit losses	99	61	160	64	(345)	(281)
Realized losses	(54)	-	(54)	(49)	-	(49)
Balance, end of period	\$ 60	\$ 1,102	\$ 1,162	\$ 15	\$ 1,041	\$ 1,056

(c) Past due mortgages but not impaired

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

As at	June 30, 2015	December 31, 2014
1 to 30 days	\$ 12,458	\$ 21,722
31 to 60 days	782	2,254
61 to 90 days	1,061	1,162
Over 90 days	385	1,228
	\$ 14,686	\$ 26,366

(d) Impaired mortgage

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

As at	June 30, 2015	December 31, 2014
Gross amount of impaired loan	479	\$ 225
Individual allowance	(60)	(15)
Net amount	\$ 419	\$ 210

The total appraised value of the collateral for the impaired loan as at June 30, 2015 was approximately \$470. During the second quarter of 2015, the Company incurred a realized loss on the impaired loan that was outstanding as at December 31, 2014 with an appraised value of \$255.

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

8. Customer deposits

As at	June 30, 2015	December 31, 2014
Guaranteed Investment Certificates	\$ 265,424	\$ 232,650
Accrued interest	3,937	3,477
Deferred deposit agent commissions	(657)	(530)
	\$ 268,704	\$ 235,597

Customer deposits are comprised of Guaranteed Investment Certificates (“GICs”) with fixed maturity dates over a period of thirty days to five years. As at June 30, 2015, the current portion of customer deposits due within one year is \$178,270 (December 31, 2014 – \$162,177) and the average term to maturity is 1.0 year (December 31, 2014 – 1.0 year). The weighted average effective interest rate as at June 30, 2015 is 2.21% (December 31, 2014 – 2.24%).

9. Other assets

As at	June 30, 2015	December 31, 2014
Accounts receivable	\$ 296	\$ 80
Prepays and other current assets	300	519
	\$ 596	\$ 599

10. Other liabilities

As at	June 30, 2015	December 31, 2014
Accounts payable and accrued liabilities	\$ 1,857	\$ 3,309
Deferred revenue	237	254
	\$ 2,094	\$ 3,563

11. Income taxes

The Corporation computes an income tax provision in each of the jurisdictions in which it operates. The operations are subject to income tax rates of approximately 26.5% (2014 – 26.5%). The following table reconciles the expected income tax provision at applicable Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss:

	For the three months ended		For the six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Loss before income taxes from continuing operations	\$ (1,198)	\$ 452	\$ (1,485)	\$ (4,239)
Income tax expense (recovery) at statutory rate	(317)	120	(394)	(1,124)
Non-taxable portion of charge for contingent consideration	80	-	80	-
Adjustments for prior years	(18)	64	(18)	64
Share-based payment expense not deductible for tax purposes	47	(3)	95	42
Non-deductible expenses for tax purposes	2	1	4	4
Income tax recovery	\$ (206)	\$ 182	\$ (233)	\$ (1,014)

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

11. Income taxes (continued)

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

	Opening balance as at January 1, 2015	Recognized in Net Earnings	Closing balance as at June 30, 2015
Deferred tax assets			
Non-capital losses	\$ 483	\$ 163	\$ 646
Deferred acquisition, financing and share issuance costs	85	(32)	53
Mortgage provision for credit losses	28	1	29
DSU liability	99	62	161
Charge for contingent consideration	-	80	80
Other	32	4	36
Deferred tax assets	\$ 727	\$ 278	\$ 1,005
Deferred tax liabilities			
Property, plant and equipment	\$ (315)	\$ 96	\$ (219)
License costs	(338)	-	(338)
Deferred tax liabilities	\$ (653)	\$ 96	\$ (557)
Net deferred tax assets	\$ 74	\$ 374	\$ 448
Consolidated Balance Sheets:			
Deferred tax assets	\$ 641	\$ 219	\$ 860
Deferred tax liabilities	(567)	155	(412)
Net deferred tax assets	\$ 74	\$ 374	\$ 448

12. Share capital

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

	Number of Shares	Amount
Issued and outstanding as at December 31, 2014	9,527,508	\$ 33,401
Exercise of stock options (a)	2,000	24
Issued and outstanding as at June 30, 2015	9,529,508	\$ 33,425
Issued and outstanding as at December 31, 2013	9,345,840	\$ 31,735
Exercise of stock options (b)	122,501	1,103
Issued and outstanding as at June 30, 2014	9,468,341	\$ 32,838

(a) Transactions completed during the six months ended June 30, 2015:

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

(b) Transactions completed during the six months ended June 30, 2014:

Employees of the Corporation exercised 122,501 stock options at a weighted average exercise price of \$6.72 per share for total proceeds of \$823. The weighted average share price at the time of exercise was \$9.48 per share. Share capital also increased by a reclassification from contributed surplus of \$280, which is the amount previously recognized as share-based payment expense for these options.

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

13. Share-based payments

(a) Stock options

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

The aggregate number of shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding shares as at the date of grant of each option under the Plan, which as at June 30, 2015 was 952,951 (December 31, 2014 – 952,751).

	For the six months ended		For the year ended	
	June 30, 2015		December 31, 2014	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Opening balance	583,000	\$ 9.79	419,502	\$ 8.76
Options granted	95,360	9.38	517,500	9.83
Options exercised	(2,000)	8.00	(181,668)	6.89
Options expired	(500)	10.90	(89,005)	10.63
Options forfeited	(6,000)	9.05	(83,329)	10.28
Ending balance	669,860	\$ 9.75	583,000	\$ 9.79
Vested options	93,505	\$ 9.75	40,336	\$ 8.68

The weighted average remaining contractual life for all options outstanding as at June 30, 2015 is 3.86 years (December 31, 2014 – 4.20 years). During the six months ended June 30, 2015, the Corporation recognized \$360 (2014 - \$157) as share-based payment expense related to stock options within staffing costs.

During the six months ended June 30, 2015, 95,360 options were granted to employees under the Plan. The options will vest over a three year period. The Black-Scholes model was used to estimate the fair value of these options at the grant date.

A summary of the 2015 option grants are presented below:

Number of Options	Date Granted	Recipient(s)	Fair Value	Black-Scholes assumptions						
				Vesting Period	Risk-free interest rate	Expected life	Expected volatility	Dividend yield	Exercise price	Fair value per option
55,360	February 18, 2015	Employees	\$ 161,917	3 years	0.57%	5 years	35%	-	\$ 9.40	\$ 2.92
40,000	May 15, 2015	Employees	\$ 114,679	3 years	0.80%	5 years	34%	-	\$ 9.35	\$ 2.87
95,360			\$ 276,596							

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

13. Share-based payments (continued)

(b) Deferred share units

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

As at June 30, 2015, there were 74,767 DSUs outstanding (December 31, 2014 – 36,230) representing a liability of \$609 (December 31, 2014 – \$375). DSUs of 43,839, in lieu of \$399 of cash compensation, were granted during the six months ended June 30, 2015 (December 31, 2014 – 26,291). On May 28, 2015 5,302 DSUs were redeemed at market value of \$9.25 per share for cash value of \$49. Expense recorded for the six months ended June 30, 2015 relating to DSUs outstanding amounted to \$283 (June 30, 2014 – recovery of \$128). The DSUs are revalued at each reporting date based on the closing price of the Corporation’s shares.

Details of the outstanding deferred share units are as follows:

As at	June 30, 2015	December 31, 2014
Units		
Outstanding, beginning of period	36,230	87,974
Granted	43,839	26,291
Redeemed	(5,302)	(76,341)
Forfeited	-	(1,694)
Outstanding, end of period	74,767	36,230
Liability		
Balance, beginning of period	\$ 375	\$ 1,022
Expense recognized in the statements of operations and comprehensive loss	283	144
Redeemed	(49)	(791)
Balance, end of period	\$ 609	\$ 375

14. Related party transactions

During the six months ended June 30, 2015, the Corporation entered into various transactions in the normal course of business with directors and officers of the Corporation related to director and officer compensation. All outstanding balances are due to be settled in cash after the period end date and are not secured.

15. 2013 sale transaction

On April 5, 2013, the Corporation closed the sale transaction for its transfer agent and corporate trust services business for a purchase price of \$64,000 (the “Transaction”). In accordance with the terms of the sale agreement, the Corporation may be entitled to further proceeds or may have to pay up to \$1,000 based on the future capital requirements of the transfer agent and corporate trust service business. Management’s best estimate of the fair value of this contingent consideration as at June 30, 2015 is \$600 (December 31, 2014 – nil). Management will continue to re-evaluate assumptions used to estimate the fair value on a periodic basis as new information becomes available during the period covered by the sale agreement, which has a remaining term of up to 3 years.

EQUITY FINANCIAL HOLDINGS INC.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015 and 2014

\$000s Canadian dollars, except per share and share amounts (unaudited)

15. 2013 sale transaction (continued)

Since the date of the sale, transfer agent and corporate trust business relationships have been managed by a third party for its economic benefit, including the administration of segregated funds. Beginning in the second quarter of 2015, the Corporation began earning other fee income of \$150 (2014 – nil) related to EFT's transitional status as trustee for these client relationships. As at June 30, 2015, EFT remains the trustee of segregated funds in the amount of \$1,288,676 (December 31, 2014 – \$196,272), which are reported off-balance sheet.

16. Non-interest expenses

Included in other expenses for the six months ended June 30, 2014 are costs related to a board-led independent review of underwriting processes and risk management controls and to the settlement of a shareholder action initiated by the Corporation's largest shareholder, Smoothwater Capital Partners LP I ("Smoothwater"). Costs related to the controls review totaled \$1,300 and costs related to the shareholder action totaled \$4,270.

Included in the costs related to the shareholder action settlement are transactions with related parties, which include severance of \$950 paid to the Corporation's outgoing CEO, Board of Directors fees of \$264, and amounts totaling \$625 in respect of advisory fees incurred by Smoothwater, which were paid to new Board members and companies related to new Board members.