

EQUITY FINANCIAL HOLDINGS INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Second Quarter Ended June 30, 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.

June 30, 2017

CONTENTS

	<u>Page</u>
Interim Financial Statements	
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	
(\$000s Canadian dollars)	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents (Note 6)	\$ 85,376	\$ 53,013
Available-for-sale securities (Note 7)	33,352	12,405
Mortgages receivable, net (Note 8)	888,092	760,201
Deferred tax assets (Note 12)	1,092	1,108
Other assets (Note 10)	897	1,115
Property, plant and equipment	2,018	2,074
Intangible assets	3,903	3,828
	1,014,730	833,744
Liabilities and Shareholders' Equity		
Liabilities		
Deposits (Note 9 and Note 16)	907,749	726,762
Current income taxes payable	777	913
Deferred tax liabilities (Note 12)	137	283
Deferred share unit liability (Note 14)	1,540	1,624
Derivative liabilities (Note 15)	608	78
Other liabilities (Note 11)	5,155	8,357
	915,966	738,017
Shareholders' Equity		
Share capital (Note 13)	33,545	33,545
Contributed surplus	3,328	3,048
Retained earnings	62,083	59,211
Accumulated other comprehensive loss	(192)	(77)
	98,764	95,727
	\$ 1,014,730	\$ 833,744

Approved on Behalf of the Board of Directors:

/signed/ - Michael R. Jones
Director/signed/ - Brad R. Kipp
Director

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

EQUITY FINANCIAL HOLDINGS INC.

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the three months ended		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(\$000s Canadian dollars, except share and per share amounts)				
Interest income	\$ 10,900	\$ 5,970	\$ 20,913	\$ 10,978
Interest expense	(4,258)	(2,299)	(8,112)	(4,149)
Net interest income	6,642	3,671	12,801	6,829
Provision for credit losses (Note 8)	(137)	(359)	(268)	(526)
Net interest income, less provision for credit losses	6,505	3,312	12,533	6,303
Non-interest income				
Mortgage servicing fees	693	366	1,289	711
Other fee income (Note 17)	-	225	-	375
Net realized and unrealized loss on derivatives	(4)	-	(4)	-
Total non-interest income	689	591	1,285	1,086
Net interest income and non-interest income, including provision for credit losses	7,194	3,903	13,818	7,389
Non-interest expenses				
Staffing costs	2,902	2,014	5,805	3,985
Other operating expenses	2,099	1,755	3,970	3,022
Total non-interest expenses	5,001	3,769	9,775	7,007
Income before income taxes	2,193	134	4,043	382
Income tax expense (recovery) (Note 12)				
Current	607	72	1,301	279
Deferred	(30)	16	(130)	(92)
Total income tax expense	577	88	1,171	187
Net income	\$ 1,616	\$ 46	\$ 2,872	\$ 195
Net earnings per common share				
Basic earnings per share	\$ 0.17	\$ -	\$ 0.30	\$ 0.02
Diluted earnings per share	\$ 0.17	\$ -	\$ 0.30	\$ 0.02
Weighted average number of common shares outstanding				
Basic	9,543,508	9,539,508	9,543,508	9,539,508
Diluted	9,553,047	9,565,646	9,562,200	9,550,823

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		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
(\$000s Canadian dollars)				
Net income	\$ 1,616	\$ 46	\$ 2,872	\$ 195
Other comprehensive (loss) income				
Available-for-sale securities				
Net unrealized (losses) gains	(245)	46	(156)	46
Income tax (recovery) expense	(65)	12	(41)	12
Total other comprehensive (loss) income	(180)	34	(115)	34
Comprehensive income	\$ 1,436	\$ 80	\$ 2,757	\$ 229

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 six months ended June 30, 2017 and 2016

	<u>Share Capital</u>			Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
	Number	Amount	Contributed Surplus			
(\$000s Canadian dollars, except share amounts)						
Balance as at December 31, 2016	9,543,508	\$ 33,545	\$ 3,048	\$ 59,211	\$ (77)	\$ 95,727
Net income	-	-	-	2,872	-	2,872
Other comprehensive loss	-	-	-	-	(115)	(115)
Share-based payment expense (Note 14)	-	-	280	-	-	280
Balance as at June 30, 2017	9,543,508	\$ 33,545	\$ 3,328	\$ 62,083	\$ (192)	\$ 98,764
Balance as at December 31, 2015	9,539,508	33,515	2,419	57,521	-	93,455
Net income	-	-	-	195	-	195
Other comprehensive income	-	-	-	-	34	34
Share-based payment expense (Note 14)	-	-	233	-	-	233
Balance as at June 30, 2016	9,539,508	\$ 33,515	\$ 2,652	\$ 57,716	\$ 34	\$ 93,917

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 six months ended	
	June 30, 2017	June 30, 2016
(\$000s Canadian dollars)		
Operating activities		
Net income for the period	\$ 2,872	\$ 195
Adjustments to determine cash flows relating to operating assets and liabilities		
Amortization of premium/discount	(13)	14
Depreciation of property, plant and equipment	153	130
Amortization of intangible	343	125
Recovery from (realized loss on) impaired mortgages	26	(95)
Share-based payments	280	233
Provision for credit losses	268	526
Changes in operating assets and liabilities		
Income tax expense	1,171	187
Income tax paid	(1,397)	(203)
Increase in mortgages receivable	(128,185)	(155,765)
Increase in deposits	180,987	174,410
(Decrease) increase in deferred share unit liability	(84)	604
Decrease in contingent consideration payable	-	(1,000)
Increase (decrease) in derivative liabilities	530	(8)
Decrease in other assets	218	159
Decrease in other liabilities	(3,202)	(788)
Cash flows provided by operating activities	53,967	18,724
Investing activities		
Additions to property, plant and equipment	(97)	(9)
Additions to intangible assets	(418)	(706)
Purchase of securities	(21,089)	(4,952)
Cash flows used in investing activities	(21,604)	(5,667)
Net increase in cash and cash equivalents during the period	32,363	13,057
Cash and cash equivalents at the beginning of the period	53,013	44,326
Cash and cash equivalents at the end of the period	\$ 85,376	\$ 57,383
Supplementary disclosure of cash flow information		
Cash interest received	\$ 20,012	\$ 10,377
Cash interest paid	(4,902)	(2,432)

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

June 30, 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 customers who are seeking an alternative solution because they 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.

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 August 10, 2017.

3. Future changes in accounting policies

The IASB and the International Financial Reporting Interpretations Committees ("IFRIC") have issued a number of new or revised standards or interpretations that will become effective for future periods and have potential implication on the accounting policies of the Corporation. In addition to the new or revised pronouncements disclosed in the 2016 annual consolidated financial statements, new pronouncements which are considered to be relevant to the Corporation's operations are as follow:

IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC 23 - Uncertainty over Income Tax Treatments, which clarifies the application of recognition and measurement requirements in IAS 12 Income Taxes by specifying when there is uncertainty in accounting for income taxes. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumption an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and;
- How an entity considers changes in facts and circumstances

The interpretation is effective on January 1, 2019. The Corporation has not yet determined the impact of IFRIC 23 on its consolidated financial statements.

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 \$98,764 as at June 30, 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 June 30, 2017, EFT held CET 1 on an "all-in" basis of \$88,039, 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 19 to 20 of the Corporation's Management Discussion & Analysis ("MD&A") for the second quarter ended June 30, 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

June 30, 2017 and 2016

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

4. Capital management continued

Capital Disclosures

As at	June 30, 2017	December 31, 2016
Common Equity Tier 1 capital: instruments and reserves	All-in	All-in
Directly issued qualifying common share capital plus related stock surplus	\$ 35,750	\$ 35,123
Retained earnings	55,886	53,408
Accumulated other comprehensive loss	(192)	(77)
Common Equity Tier 1 capital before regulatory adjustments	91,444	88,454
Common Equity Tier 1 capital: regulatory adjustments		
Total regulatory adjustments to Common Equity Tier 1	(3,405)	(3,409)
Common Equity Tier 1 capital	88,039	85,045
Tier 1 capital	88,039	85,045
Total capital	88,039	85,045
Total risk-weighted assets	381,827	311,373
Capital ratios		
Common Equity Tier 1 (as a percentage of risk-weighted assets)	23.1 %	27.3 %
Tier 1 (as a percentage of risk-weighted assets)	23.1 %	27.3 %
Total capital (as a percentage of risk-weighted assets)	23.1 %	27.3 %
OSFI all-in target		
Common Equity Tier 1 capital all-in target ratio	7.0 %	7.0 %
Tier 1 capital all-in target ratio	8.5 %	8.5 %
Total capital all-in target ratio	10.5 %	10.5 %
Leverage Ratio Disclosures		
As at	June 30, 2017	December 31, 2016
Leverage ratio exposure	\$ 1,048,265	\$ 846,465
Leverage ratio (Tier 1 capital / leverage ratio exposure)	8.4 %	10.0 %

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 21 to 24 of the Corporation's MD&A for the second quarter ended June 30, 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 June 30, 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 June 30, 2017	Floating Rate	1 Year or Less	1 to 2 Years	Greater than 2 Years	Non- interest Sensitive	Total
Assets						
Cash and cash equivalents	\$ 85,376	\$ -	\$ -	\$ -	\$ -	\$ 85,376
Effective interest rate	0.90 %	-	-	-	-	0.90 %
Available-for-sale securities	-	-	-	33,352	-	33,352
Effective interest rate	-	-	-	1.70 %	-	1.70 %
Mortgages receivable, net	-	577,836	207,697	102,559	-	888,092
Effective interest rate	-	5.12 %	4.89 %	4.86 %	-	4.99 %
Other assets	-	-	-	-	7,910	7,910
Total assets	\$ 85,376	\$ 577,836	\$ 207,697	\$ 135,911	\$ 7,910	\$ 1,014,730
Liabilities						
Deposits	\$ -	\$ 526,927	\$ 183,831	\$ 196,991	\$ -	\$ 907,749
Effective interest rate	-	1.99 %	2.17 %	2.29 %	-	2.07 %
Other liabilities	-	-	-	-	8,217	8,217
Shareholders' equity	-	-	-	-	98,764	98,764
Total liabilities and shareholders' equity	-	526,927	183,831	196,991	106,981	1,014,730
Off-balance sheet items	-	(52,500)	14,000	38,500	-	-
Interest rate sensitivity gap	85,376	(1,591)	37,866	(22,580)	(99,071)	-
Cumulative gap	\$ 85,376	\$ 83,785	\$ 121,651	\$ 99,071	\$ -	\$ -
Cumulative gap as a percentage of total assets	8.4 %	8.3 %	12.0 %	9.8 %	-	-

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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
Assets:						
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
Total assets	\$ 53,013	\$ 526,825	\$ 153,096	\$ 92,685	\$ 8,125	\$ 833,744
Liabilities:						
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
Total liabilities and shareholders' equity	-	429,708	181,153	115,901	106,982	833,744
Off-balance sheet items	-	(24,500)	14,000	10,500	-	-
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 June 30, 2017, the Corporation estimates that a 100 basis point decrease in interest rates would decrease net interest income over the next 12 months by \$648 (December 31, 2016 – \$412 decrease). A 100 basis point increase in interest rates would increase net interest income over the next 12 months by \$599 (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

June 30, 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 June 30, 2017	
	Held for Trading	Available-for-Sale	Loans and Receivables/ Financial Liabilities	Carrying Value	Fair Value	Fair Value Over (Under) Carrying Value		
Financial assets								
Available-for-sale securities	\$ -	\$ 33,352	\$ -	\$ 33,352	33,352	\$ -		
Mortgages receivable, net	-	-	888,092	888,092	889,054	962		
Total financial assets	-	33,352	888,092	921,444	922,406	962		
Financial liabilities								
Deposits	-	-	907,749	907,749	907,549	(200)		
Derivative liabilities	608	-	-	608	608	-		
Total financial liabilities	\$ 608	\$ -	\$ 907,749	\$ 908,357	\$ 908,157	\$ (200)		

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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	
Financial assets							
Available-for-sale securities	\$ -	\$ 12,405	\$ -	\$ 12,405	\$ 12,405	\$ -	
Mortgages receivable, net	-	-	760,201	760,201	762,835	2,634	
Total financial assets	-	12,405	760,201	772,606	775,240	2,634	
Financial liabilities							
Deposits	-	-	726,762	726,762	728,962	2,200	
Derivative liabilities	78	-	-	78	78	-	
Total financial liabilities	\$ 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 June 30, 2017						
	Level 1	Level 2	Level 3	Fair Value	Carrying Value	
Financial assets						
Available-for-sale securities	\$ 33,352	\$ -	\$ -	\$ 33,352	\$ 33,352	
Mortgages receivable, net	-	-	889,054	889,054	888,092	
Total financial assets	33,352	-	889,054	922,406	921,444	
Financial liabilities						
Deposits	-	-	907,549	907,549	907,749	
Derivative liabilities	-	608	-	608	608	
Total financial liabilities	\$ -	\$ 608	\$ 907,549	\$ 908,157	\$ 908,357	

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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	
Financial assets						
Available-for-sale securities	\$ 12,405	\$ -	\$ -	\$ 12,405	\$ 12,405	\$ 12,405
Mortgages receivable, net	-	-	762,835	762,835	760,201	760,201
Total financial assets	12,405	-	762,835	775,240	772,606	772,606
Financial liabilities						
Deposits	-	-	728,962	728,962	726,762	726,762
Derivative liabilities	-	78	-	78	78	78
Total financial liabilities	\$ -	\$ 78	\$ 728,962	\$ 729,040	\$ 726,840	\$ 726,840

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, 2017	December 31, 2016
Deposits with regulated financial institutions	\$ 85,376	\$ 53,013
Total cash and cash equivalents	\$ 85,376	\$ 53,013

7. Available-for-sale securities

	June 30, 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	\$ 33,508	\$ -	\$ (156)	\$ 33,352	\$ 12,405	\$ 12,405
	\$ 33,508	\$ -	\$ (156)	\$ 33,352	\$ 12,405	\$ 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 June 30, 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

June 30, 2017 and 2016

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

7. Available-for-sale securities continued

During the six months ended June 30, 2017, the Corporation did not recognize any impairment losses on available-for-sale securities.

Included in debt securities guaranteed by a province or municipality is \$943 of restricted investments, held as collateral for a swap facility.

8. Mortgages receivable

a. Mortgages receivable

	As at June 30, 2017				
	Gross Amount	Individual Allowance	Collective Allowance	Total	Net Amount
Mortgages	\$ 888,446	\$ -	\$ 2,045	\$ 2,045	\$ 886,401
Accrued interest	1,691	-	-	-	1,691
Balance	\$ 890,137	\$ -	\$ 2,045	\$ 2,045	\$ 888,092

	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
Balance	\$ 761,952	\$ -	\$ 1,751	\$ 1,751	\$ 760,201

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 June 30, 2017, the portion of mortgages due within one year is \$577,836 (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 June 30, 2017 is 4.99% (December 31, 2016 – 4.90%).

The Corporation has outstanding commitments to make future advances on mortgage loans of \$72,470 as at June 30, 2017 (December 31, 2016 – \$37,700). Commitments for the loans remain open for various dates through to September 2017.

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

8. Mortgages receivable continued

b. Allowance for credit losses

	For the six months ended June 30, 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
(Reversal of) provision for credit losses	(26)	294	268	76	677	753
Recovery (realized losses)	26	-	26	(169)	-	(169)
Balance, end of period	\$ -	\$ 2,045	\$ 2,045	\$ -	\$ 1,751	\$ 1,751

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, 2017	December 31, 2016
1 to 30 days	\$ 32,462	\$ 33,391
31 to 60 days	3,875	2,500
61 to 90 days	1,015	1,542
Over 90 days	1,555	1,683
	\$ 38,907	\$ 39,116

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 June 30, 2017 and December 31, 2016.

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

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

9. Deposits

As at		June 30, 2017	December 31, 2016
Term deposit principal	\$	900,298	\$ 720,686
Accrued interest		10,341	8,081
Deferred broker commissions		(2,890)	(2,005)
	\$	907,749	\$ 726,762

Deposits are comprised of non-redeemable GICs with fixed maturity dates over a period of 30 days to 5 years. As at June 30, 2017, the portion of deposits due within one year is \$526,927 (December 31, 2016 – \$429,708) and the average term to maturity is 1.4 years (December 31, 2016 – 1.2 years). The weighted average effective interest rate as at June 30, 2017 is 2.07% (December 31, 2016 – 2.06%).

Term deposit principal include \$52,500 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 June 30, 2017 is \$604 (December 31, 2016 - \$78). Refer to Note 15 - "Derivative financial instruments" for further details.

10. Other assets

As at		June 30, 2017	December 31, 2016
Accounts receivable	\$	138	\$ 103
Prepaid expenses and other current assets		759	1,012
	\$	897	\$ 1,115

11. Other liabilities

As at		June 30, 2017	December 31, 2016
Accounts payable and other liabilities	\$	4,563	\$ 7,882
Deferred revenue		592	475
	\$	5,155	\$ 8,357

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Income before income taxes	\$ 2,193	\$ 134	\$ 4,043	\$ 382
Income tax expense at statutory rate	581	36	1,071	101
Adjustments to prior years	(24)	-	(24)	-
Share-based payment expense not deductible for tax purposes	15	48	74	78
Non-deductible expenses for tax purposes	4	4	8	8
Other	1	-	42	-
Income tax expense	\$ 577	\$ 88	\$ 1,171	\$ 187

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 June 30, 2017
Deferred tax assets			
Non-capital losses	\$ 658	\$ 7	\$ 665
Deferred acquisitions, financing and share issuance costs	20	(1)	19
Mortgage provision for credit losses	46	8	54
DSU liability	430	(22)	408
Other	135	375	510
Deferred tax assets	1,289	367	1,656
Deferred tax liabilities			
Property, plant and equipment	(106)	(96)	(202)
Licence costs	(338)	-	(338)
Other	(20)	(141)	(161)
Deferred tax liabilities	(464)	(237)	(701)
Net deferred tax assets	\$ 825	\$ 130	\$ 955
Consolidated balance sheets			
Deferred tax assets	\$ 1,108	\$ (16)	\$ 1,092
Deferred tax liabilities	(283)	146	(137)
Net deferred tax assets	\$ 825	\$ 130	\$ 955

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 June 30, 2016
Deferred tax assets			
Non-capital losses	\$ 651	\$ 8	\$ 659
Deferred acquisitions, financing and share issuance costs	21	(1)	20
Mortgage provision for credit losses	31	11	42
DSU liability	222	160	382
Charge for contingent consideration	133	(133)	-
Other	37	5	42
Deferred tax assets	\$ 1,095	\$ 50	\$ 1,145
Deferred tax liabilities			
Property, plant and equipment	(114)	44	(70)
Licence costs	(338)	-	(338)
Other	-	(2)	(2)
Deferred tax liabilities	(452)	42	(410)
Net deferred tax assets	\$ 643	\$ 92	\$ 735
Consolidated balance sheets			
Deferred tax assets	\$ 894	\$ 167	\$ 1,061
Deferred tax liabilities	(251)	(75)	(326)
Net deferred tax assets	\$ 643	\$ 92	\$ 735

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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
Issued and outstanding as at December 31, 2016 and June 30, 2017	9,543,508	\$ 33,545
Issued and outstanding as at December 31, 2015 and June 30, 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 June 30, 2017 was 954,351 (December 31, 2016 – 954,351).

	For the six months ended June 30, 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
Ending Balance	847,312	9.33	734,910	9.35
Vested options	248,594	\$ 9.50	149,954	\$ 10.00

The weighted average remaining contractual life for all options outstanding as at June 30, 2017 is 2.67 years (December 31, 2016 - 2.81 years). During the six months ended June 30, 2017, the Corporation recognized \$280 (2016 - \$233) as share-based payment expense related to stock options within staffing costs.

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 six months ended June 30, 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 June 30, 2017, there were 221,139 DSUs outstanding (December 31, 2016 – 174,788) representing a liability of \$1,540 (December 31, 2016 – \$1,624). DSUs of 46,351, with a grant date fair value of \$347 were granted during the period ended June 30, 2017 (March 31, 2016 – 34,584). For the six months ended June 30, 2017, a recovery of \$84 was recorded relating to DSUs issued and outstanding during the period (June 30, 2016 – expense of \$604). 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, 2017	December 31, 2016
Units		
Outstanding, beginning of period	174,788	103,840
Granted	46,351	70,948
Outstanding, end of period	221,139	174,788
Liability		
Balance, beginning of period	\$ 1,624	\$ 837
(Recovery) expense recognized in the statements of operations	(84)	787
Balance, end of period	\$ 1,540	\$ 1,624

EQUITY FINANCIAL HOLDINGS INC.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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		For the six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Fair value changes recorded on interest rate swaps	\$ (543)	\$ 8	\$ (608)	\$ 8
Fair value changes of hedged fixed-rate liabilities for interest rate risk	539	(8)	604	(8)
Hedge ineffectiveness recognized in non-interest income	\$ 4	\$ -	\$ 4	\$ -

16. Related party transactions

During the six months ended June 30, 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.

In addition, as at June 30, 2017, deposits of \$501 (December 31, 2016 - \$nil) were owed to directors, officers and related party entities of the Corporation. These deposits were made in the ordinary course of business at terms comparable to those offered to unrelated parties.

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. During the three and six months ended June 30, 2016 other fee income related to EFT's transitional status as trustee for these client relationships amounted to \$225 and \$375. 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.