

**EQUITY FINANCIAL HOLDINGS INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**First Quarter Ended March 31, 2017**

Responsibility for Consolidated Financial Statements

The accompanying interim consolidated financial statements for Equity Financial Holdings Inc. (the "Corporation") have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. 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.

March 31, 2017

## CONTENTS

	<u>Page</u>
<b>Interim Financial Statements</b>	
Interim Consolidated Balance Sheets	1
Interim Consolidated Statements of Operations	2
Interim Consolidated Statements of Comprehensive Income	3
Interim Consolidated Statements of Changes in Shareholders' Equity	4
Interim Consolidated Statements of Cash Flows	5
Notes to the Interim Consolidated Financial Statements	6

**EQUITY FINANCIAL HOLDINGS INC.**

**INTERIM CONSOLIDATED BALANCE SHEETS**

(unaudited)

	As at	
	March 31, 2017	December 31, 2016
(\$000s Canadian dollars)		
<b>Assets</b>		
Cash and cash equivalents (Note 6)	\$ 57,688	\$ 53,013
Available-for-sale securities (Note 7)	29,031	12,405
Mortgages receivable, net (Note 8)	817,009	760,201
Deferred tax assets (Note 12)	1,121	1,108
Other assets (Note 10)	864	1,115
Property, plant and equipment	2,017	2,074
Intangible assets	3,828	3,828
	<b>911,558</b>	<b>833,744</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits (Note 9)	807,499	726,762
Current income taxes payable	542	913
Deferred tax liabilities (Note 12)	196	283
Deferred share unit liability (Note 14)	1,652	1,624
Derivative liabilities (Note 15)	65	78
Other liabilities (Note 11)	4,411	8,357
	<b>814,365</b>	<b>738,017</b>
<b>Shareholders' Equity</b>		
Share capital (Note 13)	33,545	33,545
Contributed surplus	3,193	3,048
Retained earnings	60,467	59,211
Accumulated other comprehensive loss	(12)	(77)
	<b>97,193</b>	<b>95,727</b>
	<b>\$ 911,558</b>	<b>\$ 833,744</b>

Approved on Behalf of the Board of Directors:

/signed/ - Michael R. Jones  
Director

/signed/ - Brad R. Kipp  
Director

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

**EQUITY FINANCIAL HOLDINGS INC.**

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

	For the three months ended	
	March 31, 2017	March 31, 2016
(\$000s Canadian dollars, except share and per share amounts)		
Interest income	\$ 10,013	\$ 5,008
Interest expense	(3,854)	(1,850)
<b>Net interest income</b>	<b>6,159</b>	<b>3,158</b>
Provision for credit losses (Note 8)	(131)	(167)
<b>Net interest income, less provision for credit losses</b>	<b>6,028</b>	<b>2,991</b>
<b>Non-interest income</b>		
Mortgage servicing fees	596	345
Other fee income (Note 17)	-	150
<b>Total non-interest income</b>	<b>596</b>	<b>495</b>
<b>Net interest income and non-interest income, including provision for credit losses</b>	<b>6,624</b>	<b>3,486</b>
<b>Non-interest expenses</b>		
Staffing costs	2,903	1,971
Other operating expenses	1,871	1,267
<b>Total non-interest expenses</b>	<b>4,774</b>	<b>3,238</b>
<b>Income before income taxes</b>	<b>1,850</b>	<b>248</b>
<b>Income tax expense (recovery) (Note 12)</b>		
Current	694	207
Deferred	(100)	(108)
<b>Total income tax expense</b>	<b>594</b>	<b>99</b>
<b>Net income</b>	<b>\$ 1,256</b>	<b>\$ 149</b>
<b>Net earnings per common share</b>		
Basic earnings per share	\$ 0.13	\$ 0.02
Diluted earnings per share	\$ 0.13	\$ 0.02
<b>Weighted average number of common shares outstanding</b>		
Basic	9,543,508	9,539,508
Diluted	9,572,368	9,540,881

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

**EQUITY FINANCIAL HOLDINGS INC.**

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(unaudited)

	For the three months ended	
	March 31, 2017	March 31, 2016
(\$000s Canadian dollars)		
<b>Net income</b>	<b>\$ 1,256</b>	<b>\$ 149</b>
<b>Other comprehensive income</b>		
<b>Available-for-sale securities</b>		
Net unrealized gains	88	-
Income tax expense	23	-
<b>Total other comprehensive income</b>	<b>65</b>	<b>-</b>
<b>Comprehensive income</b>	<b>\$ 1,321</b>	<b>\$ 149</b>

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

**EQUITY FINANCIAL HOLDINGS INC.**

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

(unaudited)

For the three months ended March 31, 2017 and 2016

	<u>Share Capital</u>			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Number	Amount	Contributed Surplus			
(\$000s Canadian dollars, except share amounts)						
Balance as at December 31, 2016	9,543,508	\$ 33,545	\$ 3,047	\$ 59,211	\$ (77)	\$ 95,726
Other comprehensive income	-	-	-	-	65	65
Net income	-	-	-	1,256	-	1,256
Share-based payment expense	-	-	146	-	-	146
<b>Balance as at March 31, 2017</b>	<b>9,543,508</b>	<b>\$ 33,545</b>	<b>\$ 3,193</b>	<b>\$ 60,467</b>	<b>\$ (12)</b>	<b>\$ 97,193</b>
Balance as at December 31, 2015	9,539,508	33,515	2,419	57,521	-	93,455
Net income	-	-	-	149	-	149
Share-based payment expense	-	-	60	-	-	60
<b>Balance as at March 31, 2016</b>	<b>9,539,508</b>	<b>\$ 33,515</b>	<b>\$ 2,479</b>	<b>\$ 57,670</b>	<b>\$ -</b>	<b>\$ 93,664</b>

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

# EQUITY FINANCIAL HOLDINGS INC.

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the three months ended	
	March 31, 2017	March 31, 2016
(\$000s Canadian dollars)		
<b>Operating activities</b>		
Net income for the period	\$ 1,256	\$ 149
<b>Adjustments to determine cash flows relating to operating assets and liabilities</b>		
Amortization of premium/discount on securities	(8)	-
Depreciation of property, plant and equipment	75	65
Amortization of intangible assets	170	80
Realized loss on impaired mortgages	-	(95)
Share-based payments	146	60
Provision for credit losses	131	167
<b>Changes in operating assets and liabilities</b>		
Income tax expense	594	99
Income tax paid	(1,089)	(170)
Increase in mortgages receivable	(56,939)	(58,120)
Increase in deposits	80,737	56,737
Increase in deferred share unit liability	28	277
Decrease in derivative liabilities	(13)	-
Decrease (increase) in other assets	251	(123)
Decrease in other liabilities	(3,946)	(1,475)
<b>Cash flows provided by (used in) operating activities</b>	<b>21,393</b>	<b>(2,349)</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(18)	(3)
Additions of intangible assets	(170)	(262)
Purchase of securities	(16,530)	-
<b>Cash flows used in investing activities</b>	<b>(16,718)</b>	<b>(265)</b>
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>4,675</b>	<b>(2,614)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>53,013</b>	<b>44,326</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 57,688</b>	<b>\$ 41,712</b>
<b>Supplementary disclosure of cash flow information</b>		
Cash interest received	\$ 9,444	\$ 4,796
Cash interest paid	(2,239)	(1,595)
Non-cash transactions: Deferred share unit grants	190	172

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

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 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 mortgage market by offering residential first 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 100 King Street West, Suite 4610, Toronto, Ontario.

### 2. Significant accounting policies

#### a. Basis of preparation

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", 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, 2016. Additional updated accounting policies relevant to these interim financial statements have been described below.

These interim consolidated financial statements should be read in conjunction with the Corporation's December 31, 2016 annual audited consolidated financial statements.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Corporation on May 09, 2017.

### 3. Future changes in accounting policies

The IASB and the International Financial Reporting Interpretations Committees have issued a number of new or revised standards or interpretations that will become effective for future periods and have potential implication on the accounting policies of the Corporation. There have been no new or revised pronouncements in addition to those disclosed in the 2016 annual consolidated financial statements.



# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 4. Capital management

The Corporation's managed capital comprises of shareholders' equity, which totaled \$97,193 as at March 31, 2017 (December 31, 2016 – \$95,727). 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 provide shareholders' return on equity. To achieve these objectives, the Corporation manages capital to meet regulatory requirements of its subsidiary, EFT, to ensure sufficient resources are available to meet day-to-day operating requirements, to allow it to enhance existing systems and develop new systems, and to have the financial ability to expand the scope of its operations and services. EFT is subject to the regulatory capital requirements governed by the Office of the Superintendent of Financial Institutions of Canada ("OSFI").

EFT's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets minimum regulatory capital requirements, is consistent with the Corporation's risk appetite framework, and supports the Corporation's strategic objectives. Management's internal capital adequacy assessment process is integral to the Corporation's capital planning activities and incorporates a stress testing program that evaluates the impact of potential scenarios on income and capital. Regulatory capital requirements addressed by the policy include the Leverage Ratio 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 Guideline 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"). To measure compliance with minimum risk-based capital ratio requirements, capital is calculated on the "all-in" basis, which includes all applicable deductions required by 2018 in the current period.

As at March 31, 2017, EFT held CET 1 on an "all-in" basis of \$86,583, compared to \$85,045 as at December 31, 2016.

#### Basel III leverage ratio

The leverage ratio is currently defined as Tier 1 capital divided by the total exposure measure. The exposure measure is the sum of (a) on-balance sheet exposures; (b) derivative exposures; (c) securities financing transaction exposures and (d) off-balance sheet items. Federally regulated deposit-taking institutions are expected to have Basel III leverage ratios that meet or exceed 3%.

The full Basel III Pillar 3 capital and leverage ratio disclosures can be found on pages 18 to 19 of the Corporation's Management Discussion & Analysis ("MD&A") for the first quarter ended March 31, 2017.

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

**EQUITY FINANCIAL HOLDINGS INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

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

**4. Capital management continued**

**Capital Disclosures**

As at	March 31, 2017	December 31, 2016
<b>Common Equity Tier 1 capital: instruments and reserves</b>	<b>All-in</b>	<b>All-in</b>
Directly issued qualifying common share capital plus related stock surplus	\$ 35,459	\$ 35,123
Retained earnings	54,510	53,408
Accumulated other comprehensive loss	(12)	(77)
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>89,957</b>	<b>88,454</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
Total regulatory adjustments to Common Equity Tier 1	(3,374)	(3,409)
<b>Common Equity Tier 1 capital</b>	<b>86,583</b>	<b>85,045</b>
<b>Tier 1 capital</b>	<b>86,583</b>	<b>85,045</b>
<b>Total capital</b>	<b>86,583</b>	<b>85,045</b>
<b>Total risk-weighted assets</b>	<b>344,747</b>	<b>311,373</b>
<b>Capital ratios</b>		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	25.1 %	27.3 %
Tier 1 (as a percentage of risk-weighted assets)	25.1 %	27.3 %
Total capital (as a percentage of risk-weighted assets)	25.1 %	27.3 %
<b>OSFI all-in target</b>		
Common Equity Tier 1 capital all-in target ratio	7.0 %	7.0 %
Tier 1 capital all-in target ratio	8.5 %	8.5 %
Total capital all-in target ratio	10.5 %	10.5 %
<b>Leverage Ratio Disclosures</b>		
As at	March 31, 2017	December 31, 2016
Leverage ratio exposure	\$ 931,898	\$ 846,465
Leverage ratio (Tier 1 capital / leverage ratio exposure)	9.3 %	10.0 %

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 5. Financial instruments

#### a. Risks associated with financial instruments

The Corporation, similar to other financial institutions, is exposed to risks related to general economic conditions, operational errors, reliance on third party agents and outsourcing, competition, stock market volatility and government regulation, many of which are beyond the Corporation's direct control. The use of financial instruments exposes the Corporation to credit risk, liquidity risk, interest rate risk and market risk. A discussion of the Corporation's risk exposures and how it manages those risks can be found in the shaded sections of pages 20 to 23 of the Corporation's MD&A for the first quarter ended March 31, 2017.

#### i. Interest rate sensitivity

The Corporation's exposure to interest rate risk results from the difference between the maturity of interest rate sensitive assets and liabilities. The following table shows the gap positions as at March 31, 2017 and December 31, 2016 based on contractual maturities. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

As at March 31, 2017	Floating Rate	1 Year or Less	1 to 2 Years	Greater than 2 Years	Non- interest Sensitive	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 57,688	\$ -	\$ -	\$ -	\$ -	\$ 57,688
Effective interest rate	0.90 %	-	-	-	-	0.90 %
Available-for-sale securities	-	-	-	29,031	-	29,031
Effective interest rate	-	-	-	1.68 %	-	1.68 %
Mortgages receivable, net	-	548,063	182,728	86,218	-	817,009
Effective interest rate	-	4.95 %	4.82 %	4.78 %	-	4.87 %
Other assets	-	-	-	-	7,830	7,830
<b>Total assets</b>	<b>\$ 57,688</b>	<b>\$ 548,063</b>	<b>\$ 182,728</b>	<b>\$ 115,249</b>	<b>\$ 7,830</b>	<b>\$ 911,558</b>
<b>Liabilities</b>						
Deposits	\$ -	\$ 469,998	\$ 173,458	\$ 164,043	\$ -	\$ 807,499
Effective interest rate	-	1.90 %	2.15 %	2.25 %	-	2.05 %
Other liabilities	-	-	-	-	6,866	6,866
Shareholders' equity	-	-	-	-	97,193	97,193
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>469,998</b>	<b>173,458</b>	<b>164,043</b>	<b>104,059</b>	<b>911,558</b>
<b>Off-balance sheet items</b>	<b>-</b>	<b>(34,500)</b>	<b>14,000</b>	<b>20,500</b>	<b>-</b>	<b>-</b>
Interest rate sensitivity gap	57,688	43,565	23,270	(28,294)	(96,229)	-
Cumulative gap	\$ 57,688	\$ 101,253	\$ 124,523	\$ 96,229	\$ -	\$ -
Cumulative gap as a percentage of total assets	6.3 %	11.1 %	13.7 %	10.6 %	-	-

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 5. Financial instruments continued

As at December 31, 2016	Floating Rate	Less than 1 Year	1 to 2 Years	Greater than 2 Years	Non- interest Sensitive	Total
<b>Assets:</b>						
Cash and cash equivalents	\$ 53,013	\$ -	\$ -	\$ -	\$ -	\$ 53,013
Effective interest rate	0.95 %	-	-	-	-	0.95%
Available-for-sale securities	-	-	-	12,405	-	12,405
Effective interest rate	-	-	-	1.44 %	-	1.44%
Mortgages receivable, net	-	526,825	153,096	80,280	-	760,201
Effective interest rate	-	4.92 %	4.90 %	4.86 %	-	4.90 %
Other assets	-	-	-	-	8,125	8,125
<b>Total assets</b>	<b>\$ 53,013</b>	<b>\$ 526,825</b>	<b>\$ 153,096</b>	<b>\$ 92,685</b>	<b>\$ 8,125</b>	<b>\$ 833,744</b>
<b>Liabilities:</b>						
Deposits	\$ -	\$ 429,708	\$ 181,153	\$ 115,901	\$ -	\$ 726,762
Effective interest rate	-	1.98 %	2.17 %	2.27 %	-	2.06 %
Other liabilities	-	-	-	-	11,255	11,255
Shareholders' equity	-	-	-	-	95,727	95,727
<b>Total liabilities and shareholders' equity</b>	<b>-</b>	<b>429,708</b>	<b>181,153</b>	<b>115,901</b>	<b>106,982</b>	<b>833,744</b>
<b>Off-balance sheet items</b>	<b>-</b>	<b>(24,500)</b>	<b>14,000</b>	<b>10,500</b>	<b>-</b>	<b>-</b>
Interest rate sensitivity gap	53,013	72,617	(14,057)	(12,716)	(98,857)	-
Cumulative gap	\$ 53,013	\$ 125,630	\$ 111,573	\$ 98,857	\$ -	\$ -
Cumulative gap as a percentage of total assets	6.4 %	15.1 %	13.4 %	11.9 %	-	-

Based on the current interest rate gap position as at March 31, 2017, the Corporation estimates that a 100 basis point decrease in interest rates would decrease net interest income over the next 12 months by \$666 (December 31, 2016 – \$412 decrease). A 100 basis point increase in interest rates would increase net interest income over the next 12 months by \$597 (December 31, 2016 – \$389 increase).

#### b. Fair value of financial instruments

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

##### i. Available-for-sale securities

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

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 5. Financial instruments continued

ii. Mortgages receivable

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

iii. Deposits

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

iv. Derivative financial instruments

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

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

	As at March 31, 2017						
	Held for Trading	Available- for-Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over Carrying Value	
<b>Financial assets</b>							
Available-for-sale securities	\$ -	\$ 29,031	\$ -	\$ 29,031	29,031	\$ -	
Mortgages receivable, net	-	-	817,009	817,009	819,479	2,470	
<b>Total financial assets</b>	-	29,031	817,009	846,040	848,510	2,470	
<b>Financial liabilities</b>							
Deposits	-	-	807,499	807,499	809,600	2,101	
Derivative liabilities	65	-	-	65	65	-	
<b>Total financial liabilities</b>	\$ 65	\$ -	\$ 807,499	\$ 807,564	\$ 809,665	\$ 2,101	

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

5. Financial instruments continued

As at December 31, 2016							
	Held for Trading	Available-for-Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over Carrying Value	
<b>Financial assets</b>							
Available-for-sale securities	\$ -	\$ 12,405	\$ -	\$ 12,405	\$ 12,405	\$ -	
Mortgages receivable, net	-	-	760,201	760,201	762,835	2,634	
<b>Total financial assets</b>	-	12,405	760,201	772,606	775,240	2,634	
<b>Financial liabilities</b>							
Deposits	-	-	726,762	726,762	728,962	2,200	
Derivative liabilities	78	-	-	78	78	-	
<b>Total financial liabilities</b>	\$ 78	\$ -	\$ 726,762	\$ 726,840	\$ 729,040	\$ 2,200	

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 March 31, 2017						
	Level 1	Level 2	Level 3	Fair Value	Carrying Value	
<b>Financial assets</b>						
Available-for-sale securities	\$ 29,031	\$ -	\$ -	\$ 29,031	\$ 29,031	
Mortgages receivable, net	-	-	819,479	819,479	817,009	
<b>Total financial assets</b>	<b>29,031</b>	<b>-</b>	<b>819,479</b>	<b>848,510</b>	<b>846,040</b>	
<b>Financial liabilities</b>						
Deposits	-	-	809,600	809,600	807,499	
Derivative liabilities	-	65	-	65	65	
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 65</b>	<b>\$ 809,600</b>	<b>\$ 809,665</b>	<b>\$ 807,564</b>	

**EQUITY FINANCIAL HOLDINGS INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

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

**5. Financial instruments continued**

	As at December 31, 2016					
	Level 1	Level 2	Level 3	Fair Value	Carrying Value	
<b>Financial assets</b>						
Available-for-sale securities	\$ 12,405	\$ -	\$ -	\$ 12,405	\$ 12,405	\$ 12,405
Mortgages receivable, net	-	-	762,835	762,835	760,201	760,201
<b>Total financial assets</b>	<b>12,405</b>	<b>-</b>	<b>762,835</b>	<b>775,240</b>	<b>772,606</b>	<b>772,606</b>
<b>Financial liabilities</b>						
Deposits	-	-	728,962	728,962	726,762	726,762
Derivative liabilities	-	78	-	78	78	78
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 78</b>	<b>\$ 728,962</b>	<b>\$ 729,040</b>	<b>\$ 726,840</b>	<b>\$ 726,840</b>

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	March 31, 2017	December 31, 2016
Deposits with regulated financial institutions	\$ 57,688	\$ 53,013
<b>Total cash and cash equivalents</b>	<b>\$ 57,688</b>	<b>\$ 53,013</b>

**7. Available-for-sale securities**

	March 31, 2017		December 31, 2016		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Total Fair Value
Debt securities guaranteed by a province or municipality	\$ 28,943	\$ 88	\$ -	\$ 29,031	\$ 12,405
	\$ 28,943	\$ 88	\$ -	\$ 29,031	\$ 12,405

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

Unrealized gains or losses represent the differences between the amortized cost of a security and its current fair value. The Corporation regularly monitors its investments and market conditions for indications of impairment. As at March 31, 2017, the Corporation assessed its investments for evidence of impairment and has not identified adverse credit events in relation to its securities.

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 7. Available-for-sale securities continued

During the three months ended March 31, 2017, the Corporation did not recognize any impairment losses on available-for-sale securities.

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

### 8. Mortgages receivable

#### a. Mortgages receivable

	As at March 31, 2017				
	Gross Amount	Individual Allowance	Collective Allowance	Total	Net Amount
Mortgages	\$ 817,244	\$ -	\$ 1,882	\$ 1,882	\$ 815,362
Accrued interest	1,647	-	-	-	1,647
<b>Balance</b>	<b>\$ 818,891</b>	<b>\$ -</b>	<b>\$ 1,882</b>	<b>\$ 1,882</b>	<b>\$ 817,009</b>

  

	As at December 31, 2016				
	Gross Amount	Individual Allowance	Collective Allowance	Total	Net Amount
Mortgages	\$ 760,416	\$ -	\$ 1,751	\$ 1,751	\$ 758,665
Accrued interest	1,536	-	-	-	1,536
<b>Balance</b>	<b>\$ 761,952</b>	<b>\$ -</b>	<b>\$ 1,751</b>	<b>\$ 1,751</b>	<b>\$ 760,201</b>

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

As at March 31, 2017, the portion of mortgages due within one year is \$548,063 (December 31, 2016 – \$526,825) and the weighted average term to maturity of the portfolio is 1.0 year (December 31, 2016 – 1.0 year). The weighted average effective interest rate of the portfolio as at March 31, 2017 is 4.87% (December 31, 2016 – 4.90%).

The Corporation has outstanding commitments to make future advances on mortgage loans of \$48,150 as at March 31, 2017 (December 31, 2016 – \$37,700). Commitments for the loans remain open for various dates through to July 2017.



**EQUITY FINANCIAL HOLDINGS INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2017 and 2016

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

**8. Mortgages receivable continued**

**b. Allowance for credit losses**

	For the three months ended March 31, 2017			For the year ended December 31, 2016		
	Individual Allowance	Collective Allowance	Total	Individual Allowance	Collective Allowance	Total
Balance, beginning of period	\$ -	\$ 1,751	\$ 1,751	\$ 93	\$ 1,074	\$ 1,167
Provision for credit losses	-	131	131	76	677	753
Realized losses	-	-	-	(169)	-	(169)
<b>Balance, end of period</b>	<b>\$ -</b>	<b>\$ 1,882</b>	<b>\$ 1,882</b>	<b>\$ -</b>	<b>\$ 1,751</b>	<b>\$ 1,751</b>

**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	March 31, 2017	December 31, 2016
1 to 30 days	\$ 24,679	\$ 33,391
31 to 60 days	4,308	2,500
61 to 90 days	1,379	1,542
Over 90 days	2,270	1,683
	<b>\$ 32,636</b>	<b>\$ 39,116</b>

**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.

There were no impaired mortgages as at March 31, 2017 and December 31, 2016.

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 9. Deposits

As at		March 31, 2017		December 31, 2016
Term deposit principal	\$	800,716	\$	720,686
Accrued interest		9,247		8,081
Deferred broker commissions		(2,464)		(2,005)
	\$	807,499	\$	726,762

Deposits are comprised of non-redeemable GICs with fixed maturity dates over a period of 30 days to 5 years. As at March 31, 2017, the portion of deposits due within one year is \$469,998 (December 31, 2016 – \$429,708) and the average term to maturity is 1.3 years (December 31, 2016 – 1.2 years). The weighted average effective interest rate as at March 31, 2017 is 2.05% (December 31, 2016 – 2.06%).

Term deposit principal include \$34,500 of deposits designated in qualifying fair value interest rate hedging relationships and are measured at fair value with respect to the hedged interest rate. Changes in fair value reflect changes in interest rates that have occurred since the deposits were issued and the fair value adjustment as at March 31, 2017 is \$65 (December 31, 2016 - \$78). Refer to Note 15 - "Derivative financial instruments" for further details.

### 10. Other assets

As at		March 31, 2017		December 31, 2016
Accounts receivable	\$	395	\$	292
Prepaid expenses and other current assets		469		823
	\$	864	\$	1,115

### 11. Other liabilities

As at		March 31, 2017		December 31, 2016
Accounts payable and other liabilities	\$	3,913	\$	7,882
Deferred revenue		498		475
	\$	4,411	\$	8,357

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 12. Income taxes

The operations of the Corporation are subject to income tax rates of approximately 26.5% (2016 – 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:

	For the three months ended	
	March 31, 2017	March 31, 2016
Income before income taxes	\$ 1,850	\$ 248
Income tax expense at statutory rate	490	66
Share-based payment expense not deductible for tax purposes	59	30
Non-deductible expenses for tax purposes	4	3
Other	41	-
<b>Income tax expense</b>	<b>\$ 594</b>	<b>\$ 99</b>

The movements in the 2017 deferred tax assets and liabilities are as follows:

	Opening Balance as at January 1, 2017	Recognized in Net Earnings	Closing Balance as at March 31, 2017
<b>Deferred tax assets</b>			
Non-capital losses	\$ 658	\$ 7	\$ 665
Deferred acquisitions, financing and share issuance costs	20	(2)	18
Mortgage provision for credit losses	46	4	50
DSU liability	430	8	438
Other	135	132	267
<b>Deferred tax assets</b>	<b>1,289</b>	<b>149</b>	<b>1,438</b>
<b>Deferred tax liabilities</b>			
Property, plant and equipment	(106)	(53)	(159)
Licence costs	(338)	-	(338)
Other	(20)	4	(16)
<b>Deferred tax liabilities</b>	<b>(464)</b>	<b>(49)</b>	<b>(513)</b>
<b>Net deferred tax assets</b>	<b>\$ 825</b>	<b>\$ 100</b>	<b>\$ 925</b>
<b>Consolidated balance sheets</b>			
Deferred tax assets	\$ 1,108	\$ 13	\$ 1,121
Deferred tax liabilities	(283)	87	(196)
<b>Net deferred tax assets</b>	<b>\$ 825</b>	<b>\$ 100</b>	<b>\$ 925</b>

**EQUITY FINANCIAL HOLDINGS INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2017 and 2016**

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

**12. Income taxes continued**

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

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

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 13. Share capital

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

	Number of Shares	Amount
<b>Issued and outstanding as at December 31, 2016 and March 31, 2017</b>	<b>9,543,508</b>	<b>\$ 33,545</b>
Issued and outstanding as at December 31, 2015 and March 31, 2016	9,539,508	\$ 33,515

### 14. Share-based payments

#### a. Stock options

The amended Stock Option Plan (the "Plan") was approved by the shareholders of the Corporation on May 26, 2016. The purpose of the Plan is to provide additional incentives to key employees, directors and consultants and to promote the success of the Corporation's business by allowing such persons to partake in the equity of the Corporation. Management proposes the issuance of options and the Board of Directors provides approval of all options granted under the Plan.

The aggregate number of shares issuable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding shares as at the date of grant of each option under the Plan, which as at March 31, 2017 was 954,351 (December 31, 2016 – 954,351).

	For the three months ended March 31, 2017		For the year ended December 31, 2016	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Opening balance	734,910	\$ 9.35	656,860	\$ 9.78
Options granted	118,902	9.28	174,050	7.90
Options exercised	-	-	(4,000)	5.35
Options expired	(6,500)	10.10	(21,334)	9.94
Options forfeited	-	-	(70,666)	9.86
<b>Ending Balance</b>	<b>847,312</b>	<b>9.33</b>	<b>734,910</b>	<b>9.35</b>
Vested options	218,595	\$ 9.39	149,954	\$ 10.00

The weighted average remaining contractual life for all options outstanding as at March 31, 2017 is 2.92 years (December 31, 2016 - 2.81 years). During the three months ended March 31, 2017, the Corporation recognized \$146 (2016 - \$60) as share-based payment expense related to stock options within staffing costs.

# EQUITY FINANCIAL HOLDINGS INC.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

### 14. Share-based payments continued

A summary of the 2017 option grants are presented below:

For the three months ended March 31, 2017										
Black-Scholes Assumptions										
Number of Options	Date Granted	Recipient(s)	Fair Value	Vesting Period	Risk-free Interest Rate	Expected Life	Expected Volatility	Dividend Yield	Exercise Price	Fair value per Option
74,000	March 23, 2017	Employees	\$ 210,900	3 years	1.02 %	5 years	33 %	\$ -	\$ 9.20	\$ 2.85
44,902	March 23, 2017	Employees	\$ 131,250	3 years	1.08 %	5 years	33 %	\$ -	\$ 9.20	\$ 2.92
118,902			\$ 342,150							

#### b. Deferred share units

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

As at March 31, 2017, there were 187,415 DSUs outstanding (December 31, 2016 – 174,788) representing a liability of \$1,652 (December 31, 2016 – \$1,624). DSUs of 12,627, with a grant date fair value of \$190 were granted during the period ended March 31, 2017 (March 31, 2016 – 34,584). For the three months ended March 31, 2017, an expense of \$28 was recorded relating to DSUs issued and outstanding during the period (March 31, 2016 – \$277). 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	March 31, 2017	December 31, 2016
<b>Units</b>		
Outstanding, beginning of period	174,788	103,840
Granted	12,627	70,948
<b>Outstanding, end of period</b>	<b>187,415</b>	<b>174,788</b>
<b>Liability</b>		
Balance, beginning of period	\$ 1,624	\$ 837
Expense recognized in the statements of operations	28	787
<b>Balance, end of period</b>	<b>\$ 1,652</b>	<b>\$ 1,624</b>

## EQUITY FINANCIAL HOLDINGS INC.

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2017 and 2016

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

#### 15. Derivative financial instruments

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

Fair value hedging relationships

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

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

	For the three months ended March 31,	
	2017	2016
Fair value changes recorded on interest rate swaps	\$ (65)	\$ -
Fair value changes of hedged fixed-rate liabilities for interest rate risk	65	-
<b>Hedge ineffectiveness recognized in non-interest income</b>	<b>\$ -</b>	<b>\$ -</b>

#### 16. Related party transactions

During the three months ended March 31, 2017, 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.

#### 17. 2013 sale transaction

On April 5, 2013, the Corporation completed the sale of the assets of its transfer agent and corporate trust services business. In April 2016, in accordance with the terms of the sale agreement, the Corporation paid \$1,000 in previously accrued contingent consideration based on the capital requirements of the transfer agent and corporate trust service business. After the date of the sale, transfer agent and corporate trust business relationships were managed by a third party for its economic benefit, including the administration of segregated funds. In the first quarter of 2016, other fee income related to EFT's transitional status as trustee for these client relationships amounted to \$150. No additional other fee income was earned following the conclusion of the transitional period at the end of the third quarter of 2016 with client relationship and segregated funds fully transferred to another entity.