Equity Financial Holdings Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Months Ended March 31, 2013

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EQUITY FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Three Months Ended March 31, 2013

May 14, 2013

(all dollar amounts, except per-share amounts, are in 000s unless otherwise stated)

We have prepared this MD&A with reference to National Instrument 51-102 "*Continuous Disclosure Obligations*" of the Canadian Securities Administrators ("NI 51-102"), and it should be read in conjunction with our unaudited interim financial statements and notes thereto for the three months ended March 31, 2013. This MDA should also be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2012 (the "2012 Audited Financial Statements"). Except as otherwise indicated, all financial information in this MD&A is determined in accordance with International Financial Reporting Standards ("IFRS") and all dollar amounts are in Canadian dollars. The information in this MD&A is current to May 14, 2013.

FORWARD-LOOKING STATEMENTS

Certain portions of this MD&A as well as other public statements by Equity Financial Holdings Inc. (the "Corporation") contain "forward-looking information" within the meaning of applicable Canadian securities legislation, which is also referred to as "forward-looking statements", which may not be based on historical fact. Wherever possible, words such as "will", "plans", "expects", "targets", continue", "estimates", "scheduled", "anticipates", "believes", "intends", "may", "could", "would", "might" or "will" be taken, statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, have been used to identify forward-looking information. Such forward-looking statements include, without limitation, operations and financial results**,** and otherwise with respect to the Corporation's business, operations and policies, including the Corporation's new strategic focus of operating as a mortgage provider and deposit-taking institution, the Corporation's earnings expectations, fee income, expense levels, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets activities, the Corporation's expected need for equity or debt financing, business competition, technological change, changes in government regulations and regulatory guidelines, unexpected judicial or regulatory proceedings, catastrophic events, and the Corporation's ability to complete strategic transactions and integrate acquisitions and other factors.

All material assumptions used in making forward-looking statements are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including their knowledge of the current credit, interest rate and liquidity conditions affecting the Corporation and the Canadian economy, retail mortgage markets, housing sales, and equity and capital markets, operations and financial results and assumptions relating to the Corporation's capital and financing requirements. Certain material factors or assumptions are applied by the Corporation in making forward-looking statements, including without limitation, the Corporation's ability to factors and assumptions regarding interest rates, housing sales and retail mortgage borrowing activities, availability of key personnel, the effect of competition, government regulation of its business, computer failure or security breaches, future capital and funding requirements, its ability to fund its mortgage business, the value of mortgage originations, the competitive nature of the alternative mortgage market, the expected margin between the interest earned on its mortgage portfolio and the interest to be paid on its deposits, the relative continued health of real estate markets, acceptance of its products in the marketplace, as well as its operating cost structure and the current tax regime.

Forward-looking statements reflect the Corporation's current views with respect to future events and are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements, as they reflect the Corporation's current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Corporation, are inherently subject to significant business, economic, regulatory, competitive, political and social uncertainties and contingencies. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements, including, among others a significant downturn in the economy as a whole, errors or omissions by the Corporation in providing services to its customers, significant increases in the cost of complying with applicable regulatory requirements, civil unrest, economic recession, pandemics, war and acts of terrorism which may adversely impact the North American and global economic and financial markets, inability to raise funds through public or private financing in the event that the Corporation incurs operating losses or requires substantial capital investment in order to respond to unexpected competitive pressures, significant changes in interest rates, failure by Equity Financial Trust Company ("EFT") to meet ongoing regulatory obligations, failure by the Corporation to generate or obtain sufficient cash or cash equivalents in a timely manner and at a reasonable price or to meet its mortgage portfolio management practices for changing circumstances, failure by the Corporation to attract and to retain the necessary employees to meet its needs, failure by EFT to adequately monitor the services provided by third party service providers or to establish alternative arrangements if required, failure by EFT to secure sufficient deposits from securities dealers or a sufficient level of mortgage origination from its mortgage broker network, a failure of the computer systems of the Corporation or one or more of its service providers or the risks detailed from time-to-time in the Corporation's quarterly filings, annual information forms, annual reports and annual filings with securities regulators. The Corporation disclaims any intent or obligation to update or revise publicly any forward-looking statements whether as a result of new information, estimates, future events or results, or otherwise, unless required to do so by applicable laws.

DESCRIPTION OF THE BUSINESS

We are a Canadian financial services company that offers alternative residential mortgage loans funded through the issuance of retail deposits.

On April 5, 2013 we completed the previously announced sale of the assets of our transfer agent and corporate trust services business, including corporate trust foreign exchange services, to an affiliate of the TMX Group Inc. for cash consideration of $64,000 received at closing, subject to post closing adjustments (the "Transaction"). Our wholly-owned subsidiary Equity Financial Trust Company ("EFT") will use the majority of the net proceeds from the Transaction to significantly increase our regulatory capital base to a level that is expected to provide support for the expansion of our mortgage loan portfolio over the coming years.

The Transaction is important for the Corporation as it positions us to focus exclusively on our growing mortgage and deposit-taking business, thereby clarifying our strategic direction and value proposition to our investors. Management believes the most attractive opportunities are available to us under our mortgage and deposit-taking business and realizing on the inherent value of our transfer agent and corporate trust business allows us to allocate our resources accordingly. During the first quarter of 2013, pending completion of the Transaction, we continued to provide services to the corporate and institutional markets in the form of transfer agent, corporate trust and foreign exchange services.

For a full description of the Corporation's organizational structure and our continuing and discontinued business lines please refer to our Management Discussion & Analysis for the year ended December 31, 2012.

OVERALL PERFORMANCE FOR THE QUARTER ENDED MARCH 31, 2013

Key elements of our consolidated results are as follows:

For the three months ended March 31,	2013		2012	Change $	Change %
Operating Results					
Net interest income	1,808		857	951	111%
Other revenue	147		43	104	242%
Net interest income and other revenue	1,955		900	1,055	117%
Non interest expenses	2,266		1,658	608	37%
Depreciation, amortization and other gains and losses	156		89	67	75%
Loss before income taxes	(467)		(847)	380	45%
Income taxes	(79)		(183)	104	57%
Net earnings (loss) and comprehensive income:					
Continuing operations	(388)		(664)	276	42%
Discontinued operations	(638)		710	(1,348)	(190%)
Total net earnings (loss) and comprehensive income	(1,026)		46	(1,072)	(2330%)
Earnings (loss) per share, basic:					
Continuing operations	(0.04)		(0.07)	0.03	43%
Discontinued operations	(0.07)		0.08	(0.15)	(188%)
Total earnings per share, basic	(0.11)		0.01	(0.12)	(1200%)
Earnings (loss) per share, diluted:					
Continuing operations	(0.04)		(0.07)	0.03	43%
Discontinued operations	(0.07)		0.08	(0.15)	(188%)
Total earnings per share, diluted:	(0.11)		0.01	(0.12)	(1200%)
Return on equity (annualized) [1]	(8%)		0%		
As at	March 31, 2013	December 31, 2012	March 31, 2012	Change over Mar 2013-Dec 2012 $	%
Balance Sheet Highlights					
Cash and cash equivalents	37,463	34,429	17,332	3,034	9%
Mortgage recievables	226,876	198,147	105,285	28,729	14%
Total assets	282,179	251,442	140,707	30,737	12%
Customer deposits	224,913	192,757	82,780	32,156	17%
Total liabilities	230,840	199,175	89,290	31,665	16%
Shareholders' equity	51,339	52,267	51,417	(928)	(2%)

As a result of the Transaction and the parallel wind-down of our foreign exchange operations the Corporation is now focused solely on our mortgage lending and deposit taking business segment. Our previously reported transfer agent and corporate trust segment and our foreign exchange segment are now classified as discontinued operations (see note 16 of our interim consolidated financial statements).

Our continuing mortgage lending and deposit-taking business unit continued to expand in the first quarter and our ending mortgage portfolio balance was $226,876, an increase of 14% compared to December 31, 2012 and an increase of 115% compared to March 31, 2012. As a result of the increase in our mortgage

[1] See definition of return on equity under Non-IFRS Financial measures below

portfolio, the total of net interest income and other revenue contributed by our mortgage unit increased by 117% year over year.

Although revenue increased compared to the prior year we have reported a net loss from our continuing mortgage operations of $388 for the three months ended March 31, 2013, compared to a net loss of $664 for the comparable period in 2012. This represents a change in presentation as we had previously reported net earnings of $118 from our mortgage segment for the first quarter of 2012. The change in net earnings presented reflects approximately $1,000 of corporate overhead costs previously assigned to the transfer agent and corporate trust segment and the foreign exchange segment that have now been reallocated to our continuing mortgage operation. These overhead costs include executive management, administration and risk and control functions which provide the foundational infrastructure to support our strategy to grow our mortgage operation.

Our discontinued transfer agent and corporate trust and foreign exchange operations contributed a net loss of $638 for the three months ended March 31, 2013 compared to net earnings of $710 for the comparable period in 2012. The results of our discontinued operations include before tax costs of $1,149 incurred in connection with the Transaction during the first quarter of 2013. These non-recurring costs were primarily for investment banking, legal and other advisory services. Also during the first quarter of 2013 we incurred before tax costs of $500 in connection with the wind-down of our foreign exchange business.

In total we experienced a net loss of $1,026 for the three months ended March 31, 2013 compared to net earnings of $46 for the comparable period in 2012. We had a net loss per share of $0.11 for the three months ended March 31, 2013 compared to net earnings per share of $0.01 for the comparable period in 2012.

2013 BUSINESS OUTLOOK

To date we have recognized significant expenses related to the Transaction and also for the wind-down of our foreign exchange business, which has resulted in a net loss for the first quarter. A gain on sale from the Transaction will be recognized in the second quarter based on proceeds of $64,000, subject to post-closing adjustments, less transaction costs and income taxes. The gain on sale will increase our consolidated shareholders' equity to approximately $95,000 and based on our current number of outstanding common shares of 9,177,840 our book value per share will increase to over $10.00 per common share.

The gain on sale from the Transaction will increase EFT's regulatory capital base from approximately $35,000 to $85,000 (see Capital Management below), which provides support for the expansion of our mortgage loan portfolio and reduces our need to consider raising new equity or debt financed capital for several years. We remain confident in our expectation that compared to the balance at the end of 2012 our mortgage portfolio will be approximately double in size by the end of 2013.

The Corporation is in the midst of a transitional period as we work to efficiently transfer the business unit sold in accordance with the terms of the Transaction, finalize the wind down of our foreign exchange operation and execute our new strategy that is now focused solely on our mortgage lending and deposit taking business. We have invested in a corporate infrastructure to meet what we believe to be the regulatory and business requirements necessary for sustainable growth and we expect net interest income and fee revenue to continue growing as our mortgage portfolio expands. Despite the fact it is now absorbing overhead costs previously allocated between three operating segments we anticipate our continuing mortgage business segment to be modestly profitable in 2013. Thereafter we expect to see improvement in our profitability and increasing returns on equity as our mortgage portfolio builds on the expanded capital base provided by the Transaction.

FINANCIAL PERFORMANCE REVIEW

Net interest income

The table below provides an analysis of average balances and the related net interest income and net interest margin[2].

For the three months ended March 31,	**2013**			2012		
	Average Balance	**Revenue/ Expense**	**Average rate**	Average Balance	Revenue /Expense	Average rate
Assets						
Cash and cash equivalents	**29,486**	**87**	**1.18%**	16,325	48	1.18%
Mortgage receivable	**209,701**	**2,810**	**5.36%**	95,615	1,243	5.20%
Total interest earning assets	**239,187**	**2,897**	**4.84%**	111,940	1,291	4.61%
Liabilities						
Deposits	**202,605**	**1,089**	**2.15%**	87,677	434	1.98%
Total interest bearing liabilities	**202,605**	**1,089**	**2.15%**	87,677	434	1.98%
Net interest income per financial statements		**1,808**			857	
Net interest margin for mortgages receivable over deposits			**3.21%**			3.22%

Net interest income has increased by $951 or 111% year-over-year, reflecting the significant growth in our mortgage loan portfolio. Our average net interest margin on our mortgage portfolio was 3.21% for the first quarter of 2013, compared to 3.22% for the comparable period in 2012. Over time we expect our average net interest margin to normalize toward 3.0%, however, during 2013 we expect to continue earning a net interest margin higher than 3.0% as a portion of our mortgage originations will be funded using cash inflows from the Transaction.

Other revenue

For the three months ended March 31,	**2013**	**2012**	**$ Change**	**% Change**
Mortgage fees	147	43	104	242%
Total other revenue	147	43	104	242%

Mortgage fee income for the quarter was $147, an increase of $104 or 242%, which was primarily the result of the expansion of our mortgage portfolio. This revenue source includes fees charged for administration and servicing of our mortgage portfolio.

[2] See definition of net interest margin under Non-IFRS Financial measures below

Non-interest expenses

For the three months ended March 31,	2013	2012	$ Change	% Change
Staffing costs	1,197	934	263	28%
Rent	186	178	8	4%
Provision for credit losses	101	72	29	40%
Selling, general and administrative	782	474	308	65%
Total non-interest expenses	**2,266**	**1,658**	**608**	**37%**

Non-interest expenses for the first quarter of 2013 increased by $608 or 37% over the comparable period in 2012. Specific factors underlying the increase in non-interest expenses are as follows:

Staffing costs

Staffing costs increased $263 or 28%, to $1,197, primarily as a result of head count additions made during 2012 as we continued to grow the size of our mortgage lending and deposit-taking operation. For our continuing operations we ended the first quarter with a staff count of forty compared to thirty-three at the end of the first quarter last year.

Rent

Rent expense for the quarter ended March 31, 2013 reflects the cost of lease space not being sold with the transfer agent and corporate trust services business and during transition management expects to reduce lease commitments on unneeded space, resulting in reduced rent expense in future quarters.

Provision for credit losses

Our provision for credit losses increased $29 or 40%, to $101 for the quarter ended March 31, 2013, reflecting the increase in our mortgage portfolio balance. We expect to continue to proportionately increase our provision for credit losses as our mortgage portfolio expands over time. Since the inception of operations in our mortgage business, our provision for credit losses has been entirely based on building our collective allowance, the sufficiency of which management assesses based on available data, including the composition and credit performance of the loan portfolio, external economic factors and industry benchmarks. To date we have not required any specific allowances for individually impaired loans and have not experienced any write-offs on our mortgage loan portfolio.

Selling, general and administrative expenses

Selling, general and administrative ("SG&A") expenses increased $308 or 65% to $782 for the quarter ended March 31, 2013, driven by three main factors. We recognized a $93 mark-to-market adjustment during the first quarter of 2013 on outstanding Deferred Share Units. The increase also includes $130 for overhead costs previously shared amongst three business units now being absorbed entirely by our continuing mortgage operation. The remaining increase of $85 reflects the continued expansion of our residential mortgage lending business. Mortgage origination and servicing costs will continue to increase in line with increasing business volumes; however, on an absolute dollar basis we expect overall costs expansion for the mortgage segment to be significantly less than revenue growth, as we increasingly benefit from economies of scale.

Net earnings and earnings per share

For the three months ended March 31,	**2013**	**2012**	**$ Change**	**% Change**
Net loss, continuing operations	(388)	(664)	276	42%
Net earnings (loss), discontinued operations	(638)	710	(1,348)	(190%)
Net earnings (loss) and comprehensive income	(1,026)	46	(1,072)	(2330%)
Basic earnings (loss) per share from continuing operations	(0.04)	(0.07)	0.03	43%
Basic earnings (loss) per share discontinued operations	(0.07)	0.08	(0.15)	(188%)
Basic earnings (loss) per share	(0.11)	0.01	(0.12)	(1200%)
Diluted earnings (loss) per share from continuing operations	(0.04)	(0.07)	0.03	43%
Diluted earnings (loss) per share from discontinued operations	(0.07)	0.08	(0.15)	(188%)
Diluted earnings (loss) per share	(0.11)	0.01	(0.12)	(1200%)

We generated a net loss of $1,026 for the quarter ended March 31, 2013, compared to net earnings of $46 in the comparable period last year. The main factors leading to the net loss for the first quarter of 2013 are before tax costs of $1,149 and $500 incurred in connection with the Transaction and the wind-down of our foreign exchange business respectively. As a result we have a basic and diluted loss per share of $0.11 compared to basic and diluted earnings per share of $0.01 in the comparable period last year.

Our continuing mortgage operations experienced a net loss of $388 for the three months ended March 31, 2013, compared to a net loss of $664 for the comparable period in 2012. This resulted in a basic and diluted loss per share of $0.04 for the first quarter of 2013 compared to a basic and diluted loss per share of $0.07 for the comparable period last year. The net loss from our mortgage business reflects the fact it is now absorbing overhead costs previously allocated amongst three operating segments. We do anticipate our mortgage business segment to be modestly profitable in 2013.

As a result of the Transaction, we have reclassified the results of our transfer agent and corporate trust business segment to discontinued operations (see note 8 of our interim consolidated financial statements). We have also reclassified the results of our foreign exchange segment to discontinued operations as this business is being wound down in parallel with the Transaction. For the first quarter of 2013 we experienced a net loss from discontinued operations of $638, compared to net earnings of $710 for the first quarter of 2012. This resulted in a basic and diluted loss per share of $0.07 for the first quarter of 2013 compared to basic and diluted earnings per share of $0.08 for the comparable period last year.

RESULTS BY OPERATING SEGMENT

As per Note 16 of our interim consolidated financial statements, the Corporation has three reportable segments: mortgage, transfer agent and corporate trust, and foreign exchange. These segments are managed and reported separately because they are subject to different regulatory environments, have different technology requirements and serve different client needs. As a result of the Transaction, the continuing operations of the Corporation will include only the mortgage segment and as a result the transfer agent and corporate trust and foreign exchange segments are presented as discontinued operations.

Mortgage – continuing operation

For the three months ended March 31,	2013	2012	$ Change	% Change
Operating Results				
Net interest income	1,808	857	951	111%
Other revenue	147	43	104	242%
Net interest income and other revenue	1,955	900	1,055	117%
Non interest expenses	2,266	1,658	608	37%
Depreciation, amortization and other gains and losses	156	89	67	75%
Loss before taxes	(467)	(847)	380	45%
Income taxes	(79)	(183)	104	57%
Net loss and comprehensive income	(388)	(664)	276	42%
Net interest margin	3.21%	3.22%	(0.01%)	0%
Loss per share contribution	(0.04)	(0.07)	0.03	43%
Balance Sheet Highlights				
Mortgage Loan Originations	39,531	22,555	16,976	75%
Mortgages receivable	226,876	105,285	121,591	115%
Customer deposits	224,913	82,780	142,133	172%

We originated $39,531 of new mortgage loans during the first quarter of 2013 (an increase of 75% from 2012) and as at March 31, 2013 we had estimated commitments to make future advances on mortgage loans of $22,500. We ended the first quarter with mortgage loans outstanding of $226,876, representing an increase of 14% compared to December 31, 2012 and an increase of 115% compared to March 31, 2012. We remain confident in our expectation that compared to the balance at the end of 2012 our mortgage portfolio will be approximately double in size by the end of 2013.

As a result of the increase in our mortgage portfolio, the total of net interest income and other revenue contributed by our mortgage unit increased by 117% year over year. We maintained a net interest margin of 3.21% compared to 3.22% for the comparable period last year, which is above our long run expectation of approximately 3.0%. Non-interest expenses increased 37%, primarily reflecting increased staffing costs required to maintain our pace of growth in originations and to provide servicing to an expanding mortgage portfolio.

As noted above, corporate overhead costs previously presented as costs of our other segments have been reallocated to the mortgage business and as such this segment had a net loss for the first quarter of 2013 of $388 or $0.04 per share, compared to a net loss of $664 or $0.07 per share for the comparable period in 2012.

Transfer Agent and Corporate Trust Services – discontinued operation

For the three months ended March 31,	2013	2012	$ Change	% Change
Operating Results				
Net interest income and other revenue	3,486	4,118	(632)	(15%)
Non interest expenses	3,706	2,845	861	30%
Depreciation, amortization and other gains and losses	-	94	(94)	(100%)
Earnings before taxes	(220)	1,179	(1,399)	(119%)
Income taxes	(66)	311	(377)	(121%)
Net earnings and comprehensive income	(154)	868	(1,022)	(118%)
Earnings per share contribution	(0.02)	0.10	(0.12)	(120%)

Our transfer agent and corporate trust revenue streams for the first quarter of 2013 declined compared to the first quarter last year due to low trading and financing volumes in the stock market and the loss of a significant client group which represented 7% of our total client count. The increase in non-interest expenses primarily reflects costs of $1,149 incurred in relation to the Transaction. For the first quarter of 2013, this segment experienced a net loss of $154 or $0.02 per share, compared to net earnings of $868 or $0.10 per share in the comparable period last year.

Foreign Exchange – discontinued operation

For the three months ended March 31,	2013	2012	$ Change	% Change
Operating Results				
Net interest income	8	41	(33)	(80%)
Other revenues	73	387	(314)	(81%)
Net interest income and other revenue	81	428	(347)	(81%)
Non interest expenses	407	617	(210)	(34%)
Depreciation, amortization and other gains and losses	384	24	360	1500%
Loss before taxes	(710)	(213)	(497)	(233%)
Income taxes	(226)	(56)	(170)	(304%)
Net loss and comprehensive income	(484)	(157)	(327)	(208%)
Loss per share contribution	(0.05)	(0.02)	(0.03)	(150%)

We started to wind down our foreign exchange operation in parallel with the strategic decision to sell our transfer agent and corporate trust business and we anticipate that this will be finalized in the second quarter of 2013. The decline in revenue reflects the reduced business volumes as we did not take on new clients and simply provided an efficient transfer for existing clients to other foreign exchange service providers. Expenses during the first quarter primarily relate to wind-down costs of $500 for exiting service contracts for our systems and a related write-down of intangible software assets. For the first quarter of 2013, this segment experienced a net loss of $484 or $0.05 per share, compared to a net loss of $157 or $0.02 per share in the comparable period last year.

FINANCIAL POSITION REVIEW

Summary

As at	March 31, 2013	December 31, 2012	$ Change	% Change
Assets				
Cash and cash equivalents	37,463	34,429	3,034	9%
Mortgages receivable	226,876	198,147	28,729	14%
Assets held for sale	12,444	13,305	(861)	(6%)
Other assets	1,626	1,469	157	11%
Property, plant and equipment	866	916	(50)	(5%)
Intangibles	2,904	3,176	(272)	(9%)
Total Assets	282,179	251,442	30,737	12%
Liabilities				
Accounts payable and accrued liabilities	3,882	2,666	1,216	46%
Customer deposits	224,913	192,757	32,156	17%
Liabilities held for sale	1,292	1,965	(673)	(34%)
Other liabilities	753	1,787	(1,034)	(58%)
Total liabilities	230,840	199,175	31,665	16%
Shareholders' equity	51,339	52,267	(928)	(2%)
Total liabilities and shareholders' equity	282,179	251,442	30,737	12%

Total assets as at March 31, 2013 increased by 12% to $282,179 compared to $251,442 as at December 31, 2012. The main elements of this change were increases in mortgages receivable and cash and cash equivalents of $28,729 and $3,034 respectively. Total liabilities as at March 31, 2013 increased by 16% to $230,840 compared to $199,175 as at December 31, 2012, primarily reflecting an increase in customer deposits of $32,156.

Cash Resources

As at	Mar. 31, 2013	Dec. 31, 2012	$ Change	% Change
Cash and cash equivalents	37,463	34,429	3,034	9%

For the three months ended	Mar. 31, 2013	Mar. 31, 2012	$ Change	% Change
Cash flow from operating activities	3,128	(8,975)	12,103	135%
Cash flow from financing activities	7	1,242	(1,235)	(99%)
Cash flow from investing activities	(101)	(503)	402	80%

Cash and cash equivalents

Cash and cash equivalents as at March 31, 2013 increased by $3,034 or 9% compared to December 31, 2012, as a result of the inflows and outflows described below.

We are continuing to balance the need to maintain liquid assets essential to the stability of EFT's operations with the drag on net interest income that holding liquid assets entails (see "Regulatory capital requirements" below). For 2013 to date we have funded new residential mortgage loans through our deposit-taking activities, specifically by issuing Guaranteed Investment Certificates

("GICs"). The cash proceeds received from the Transaction significantly increase our liquidity and we intend to use a portion of these cash inflows to fund new residential mortgages. This will temporarily enhance our net interest margin since internal cash has a lower cost of funds compared to our external GIC deposits.

Cash flow from operating activities

Cash flow from operating activities increased by $12,103 or 135%, to $3,128 for the quarter ended March 31, 2013. GIC deposits and mortgage originations constitute the primary sources of operating inflows and outflows respectively. The main elements of the net inflow for the quarter ended March 31, 2013 were net inflows of $32,156 from GIC deposits against net outflows of $28,829 to fund mortgages receivable. The main elements of the net outflow for the quarter ended March 31, 2012 were net outflows of 20,577 and $2,926 to fund mortgages receivable and corporate income taxes, respectively, against net inflows from GIC deposits of $15,917.

Cash flow from financing activities

Cash flow from financing activities for the quarter ended March 31, 2013 decreased $1,235 or 99%, to $7. Cash flows from financing activities in the first quarter of both the current and prior year represent proceeds from the exercise of employee stock options.

Cash flow from investing activities

Cash used in investing activities for the quarter ended March 31, 2013 decreased $402 or 80%, to $101. Cash used in investing activities in the first quarter of both the current and prior year primarily relate to enhancing our information technology systems.

Mortgages receivable

		Allowance for credit losses			March 31, 2013
	Gross amount	Individual	Collective	Total	Net amount
Mortgages	227,179	-	795	795	226,384
Accrued interest	492	-	-	-	492
	227,671	-	795	795	226,876

		Allowance for credit losses			December 31, 2012
	Gross amount	Individual	Collective	Total	Net amount
Mortgages	198,413	-	694	694	197,719
Accrued interest	428	-	-	-	428
	198,841	-	694	694	198,147

Mortgages receivable consist of uninsured loans for terms of one to five years for the purchase or refinancing of single-family homes in Ontario, located in the Greater Golden Horseshoe Area, the Greater Ottawa area and immediately adjacent urban and suburban communities.

We originated mortgages of $39,531 during the quarter ended March 31, 2013, with average loan-to-value ratios of 72.6%. As at March 31, 2013, we had a net mortgages receivable balance of $226,876 and estimated commitments to make future advances on mortgage loans of $22,500.

As at March 31, 2013, the portion or mortgages receivable due within one year is $164,962 and the average term to maturity of the portfolio is 0.9 years while the average amortization period for all loans is 33 years. The average effective interest rate of the portfolio as at March 31, 2013 is 5.34%.

Allowance for credit losses

	March 31, 2013		
	Individual Allowance	Collective Allowance	Total
Balance, beginning of year	-	694	694
Provision for credit losses	-	101	101
Realized losses	-	-	-
Recoveries	-	-	-
Balance, end of year	-	795	795

We have established what we believe to be a prudent allowance for credit losses of $795 as at March 31, 2013. We have estimated a collective allowance based on the characteristics of the portfolio and industry standards but have not identified any loans for which an individual allowance is required.

Impaired and past due mortgages

We classify a mortgage receivable 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. As a matter of practice, unless collection efforts are reasonably expected to result in repayment, mortgages are deemed to be impaired when they have been in arrears for 90 days or more. An exception may be made where management determines that the mortgage is well secured and in the process of collection, and the collection efforts are reasonably expected to result in either full repayment of the mortgage or restoring it to its current status.

As at March 31, 2013, there were no impaired mortgages.

A loan is considered past due when a borrower has not made a payment by the contractual due date. However, loans past due 30 days or less are not administratively past due and are not presented in the analysis below. The following table presents the carrying value of mortgages that are past due but not classified as impaired either because they are less than 90 days past due, collection efforts are reasonably expected to result in repayment, or they have been restored to current status in accordance with our collection policy since the balance sheet date.

	March 31 , 2013			
	31-60 days	61-90 days	> 90 days	Total
Mortgages	934	386	1,127	2,447

	December 31 , 2012			
	31-60 days	61-90 days	> 90 days	Total
Mortgages	815	107	580	1,502

Assets and Liabilities Held for Sale

As noted under "Description of Business" above, on April 5, 2013 we completed the previously announced sale of the assets of our transfer agent and corporate trust services business, including corporate trust foreign exchange services, to an affiliate of TMX Group Inc. pursuant to the Transaction. The related assets and liabilities were considered held for sale as at December 21, 2012. See Note 8 of our interim consolidated financial statements for further information.

As at	March 31, 2013	December 31, 2012
Accounts receivable	1,466	1,978
Prepaids and other current assets	201	415
Deferred tax assets	26	38
Property, plant and equipment	971	971
Intangibles, net	992	1,115
Goodwill	8,788	8,788
Total assets	12,444	13,305
Accounts payable and accrued liabilities	263	1,017
Deferred revenue	607	542
Deferred tax liabilities	422	406
Total liabilities	1,292	1,965

Customer Deposits

	March 31, 2013	December 31, 2012
GICs with fixed maturity dates	222,724	191,122
Accrued interest	2,582	1,984
Deferred deposit agent commissions	(393)	(349)
	224,913	192,757

Customer deposits consist of GICs, which are sold through securities dealers, with fixed maturity dates and an average term to maturity of 0.7 years. At March 31, 2013, the portion of customer deposits due within one year is $183,146 and the average effective interest rate is 2.22%.

Financial instruments

The use of financial instruments exposes us to credit risk, liquidity risk, and interest rate risk (see "Risks" below). A fuller discussion on our risk exposures and how we manage them can be found on pages 25-31 of our 2012 Annual Management Discussion & Analysis.

The carrying value of certain financial assets and financial liabilities corresponds to a reasonable approximation of fair value, primarily due to their short term nature. The fair values of cash and cash equivalents and accounts payable and accrued liabilities approximate their carrying values.

We determine the fair value of mortgages receivable by discounting the expected future cash flows of the mortgages at market rates for mortgages with similar terms and credit risks.

We determine the fair value of customer deposits by discounting the contractual cash flows using the 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.

March 31, 2013	Loans and receivables/ financial liabilities at cost or amortized cost	Carrying Value	Fair Value
Financial assets:			
Cash and cash equivalents	37,463	37,463	37,463
Mortgages receivable	226,876	226,876	227,361
Assets held for sale	1,466	1,466	1,466
Total financial assets	265,805	265,805	266,290
Financial liabilities:			
Accounts payable and accrued liabilities	3,283	3,283	3,283
Customer deposits	224,913	224,913	225,234
Liabilities held for sale	263	263	263
Total financial liabilities	228,459	228,459	228,780

Segregated funds

Segregated funds represent funds held by EFT on behalf of its clients, in connection with various corporate trust services. As at March 31, 2013, we held $203,963 compared with $277,341 as at December 31, 2012. As described above, activity in the corporate trust business can vary significantly based on capital market conditions and results can be affected by a small number of high volume transactions. We earn margin income from administering these funds, included within corporate trust revenues.

Off-balance sheet arrangements

We have no off-balance sheet arrangements.

Contingent liabilities

In October 2011, a former officer and director of Coventree Inc. ("Coventree") and certain corporations affiliated with him commenced proceedings in the Ontario Superior Court of Justice against Coventree and against EFT related to the cancellation of certain shares of Coventree (the "Proceeding"). The amount claimed is approximately $3,300, plus pre-judgment interest and costs. EFT has filed a Statement of Defence and crossclaim against Coventree for contribution and indemnity. EFT intends to vigorously defend the Proceeding. As is customary in connection with our transfer agency business, Coventree has agreed, subject to certain limitations, to indemnify us for any liabilities we may incur in connection with the Proceeding, including legal fees and disbursements (the "Indemnity").

The inspectors and the liquidator in the court-supervised winding-up of Coventree have determined that the claims against Coventree and EFT will still be decided in the context of the Proceeding, notwithstanding the winding-up. EFT has filed a claim against Coventree under the claims procedure in the winding-up for the full amount of Coventree's potential exposure to it under the Indemnity. The liquidator has reserved the sum of $5,000 for the Proceeding. The Corporation has not recorded a liability related to this matter.

SUMMARY OF QUARTERLY RESULTS

The following tables set out financial performance highlights for the past eight quarters:

	2013	2012				2011		
Operating results	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net interest income	1,808	1,549	1,230	1,061	857	641	428	112
Other revenue	147	133	114	67	43	7	21	10
Net interest income and other revenue	1,955	1,682	1,344	1,128	900	648	449	122
Non -interest expenses	2,266	1,945	1,835	1,746	1,658	1,694	1,751	1,863
Depreciation, amortization and other gains and losses	156	213	60	90	89	61	56	55
Income before income taxes	(467)	(476)	(551)	(708)	(847)	(1,107)	(1,358)	(1,796)
Taxes (current and deferred)	(79)	(119)	(121)	(156)	(183)	(173)	(421)	(557)
Net earnings from continuing operations	(388)	(357)	(430)	(552)	(664)	(934)	(937)	(1,239)
Net earnings from discontinued operations	(638)	481	520	826	710	1,524	997	8,552
Total net earnings and comprehensive income	(1,026)	124	90	274	46	590	60	7,313
Basic earnings (loss) per share from continuing operations	(0.04)	(0.04)	(0.04)	(0.06)	(0.07)	(0.10)	(0.10)	(0.14)
Basic earnings per share discontinued operations	(0.07)	0.05	0.06	0.09	0.08	0.17	0.11	0.96
Basic earnings per share	(0.11)	0.01	0.01	0.03	0.01	0.07	0.01	0.82
Diluted earnings (loss) per share from continuing operations	(0.04)	(0.04)	(0.05)	(0.06)	(0.07)	(0.10)	(0.10)	(0.14)
Diluted earnings per share from discontinued operations	(0.07)	0.05	0.06	0.09	0.08	0.17	0.11	0.93
Diluted earnings per share	(0.11)	0.01	0.01	0.03	0.01	0.06	0.01	0.80
Dividends	-	-	-	-	-	-	-	-
Balance sheet highlights								
Cash and cash equivalents, end of period	37,463	34,429	44,382	55,139	17,332	25,568	35,536	28,452
Mortgage receivables	226,876	198,147	165,971	138,679	105,285	84,780	53,298	20,080
Total assets	282,179	251,442	229,418	212,543	140,707	129,736	111,958	67,583
Customer deposits	224,913	192,757	169,942	152,218	82,780	66,863	41,671	5,427
Total liabilities	230,840	199,175	177,385	160,713	89,290	79,738	62,685	18,459
Shareholders' equity	51,339	52,267	52,033	51,830	51,417	49,998	49,273	49,125

Net interest income has been increasing each quarter in line with the expansion of our mortgage portfolio. As our residential mortgage-lending business continues to grow, we also expect some seasonality to develop with higher origination volumes in the spring compared to lower volumes in the winter.

The quarterly fluctuations in results of our discontinued operations resulted from large-volume foreign exchange transactions and our corporate trust business was also affected by large-volume transactions. We also earned a significant portion of our revenue from transfer agent services provided in connection with annual meetings in the second quarter as most transfer agent clients have fiscal year ends in December and therefore hold their annual general meetings between April and June, during our second quarter. Due to the completion of the Transaction, the quarterly fluctuations that have resulted from large volume transactions and the inherent seasonality of the transfer agent business will cease to be a factor for us going forward.

CAPITAL MANAGEMENT

Regulatory capital requirements

EFT's Capital Management Policy governs the quantity and quality of its capital, ensuring it meets regulatory capital requirements, while also providing a sufficient return. As part of its enterprise-wide internal capital adequacy assessment process ("ICAAP") EFT conducts stress tests across a variety of scenarios to evaluate the sufficiency of its capital. Two regulatory capital requirements are addressed by the Corporation's policy: the Assets to Capital Multiple ("ACM") and the risk based capital ratio.

EFT calculates regulatory capital and capital ratios based on capital adequacy rules issued by the Office of the Superintendent of Financial Institutions of Canada ("OSFI"), which are based on "Basel III: A global regulatory framework for more resilient banks and banking systems – A Revised Framework" ("Basel III"), which became effective January 1, 2013. EFT's total regulatory capital is comprised entirely of shareholder's equity, referred to as common equity tier one capital ("CET 1"), comprised of total of share capital, contributed surplus and retained earnings, less adjustments for intangible assets and goodwill. EFT derives its risk based CET 1 ratio by dividing CET 1 capital by the sum of credit risk weighted assets and an operational risk charge. EFT calculates credit risk-weighted assets using the standardized approach and the operational risk charge using the basic indicator approach. EFT derives its ACM by dividing total net assets (total assets less adjustments for intangible assets and goodwill) by CET 1 capital.

Under Basel III, capital is calculated two ways during a 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 immediately. ACM is evaluated using capital calculated on the transitional basis, which introduces certain capital deductions on a graduated basis during the transitional period. As at March 31, 2013, EFT held CET 1 on an "all-in" basis of $30,969 compared with $35,001 as at December 31, 2012. The decrease includes the additional deduction of approximately $3,000 of intangible assets as required by Basel III and also includes the effect of EFT's net loss for the quarter. For the purpose of calculating the ACM, CET 1 capital on the transitional basis as at March 31, 2013 was $34,467 and upon completion of the Transaction on April 5, 2013 this figure increased to over $85,000. EFT's regulatory capital and capital ratios are outlined in the table below.

	March 31, 2013	December 31, 2012
Regulatory capital (CET 1)		
All -in basis	30,969	35,001
Transitional basis	34,467	35,001
CET 1 ratio		
All -in basis	23.8%	28.7%
Transitional basis	25.8%	28.7%
Assets to capital multiple	7.68	6.64

We expect that over time these ratios will gradually converge to levels consistent with those reported by other deposit-taking institutions in our peer group, but will at all times remain in excess of minimum regulatory standards, as generally expected of well-capitalized institutions.

Capital resources

As noted above, EFT's CET1 regulatory capital has increased significantly as a result of the Transaction. By retaining these funds in the business, EFT will have a strong capital base to support its growth objectives in alternative mortgage lending. We may, however, require further capital from time to time to pursue strategic initiatives or to develop future lines of business.

RISKS

The Corporation, like 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. Due to the wind-down of our foreign exchange business unit, the Corporation is no longer exposed to any significant risks related to those operations or to changes in foreign exchange rates. A fuller discussion of the Corporation's risk exposures and how it manages those risks can be found on pages 25 to 31 of the Corporation's 2012 Annual Management Discussion and Analysis.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations. The nature of the business of lending creates an exposure to the possibility that loans will not be repaid. Our mortgage operations are subject to credit risk resulting from possible defaults in payment by its borrowers. There can be no assurances that our monitoring of credit risk and our efforts to mitigate credit risk through risk-based pricing, appropriate underwriting policies, and loss mitigation strategies will be sufficient to prevent an adverse effect on our profitability and financial condition. As part of the underwriting process, we rely heavily upon information supplied by third parties. If any of this information is intentionally or negligently misrepresented and the misrepresentation is not detected before completing the transaction, the credit risk associated with the transaction may be increased.

Our mortgage portfolio consists of uninsured mortgages. As a result our primary credit risk relates to the potential for financial loss resulting from the failure of a borrower to fully honour its financial or contractual obligations, such as the failure to repay principal and/or interest on the mortgage**.** Our mortgages consist of alternative residential mortgages originated under lending programs designed to serve customers who have limited access to traditional financing. There is a higher risk of default associated with alternative mortgage borrowers than with traditional borrowers. The typical alternative borrower may have had previous financial difficulties or may not yet have established a sufficient credit history. Because we serve customers who are unable to meet the credit standards imposed by most traditional financing services, we charge interest at higher rates than those charged by those lenders. The factors to be used in determining borrowers' creditworthiness will be subject to change over time. An increase in loan losses beyond those expected and provided for could have a material adverse effect on our operating results. We mitigate this risk primarily by conducting thorough income verification and other due diligence on each borrower and by dealing only with known and reputable mortgage brokers. We are selective in the types of property we take as collateral, the reliability of the appraisal of the property, and its location.

Other financial instruments potentially exposed to credit risk include cash and cash equivalents. We consider our exposure to credit risk over cash and cash equivalents to be remote as we hold cash deposits at Canadian Schedule I banks.

Liquidity Risk

Liquidity risk is defined as the possibility we will be unable to generate or maintain sufficient cash or cash equivalents, in a timely manner, to meet our commitments as they come due.

Managing liquidity risk requires management to keep sufficient liquid assets on hand at all times to pay our cash obligations, in a timely manner, such as maturing deposits and deposit interest, new mortgage commitments, accounts payables, accrued liabilities and other business activities.

EFT has established a liquidity management framework which includes the following:

- A Board-approved policy that quantifies EFT's liquidity risk tolerance and minimum liquidity requirement;
- A monitoring and risk control framework that forecasts cash inflows and outflows and contractual liquidity commitments for a specified time horizon;
- Requirements for the diversification of funding sources;
- The maintenance of a liquidity reserve consisting of cash or highly-liquid assets;
- Daily reporting that measures compliance with Board-approved limits;
- Periodic stress testing of liquidity assumptions and forecasts which may include company-specific liquidity shocks, exogenous systemic disruptions, or combinations of both; and
- A liquidity contingency plan that anticipates a number of scenarios according to which EFT's liquidity operations could be disrupted and explains what actions will be followed under each.

EFT's Asset-Liability Committee (ALCO) is comprised of members of senior management and is charged with the monitoring of EFT's liquidity exposures. ALCO periodically reviews EFT's liquidity policies and procedures as appropriate to evolving business requirements and will make recommendations for policy amendments to the Board as required. ALCO also reviews the results of periodic stress tests and may direct management to temporarily alter its liquidity tactics accordingly.

EFT's Board has established liquidity minimum requirement limits using as a basis two measures which are currently being contemplated as part of the adoption of Basel III:

- Liquidity Coverage Ratio (LCR): the ratio of the EFT's cash reserve to net cash inflows and outflows for a specified time horizon; and
- Net Stable Funding Ratio (NSFR): the ratio of the EFT's assets to liabilities adjusted by factors that represent their inherent stability or permanence.

These measures may be subject to modification pending the outcome of consultations between regulators and financial institutions on the implementation of the Basel III liquidity framework.

The appropriateness of these limits is reviewed from time to time by ALCO in light of prevailing and anticipated business conditions.

Interest Rate Risk

Interest rate risk is defined as the possibility that changes in market interest rates will adversely affect our financial condition. Interest rate risk may be affected if an unduly large proportion of our assets or liabilities have unmatched terms, interest rates or other attributes. The primary method of managing interest rate risk involves matching asset and liability maturity profiles, closely monitoring interest rates and acting upon any mismatch in a timely manner to ensure that any sudden or prolonged change in interest rates does not significantly affect our net interest income. Any failure to appropriately match our asset and liability maturity profiles could negatively impact our operating results.

Interest Rate Shock Risk

We use simulated interest rate change sensitivity models to estimate the effect of various interest rate change scenarios on economic value of shareholders' equity ("EVE") and on net interest income for the twelve months following the measurement date. Certain assumptions that are based on actual experience are built into the simulations, including assumptions related to the prepayment and renewal rates of mortgages, the volumes and maturity distributions of future mortgages and deposits, future interest margins earned on mortgages and paid on deposits, and the growth of other interest sensitive items such as cash.

The following table illustrates the results of management's sensitivity modeling to an immediate and sustained interest rate increase and decrease scenarios. The estimate of sensitivity to interest rate changes is dependent on a number of assumptions that could result in a difference in actual outcomes in the event of an actual interest rate change, limited by the condition that interest rates cannot fall below zero.

	Increase in interest rates	Decrease in interest rates
100 basis point shift		
Impact on net interest income	$ 276	$ (207)
Impact on EVE	$ 70	$ (88)
EVE impact as a % of common shareholders' equity	0.1%	(0.2%)
200 basis point shift		
Impact on net interest income	$ 565	$ (310)
Impact on EVE	$ 135	$ (185)
EVE impact as a % of common shareholders' equity	0.3%	(0.4%)

TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2012, the Corporation entered into various transactions with companies related to directors and officers of the Corporation. The amounts of the transactions and the liabilities incurred were insignificant. All outstanding balances are due to be settled in cash after the period end date and are not secured.

ACCOUNTING STANDARDS AND POLICIES

The principal accounting policies adopted in preparing the Corporation's interim consolidated financial statements are the same accounting policies as compared with the 2012 annual consolidated audited financial statements with the exception of the following new accounting standards and amendments which the Corporation adopted effective January 1, 2013:

IFRS 7 – Financial Instruments: Disclosures

IFRS 10 – Consolidated Financial Statements

IFRS 12 – Disclosure of Interest in Other Entities

IFRS 13 – Fair Value Measurement

IAS 9 – Employee Benefits

When IFRS 13 – Fair Value Measurement is adopted for the first time for the year ended December 31, 2013, additional disclosure will be required about fair values. Disclosures required under this standard are included in Note 5(c) of the interim consolidated financial statements. The adoption of the remaining standards noted above had no material impact on the interim consolidated financial statements.

The International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committees ("IFRIC") have previously issued a number of new or revised standards or interpretations that will become effective for future periods and have a potential implication for the Corporation. There have been no pronouncements in addition to those disclosed in the 2012 annual consolidated audited financial statements.

CONTROL REPORTING

Disclosure Controls and Procedures

Our disclosure controls and procedures ("DCP") are designed to provide reasonable assurance that all relevant information is identified and communicated to our Disclosure Committee so as to ensure that appropriate and timely decisions are made regarding public disclosure. Management has evaluated the effectiveness of our DCP and concluded they were effective. There were no material changes in our DCP during the three months ended March 31, 2012.

Internal Controls over Financial Reporting

Internal control over financial reporting ("ICFR") has been designed, based on the framework established in Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, ICFR can provide only reasonable assurance and may not prevent or detect misstatements. Furthermore, projecting an evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

There were no changes in our ICFR that occurred during the three months ended March 31, 2012 that materially affected or are reasonably likely to materially affect, the reliability of our financial reporting or the preparation of our financial statements for external purposes.

NON-IFRS FINANCIAL MEASURES

The Corporation employs certain financial measures to assess its performance that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. However, we believe financial analysts and investors view these as key measures of certain aspects of our performance. These measures should not be considered as an alternative to cash flows from operating activities nor to any other measures of performance presented in accordance with IFRS.

Net interest margin

Net interest margin is calculated by taking net interest income divided by average total assets generating the interest income.

Return on equity ("ROE")

ROE is calculated as net earnings divided by the simple average of reported shareholders' equity at the beginning and end of the period, multiplied by the appropriate factor to arrive at an annualized figure. ROE is used as an indicator of whether we use our capital resources efficiently.

DISCLOSURE OF OUTSTANDING SHARE DATA

Our common shares trade on the TSX under the symbol "**EQI**". Our authorized share capital consists of an unlimited number of common shares without par value. As at May 14, 2013, we had 9,177,840 common shares outstanding and 507,500 stock options to purchase up to an aggregate of 507,500 common shares, with a weighted average exercise price of $8.10, expiring from August 19, 2013 to November 14, 2017.

ADDITIONAL INFORMATION

Additional information relating to our company, including our most recent Annual Information Form, is available free of charge on our website at www.equityfinancialholdings.com and on the SEDAR website at www.sedar.com.