
GREY HORSE CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
Year ended December 31, 2008



BDO Dunwoody LLP
Chartered Accountants
And Advisors

Royal Bank Plaza
P.O. Box 32
Toronto Ontario Canada M5J 2J8
Telephone: (416) 865-0200
Telefax: (416) 865-0887

www.bdo.ca

Auditors' Report

To the Shareholders of Grey Horse Corporation

We have audited the consolidated balance sheets of Grey Horse Corporation (the "Company") as at December 31, 2008 and December 31, 2007 and the consolidated statements of shareholders' equity, operations and comprehensive income and retained earnings, and cash flows for the years ended December 31, 2008 and December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for the years ended December 31, 2008 and December 31, 2007 in accordance with Canadian generally accepted accounting principles.

(Signed) "BDO Dunwoody LLP"

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario
March 11, 2009

GREY HORSE CORPORATION
CONSOLIDATED BALANCE SHEETS

As At:	December 31, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents (Note 21)	\$ 10,160,062	\$ 12,278,335
Accounts receivable	1,892,955	1,585,922
Derivative assets (Note 6)	863,649	-
Prepays and other current assets	301,965	280,097
Future income taxes (Note 11)	-	14,906
	13,218,632	14,159,260
Cash in escrow (Note 18)	1,740,000	-
Fixed assets (Note 9)	2,006,854	977,870
Goodwill	5,981,288	4,403,804
Intangibles (Note 10)	1,756,532	1,905,200
	\$ 24,703,305	\$ 21,446,134
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 1,718,504	\$ 1,796,704
Derivative liabilities (Note 6)	808,992	-
Customer deposits (Note 7)	2,209,141	-
Current income taxes payable	705,406	1,058,944
Deferred revenue	259,606	249,914
Future income taxes (Note 11)	2,657	-
	5,704,307	3,105,562
Future income taxes (Note 11)	461,483	432,432
	6,165,790	3,537,994
Shareholders' Equity		
Share capital (Note 12)	12,240,408	12,309,544
Contributed surplus	780,715	372,332
Retained earnings	5,516,392	5,226,264
	18,537,515	17,908,140
	\$ 24,703,305	\$ 21,446,134

Commitments (Note 17)

Approved on Behalf of the Board of Directors

/signed/ - Kevin Reed
 Director

/signed/ - Paul G. Smith
 Director

GREY HORSE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Share Shares	Capital Amount	Contributed Surplus	Retained Earnings	Total shareholders' Equity
Balance December 31, 2006	6,191,618	\$9,231,071	\$206,655	\$2,029,556	\$11,467,282
Shares issued pursuant to stock options exercised	78,500	102,181	(18,606)	-	83,575
Shares issued pursuant to warrants exercised	405,107	2,976,292	(140,542)	-	2,835,750
Net income	-	-	-	3,196,708	3,196,708
Stock based compensation expense	-	-	324,825	-	324,825
Balance December 31, 2007	6,675,225	\$12,309,544	\$372,332	\$5,226,264	\$17,908,140
Share repurchases pursuant to normal course issuer bid	(450,300)	(830,382)	-	(2,564,389)	(3,394,771)
Shares issued pursuant to stock options exercised	300,000	491,280	(41,280)	-	450,000
Shares issued pursuant to acquisition of subsidiary	33,582	269,966	-	-	269,966
Net income	-	-	-	2,854,517	2,854,517
Stock based compensation expense	-	-	449,663	-	449,663
Balance December 31, 2008	6,558,507	\$12,240,408	\$780,715	\$5,516,392	\$18,537,515

GREY HORSE CORPORATION

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME AND
RETAINED EARNINGS**

Year ended	December 31, 2008	December 31, 2007
Revenue	\$ 19,527,948	\$ 17,639,376
Expenses		
Selling, general and administration	14,434,191	12,080,521
Operating earnings before the undemoted items	5,093,757	5,558,855
Amortization of fixed assets	432,493	289,614
Loss on disposal of assets	25,395	-
Amortization of intangible assets	148,668	148,668
Income before income taxes	4,487,201	5,120,573
Income taxes (Note 11)		
Current	1,486,069	1,917,480
Future	146,615	6,385
	1,632,684	1,923,865
Net income and comprehensive income	2,854,517	3,196,708
Retained earnings, beginning of year	5,226,264	2,029,556
Net income and comprehensive income	2,854,517	3,196,708
Excess of purchase price over stated capital of common shares purchased for cancellation	(2,564,389)	-
Retained earnings, end of year	\$ 5,516,392	\$ 5,226,264
Basic income per share (Note 14)	\$ 0.43	\$ 0.50
Diluted income per share (Note 14)	\$ 0.43	\$ 0.47

GREY HORSE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended	December 31, 2008	December 31, 2007
Cash flows provided by (used in)		
Operating Activities		
Net income and comprehensive income	\$ 2,854,517	\$ 3,196,708
Adjustments for non-cash items:		
Amortization of fixed assets	432,493	289,614
Loss on disposal of assets	25,395	-
Amortization of intangible assets	148,668	148,668
Stock-based compensation	449,663	324,825
Net gains on derivative contracts	(54,657)	-
Future income taxes	146,615	6,385
Cash flow from operations	4,002,693	3,966,200
Changes in working capital		
Accounts receivable	(286,897)	(67,077)
Prepays and other current assets	(21,866)	(45,806)
Accounts payable and accrued liabilities	(264,733)	132,318
Customer deposits	1,107,644	-
Income taxes payable	(353,538)	953,881
Deferred revenue	(11,040)	69,385
	4,172,264	5,008,901
Financing Activities		
Issue of common shares, net of share issue costs	450,000	2,919,325
Shares repurchased pursuant to normal course issue bid	(3,394,771)	-
Repayments of loans	(284,950)	-
	(3,229,721)	2,919,325
Investing Activities		
Acquisition of wholly-owned subsidiary, net of cash acquired	92,132	(171,512)
Funds placed into escrow	(1,740,000)	-
Addition of fixed assets	(1,412,948)	(664,638)
Addition to license assets	-	(18,999)
	(3,060,816)	(855,149)
Increase (decrease) in cash and cash equivalents	(2,118,273)	7,073,077
Cash and cash equivalents at the beginning of year	12,278,335	5,205,258
Cash and cash equivalents at the end of year	\$ 10,160,062	\$ 12,278,335

Supplemental cash flow information (Note 16)

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

1. Nature of operations

Grey Horse Corporation, (“Grey Horse” or “the Company”) is a Canadian financial services company serving the corporate and institutional market. The Company is publicly traded on the Toronto Stock Exchange (“TSE”) with the stock symbol GHC.

Grey Horse operates five wholly owned operating subsidiaries.

- ◆ Equity Transfer & Trust Company (“ETT”) provides transfer agent and corporate trust services to issuers in North American capital markets and was acquired by Grey Horse in December 2004. Founded in 1990, ETT maintains lists of clients’ registered shareholders and supports clients’ public market activities such as issuances of shares from treasury, mailings to shareholders, dividend distributions and transfers of securities. ETT also acts as scrutineer at shareholder meetings and as subscription agent, exchange agent and escrow agent under exchange and securities commission mandated escrows. Since 2006 and as a result of obtaining its federal trust status, ETT also offers corporate trust services, which include acting as trustee for debt instruments, as depositary for takeover offers, as warrant agent, as subscription receipt agent and as agent for voluntary escrow arrangements.
- ◆ Global Corporate Compliance Inc. (“GCC”) provides corporate secretary and regulatory compliance services and was acquired by Grey Horse in January 2007.
- ◆ Equity Securities Inc. (“ESI”) was incorporated in June 2007 and granted registration as a limited market dealer (“LMD”) under the Securities Act (Ontario) in September 2007, allowing ESI to provide LMD services to issuers.
- ◆ Equity Foreign Exchange Services Inc. (“EFX”) was incorporated in December 2006 to provide competitively priced foreign exchange services.
- ◆ ToroFX Inc. (“Toro”) provides competitively priced foreign exchange services and was acquired by Grey Horse in July 2008. Toro and EFX are managed as one business segment.

2. Summary of significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts, assets and operations of the Company and its wholly-owned subsidiaries, ETT, EFX, GCC, ESI and Toro. Inter-company balances and transactions have been eliminated upon consolidation. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may differ from those estimates. Significant estimates and assumptions include those related to the allowance for doubtful accounts, the recognition and measurement of future income tax assets and liabilities, fair value measurement of foreign exchange derivative contracts, the estimated useful lives of fixed assets, amortization of intangibles, valuation of goodwill and intangibles, and valuation of stock-based compensation and warrants.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

(c) Stock-based compensation

The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments". When stock or stock options are issued, compensation expense is recognized based on the fair value of the stock or stock options issued and is credited to contributed surplus. When options are exercised, the proceeds together with the amount originally credited to contributed surplus are credited to share capital.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at banks, and short-term investments in money market securities, which have original maturities of three months or less.

(e) Fixed assets

Assets are recorded at cost less accumulated amortization. Amortization is provided over the useful lives of the assets as follows:

Furniture	20% declining balance basis
Computer equipment	30% declining balance basis
Computer infrastructure	Straight line over 7 years
Computer software	Straight line over 2 years
Internally developed computer software	Straight line over 2 to 10 years
Leasehold improvements	Straight line over term of lease

(f) Intangible assets

Intangible assets consist of costs incurred to obtain a federal trust license, a limited market dealer license and acquired customer relationships. The trust license granted to ETT under the federal Trust and Loans Companies Act and the limited market dealer license obtained by ESI are both considered to have indefinite lives and therefore not subject to amortization. The acquired customer relationships are amortized on a straight-line basis over 15 years. Intangible assets are reviewed annually for possible impairment in value by management. When the carrying amount of a reporting unit's intangible assets exceeds the estimated fair value of the intangible assets, an impairment provision equal to the excess is recognized and is identified separately on the statement of income.

(g) Derivatives

The sales and trading activities of Toro and EFX include the use of foreign exchange derivative contracts. Foreign exchange forwards are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date. Foreign exchange options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), one currency in exchange for another at a specified price at or by a specified future date. All derivative instruments are recorded on the company's consolidated balance sheet at fair value. Derivatives with a positive fair value position are reported as derivatives assets and derivatives with a negative fair value position are reported as derivative liabilities. Realized and unrealized gains and losses on derivatives are recognized in revenue.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

(h) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable net assets acquired, based on their fair values.

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment provision equal to the excess is recognized before extraordinary items and discontinued operations in the statement of income.

(i) Income taxes

Future income taxes are calculated using the asset and liability method of accounting for temporary differences. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

(j) Earnings per share

Basic earnings per share is computed by dividing the earnings for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted earnings per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants. Diluted earnings per share exclude all dilutive potential common shares if their effect is anti-dilutive.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

(k) Deferred charges

Financing costs

Costs directly incurred in the course of raising equity financing are netted against the proceeds of the equity raised. Any equity financing costs incurred for which the Company has not realized proceeds are deferred and charged against the equity financing raised at the time the proceeds are received.

Costs directly incurred in the course of raising debt financing are capitalized as deferred financing costs and netted against the form of debt raised. These costs are then amortized over the life of the debt instrument to which they pertain using the effective interest method. Any deferred financing costs related to the raising of debt, which is extinguished or for which efforts are subsequently abandoned, are expensed in the period in which the debt is extinguished or efforts for the raising of debt are abandoned.

Acquisition costs

Costs incurred in the course of completing acquisitions are capitalized as deferred acquisition costs and are classified according to their nature upon completion of the acquisition. Any deferred acquisition costs related to an acquisition, which is abandoned, are expensed in the period in which the acquisition is abandoned.

License costs

Costs incurred in the preparation of ETT's application for a trust license under the federal Trust and Loan Companies Act were deferred until the application process was completed. On the successful completion of the application these costs were reclassified as an intangible license asset.

(l) Revenue Recognition

Revenue is recognized when services are rendered, collection is reasonably assured, the price is fixed or determinable and there is persuasive evidence that either a contract or other arrangement exists. Fees collected but not yet earned are recorded as deferred revenue. The Company earns revenue from the provision of financial services that include:

Transfer agent and registrar services: includes shareholder register maintenance, issuance and redemption of securities, mailing and scrutineering for shareholder meetings, acting as disbursing agent and acting as subscription agent, exchange agent and escrow agent under exchange and securities commission mandated escrows. Fees for specific transactions are recognized when transactions are processed or services are provided. Maintenance fees charged monthly are recognized at the end of each month.

Corporate trust services: includes acting as trustee for debt instruments, as depositary for takeover offers, as warrant agent, as subscription receipt agent and as agent for voluntary escrow arrangements. Agreement review and setup fees are recognized upon completion of the initial setup and fees for specific transactions are recognized when transactions are processed or services are provided. Retainer fees charged annually are recognized on a monthly basis to reflect the portion of the fee earned each month. The unearned balance of annual retainer fees is recorded as deferred revenue.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

2. Summary of significant accounting policies (continued)

(l) Revenue Recognition (continued)

Foreign exchange services: includes negotiating with clients the exchange of currencies at specified rates and future settlement dates and booking corresponding transactions with covering financial institutions under foreign exchange spot and forward contracts as well as foreign exchange options contracts. Revenues include gains and losses on settled contracts as well as gains and losses on outstanding contracts negotiated with clients and with covering financial institutions which are derivative instruments adjusted to fair value on the company's consolidated balance sheet.

Limited market dealer services: includes acting as broker agent for private placement financings. Commissions earned from acting as broker agent on financings are recognized when financing transactions have closed.

Corporate compliance services: includes corporate filings, coordination of shareholder meetings and educational seminars. Revenue is recognized when the services are provided.

The Company also earns interest revenue from funds held with financial institutions, including margin income on balances administered on behalf of clients.

(m) Employee share purchase plan

Effective October 31, 2008 the company implemented an employee share purchase plan (ESPP) for all eligible employees, the details of which are described in Note 20. The company's contributions under the plan on behalf of employees are expensed over the vesting period.

(n) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. Changes in accounting policies

Effective January 1, 2008, the Company adopted the provisions of the following new CICA Handbook Sections:

(a) Section 1535 - Capital Disclosures

The new standard requires disclosures of the qualitative and quantitative information that enables users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. The additional disclosures required are included in Note 5.

(b) 3862 Financial Instruments – Disclosure and 3863 Financial Instruments - Presentation Financial Instruments

These sections replace section 3861 Financial Instruments – Disclosure and Presentation.

Section 3862 requires disclosure about the significance of financial instruments for the Company's financial position, the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages these risks.

Section 3863 establishes standards for the presentation of financial instruments and non-financial derivatives.

The additional disclosures required are included in Note 6.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

3. Changes in accounting policies (continued)

Effective January 1, 2007, the Company adopted the provisions of the following new CICA Handbook Sections:

(c) Section 3855 - Financial Instruments – Recognition and Measurement

This section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under the new standard, all financial instruments are classified as one of the following: Held-to-maturity; Loans and receivables, Held-for-trading; or Available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale financial instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading on initial recognition.

(d) Section 1530 - Comprehensive Income and Section - 3251 Equity

These sections describe standards for reporting and disclosing comprehensive income, its components and related changes in equity. Comprehensive income includes net income as well as changes in equity during a period from transactions and events from non-owner sources, such as unrealized gains or losses on available-for-sale financial instruments. As a result of adopting this standard, comprehensive income will now be disclosed in the consolidated financial statements. Other comprehensive income refers to items that are recognized in comprehensive income but excluded from net income calculated in accordance with generally accepted accounting principles until such time as it is considered appropriate to recognize them in net income. The Company had no “other comprehensive income or loss” transactions during the year ended December 31, 2007 and no opening or closing balances of accumulated other comprehensive income or loss.

(e) Section 3861 - Financial Instruments – Disclosure and Presentation

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Upon adoption of these new standards, the Company designated its cash as held-for-trading, its accounts receivable as loans and receivables, and its account payable and accrued liabilities as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their short term nature. The Company had no held-to-maturity or available-for-sale financial assets during the year ended December 31, 2007. In management's opinion the Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments.

4. New accounting pronouncements

In February 2008, the CICA issued Handbook Section 3064 “Goodwill and Intangible Assets”, which replaces Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The new section is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

4. New accounting pronouncements (continued)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (“IFRS”) effective calendar year 2011. The conversion to IFRS will be required for the Company for interim and annual financial statements beginning on January 1, 2011 and the Company is currently evaluating the potential impacts and developing its plan accordingly.

5. Capital management

The Company’s managed capital is comprised of shareholders’ equity, which at December 31, 2008 totalled \$18.5 million.

The Company’s main capital management objectives are to ensure the longevity of its capital to support continued operations and maintain shareholder returns on equity. To achieve these objectives capital is managed to meet the regulatory requirements of its subsidiary, ETT, ensure sufficient resources are available to meet day to day operating requirements, allow it to enhance existing and develop new systems, have the financial ability to expand the scope of its operations and services and be able to take advantage of merger and acquisition opportunities that arise.

Senior management takes full responsibility for managing the Company’s capital and does so through regular review of financial budgets and results and discussion of significant capital planning decisions with the Board of Directors. In the year ended December 31, 2008, the Company’s most significant capital management decision was the initiation of a normal course issuer bid to repurchase common shares (see Note 12).

As part of the regulatory requirements of its trust status, ETT must maintain certain capital adequacy ratios, which are regularly reviewed by the Office of the Superintendent of Financial Institutions (OSFI). At December 31, 2008, ETT was in compliance with all of the required ratios. This included maintaining tangible assets (ie total assets not including intangibles or goodwill) sufficient to meet a minimum regulatory capital balance of \$3 million and at December 31, 2008 ETT exceeded this minimum by \$1.8 million (December 2007 – exceeded this minimum by \$4.5 million).

6. Financial instruments

Classification of financial instruments

The Company has made the following classifications for its financial instruments:

- Cash, restricted cash, derivative assets and derivative liabilities are classified as held-for-trading, measured at fair value and any gains or losses from fair value adjustments are recorded in net income.
- Accounts receivable are classified as loans and receivables and measured at amortized cost.
- Accounts payable and accrued liabilities and customer deposits are classified as other financial liabilities and measured at amortized cost.

The fair values of accounts receivable, accounts payable and accrued liabilities and customer deposits approximate their carrying values at December 31, 2008 because of their short term nature. The fair value of derivative assets and liabilities at December 31, 2008 was measured in Canadian dollars based on a market approach using third-party pricing services. The Company has recognized \$55,000 in revenue for the unrealized fair market value gain on derivatives.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

6. Financial instruments (continued)

Financial risk management

Management has established policies and procedures to manage risks related to financial instruments, with the objective of minimizing any adverse effects on financial performance. However, in management's opinion the Company is not exposed to significant credit risk, foreign exchange risks and liquidity risk arising from its financial instruments. A brief description of management's assessments of these risks is as follows:

(a) Credit risk

Financial instruments potentially exposed to credit risk include cash and accounts receivable. Management considers its exposure to credit risk over cash to be remote as the Company holds the majority of its cash deposits at Canadian Schedule I banks. Accounts receivable are not concentrated significantly with any individual clients and management considers accounts receivable at risk when they reach 90 days, which represented 4% of accounts receivable at December 31, 2008 (December 31, 2007 - 1%). The Company has recorded an allowance for doubtful accounts based on these factors and therefore the carrying amount of accounts receivable represents the maximum credit risk exposure.

The Company is exposed to settlement risk on foreign exchange transactions processed for clients in the event that either the client or the financial counterparty fails to settle. The risk of a financial counterparty failing to settle a transaction is considered remote as the Company deals only with reputable financial institutions including Canadian Schedule 1 banks and other institutions that specialize in foreign exchange products. The risk of a client failing to settle is mitigated by taking margin deposits sufficient to cover the expected foreign exchange volatility. The Company monitors market foreign exchange rates on a daily basis and requests additional margin from clients when required to maintain adequate risk coverage.

(b) Foreign exchange rate risk

The majority of foreign currency amounts held by the company are on account of client deposits for foreign exchange trades. Since these deposits will be returned to clients in the same currency the foreign exchange rate risk nets to zero. The Company receives some operating cash flows in foreign currencies, and reduces this risk by purchasing foreign exchange forward contracts to guarantee the rate at which foreign currencies will be translated to Canadian dollars is aligned with the period in which cash flows are received.

Foreign exchange derivative contracts are subject to valuation gains or losses as a result of market foreign exchange rate volatility; however the company's contracts with clients and covering financial institutions creates offsetting exposures to this volatility. At December 31, 2008, the fair values of derivative assets and derivative liabilities would change by offsetting amounts of \$90,000 each for a \$0.01 change in the foreign exchange rate between US and Canadian dollars.

(c) Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they fall due. The Company maintains its working capital at a sufficient level to ensure it always has cash available to pay accounts payables and accrued liabilities and customer deposits, all of which fall due within twelve months of the balance sheet date.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

7. Customer deposits

Customer deposits are non-interest bearing and are comprised of amounts held for foreign exchange transactions not settled by period end and margin deposits on foreign exchange forward contracts and foreign exchange options.

8. Acquisitions

Transactions completed in the year ended December 31, 2008:

On July 2, 2008 the Company acquired 100% of the shares of Toro FX Inc. ("Toro"), a company operating out of Toronto that provides foreign exchange services. The acquisition was accounted for using the purchase method and accordingly these consolidated financial statements include the assets and results of operations for Toro since the date of acquisition. The initial purchase price consisted of cash of \$880,134 and shares valued at \$269,966 plus \$146,580 reclassified from deferred acquisition costs. The 33,582 shares issued were valued based on the market price of the GHC shares over a reasonable period before and after the date the terms of the business combination were agreed to and announced. On closing, in accordance with the terms of the share purchase agreement, the Company also loaned \$319,900 to Toro to be used for working capital and to repay shareholder loans and notes payable.

The assigned fair values of the underlying assets and liabilities acquired by the Company as at July 2, 2008, are summarized as follows:

Cash	\$ 1,118,846
Fixed assets	73,923
Future income tax asset	100,000
Derivative assets	170,000
Current liabilities	(166,394)
Derivative liabilities	(170,000)
Customer deposits	(1,101,497)
Deferred revenue	(20,732)
Loans payable	(284,950)
Goodwill	1,577,484
	<hr/>
	\$ 1,296,680

Contingent on Toro meeting certain financial performance targets, the Company will pay up to an additional \$1.74 million in cash (see Note 18) and issue up to 210,219 additional shares that will be valued when issued. These amounts will be accounted for as an increase in goodwill, which in addition to the goodwill recognized initially, is not deductible for income tax purposes.

On February 17, 2009, the Company made the first payment of this additional contingent consideration by releasing \$870,000 in cash and issuing 22,605 shares. The total value of this payment will increase goodwill by approximately \$1,000,000.

Transactions completed in the year ended December 31, 2007:

On January 1, 2007 the Company acquired 100% of the voting shares of Global Corporate Compliance Inc., a company operating out of Calgary that provides corporate filing services. The acquisition was accounted for using the purchase method and accordingly these consolidated financial statements include the assets and results of operations for GCC since the date of acquisition. The purchase price consisted of \$300,000 cash consideration plus costs of \$93,457.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

8. Acquisitions (continued)

The assigned fair values of the underlying assets and liabilities acquired by the Company as at January 1, 2007, are summarized as follows:

Cash		\$ 128,488
Current and other assets		79,123
Fixed assets		10,134
Goodwill		258,189
Intangible customer relationships		100,000
Current liabilities		(147,477)
Future income tax liability		(35,000)
		\$ 393,457

9. Fixed assets

	Cost	Accumulated Amortization	December 31, 2008 Book Value
Furniture	\$ 675,822	\$ 215,829	\$ 459,993
Computer equipment & infrastructure	738,988	265,824	473,164
Computer software	867,508	578,461	289,047
Internally developed computer software	351,763	24,299	327,464
Leasehold improvements	506,079	48,893	457,186
	\$ 3,140,160	\$ 1,133,306	\$ 2,006,854

	Cost	Accumulated Amortization	December 31, 2007 Book Value
Furniture	\$ 477,266	\$ 109,826	\$ 367,440
Computer equipment	385,909	158,833	227,076
Computer software	596,109	427,475	168,634
Internally developed computer software	105,988	-	105,988
Leasehold improvements	116,195	7,463	108,732
	\$ 1,681,467	\$ 703,597	\$ 977,870

Included in internally developed computer software is \$167,621 (December 31, 2007 - \$134,000) related to software under development, for which no amortization has been recorded to date.

GREY HORSE CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2008 AND 2007

10. Intangibles

	December 31, 2008	December 31, 2007
Intangibles with definite life:		
Customer relationships	\$ 1,830,000	\$ 1,830,000
Less accumulated amortization	<u>(537,611)</u>	<u>(388,943)</u>
	1,292,389	1,441,057
Intangibles with indefinite life:		
License costs	<u>464,143</u>	<u>464,143</u>
	\$ 1,756,532	\$ 1,905,200

11. Income taxes

The following table reconciles the expected income tax provision at the Canadian statutory income tax rate to the amounts recognized in the consolidated statements of income.

	Year ended Dec 31, 2008	Year ended Dec 31, 2007
Income before income taxes reflected in consolidated statements of operations	\$ 4,487,201	\$ 5,120,573
Income tax provision at statutory rates	1,503,173	1,844,810
Effect of changes in enacted statutory tax rates on future income taxes	(4,043)	(54,625)
Stock based compensation not deductible for tax purposes	150,637	117,262
Capital taxes	-	7,668
Other differences	<u>(17,083)</u>	<u>8,750</u>
Income tax provision per financial statements	\$ 1,632,684	\$ 1,923,865

The Company has future income tax assets and liabilities, which arise as a result of the following temporary differences:

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

11. Income taxes (continued)

	December 31, 2008	December 31, 2007
Future income tax assets (liabilities):		
Differences between carrying amount and tax basis:		
Deferred financing costs and share issue costs	\$ 110,628	\$ 163,166
Losses carried forward	5,802	—
Customer relationships	(386,600)	(436,902)
Fixed assets	(86,504)	(37,428)
License costs	(107,466)	(106,362)
	<u>(464,140)</u>	<u>(417,526)</u>
Current future income tax assets (liabilities)	(2,657)	14,906
Non-current future income tax liabilities	(461,483)	(432,432)
	<u>\$ (464,140)</u>	<u>\$ (417,526)</u>

12. Share capital

The authorized capital of the Company consists of an unlimited number of no par value common shares.

	Number of Shares	Amount
Issued and outstanding at December 31, 2006	6,191,618	\$ 9,231,071
Exercise of stock options (c)	78,500	102,181
Exercise of warrants (d)	405,107	2,976,292
		<u>12,309,544</u>
Issued and outstanding at December 31, 2007	6,675,225	\$ 12,309,544
Exercise of stock options (a)	300,000	491,280
Issued as partial consideration for purchase of Toro (Note 8)	33,582	269,966
Purchase of shares for cancellation (b)	(450,300)	(830,382)
		<u>12,240,408</u>
Issued and outstanding at December 31, 2008	6,558,507	\$ 12,240,408

Transactions completed in the year ended December 31, 2008:

(a) Officers of the Company exercised 300,000 stock options at exercise prices of \$1.50 per share for 300,000 common shares. Share capital also increased by a reclassification from contributed surplus of \$41,280, which is the amount previously recognized as stock based compensation expense for these stock options.

(b) In January 2008, the Company initiated a normal course issuer bid that allowed for a maximum of 333,761 of the total outstanding common shares to be purchased for cancellation during the period from January 21, 2008 to January 20, 2009. The normal course issuer bid was amended in September 2008 to increase the maximum number of shares for repurchase to 450,359. During the year ended December 31, 2008, the Company has repurchased for cancellation 450,300 common shares at an average price of \$7.54 for total costs of \$3,394,771, resulting in an excess of \$2,564,389 over the carrying value of the share capital, which was charged to retained earnings.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

12. Share capital (continued)

Transactions completed in the year ended December 31, 2007:

(c) Exercise of stock options

Directors of the Company exercised 77,000 stock options at exercise prices of \$0.30 and \$1.50 per share for 32,000 and 45,000 common shares respectively. Additionally, 1,500 stock options were exercised by employees of the Company at exercise prices of \$2.25 and \$5.35 per share for 500 and 1,000 common shares respectively. Share capital also increased by a reclassification from contributed surplus of \$18,606, which is the amount previously recognized as stock based compensation expense for these stock options.

(d) Exercise of warrants

A total of 405,107 warrants, of which Directors held 6,598 warrants, were exercised at an exercise price of \$7.00 per share for 405,107 common shares. Share capital also increased by a reclassification from contributed surplus of \$140,542 recorded when the warrants were issued.

13. Stock options

A summary of the Company's stock options is presented below:

	Number of Stock Options		Weighted Average Exercise Price	
	2008	2007	2008	2007
Opening balance	737,422	394,000	\$ 4.94	\$ 1.54
Options granted	103,000	426,422	7.55	6.35
Options exercised	(300,000)	(78,500)	(1.50)	(1.06)
Options expired	(17,000)	(4,500)	(7.00)	(7.58)
Ending balance	523,422	737,422	\$ 7.36	\$ 4.94

The following table reflects the stock options outstanding at December 31, 2008:

Number of Exercisable Options	Number of Options	Exercise Price	Expiry Date
2,000	2,000	\$ 2.25	May 24, 2015
6,666	10,000	\$ 5.35	September 25, 2016
208,400	339,162	\$ 6.95	March 6, 2012
3,000	7,000	\$ 6.69	May 15, 2012
6,446	14,750	\$ 8.30	June 8, 2012
4,348	9,748	\$ 10.00	September 18, 2012
15,308	40,762	\$ 10.25	November 12, 2012
—	20,000	\$ 8.50	February 26, 2013
—	10,000	\$ 6.25	May 22, 2013
25,000	50,000	\$ 7.35	August 19, 2013
—	17,500	\$ 8.04	August 19, 2013
—	2,500	\$ 4.75	December 05, 2013
271,168	523,422		

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

13. Stock options (continued)

The Black-Scholes option pricing model was used to value the options on the date of grant and the related assumptions used by management are outlined in the table below. Management uses the option term to estimate expected life, Bank of Canada government bond rates to estimate the risk-free interest rate and past share price data to judgmentally estimate expected volatility.

Stock options granted in the year ended December 31, 2008:

Number of Options	Date Granted	Recipient(s)	Fair Value	Vesting Period (years)	Black-Scholes assumptions			
					Risk-free interest rate (%)	Expected life (years)	Expected volatility (%)	Dividend yield (%)
2,500	December 05	Employee	\$4,979	3 years	2.2%	5 years	45%	-
17,500	August 19	Employees	\$42,018	3 years	3.1%	5 years	35%	-
50,000	August 19	Directors	\$131,888	1 year	3.1%	5 years	35%	-
10,000	May 22	Employee	\$25,050	3 years	3.3%	5 years	40%	-
23,000	February 26	Employees	\$71,474	3 years	3.4%	5 years	35%	-

Stock options granted in the year ended December 31, 2007:

Number of Options	Date Granted	Recipient(s)	Fair Value	Vesting Period (years)	Black-Scholes assumptions			
					Risk-free interest rate (%)	Expected life (years)	Expected volatility (%)	Dividend yield (%)
30,762	November 12	Officers	\$119,184	3 years	4.1%	5 years	35%	-
13,000	November 12	Employee	\$50,367	3 years	4.1%	5 years	35%	-
9,748	September 18	Officers	\$36,667	2 years	4.2%	5 years	45%	-
7,750	June 8	Officers	\$29,364	3 years	4.6%	5 years	45%	-
7,000	June 8	Employee	\$26,522	3 years	4.6%	5 years	45%	-
9,000	May 15	Employees	\$27,054	3 years	4.1%	5 years	45%	-
319,162	March 6	Officers	\$686,898	3 years	3.9%	5 years	25%	-
30,000	March 6	Officers	\$62,749	3 years	3.9%	5 years	25%	-

The weighted average grant date fair value of options granted during the year ended December 31, 2008 was \$2.65 (year ended December 31, 2007 - \$2.44).

GREY HORSE CORPORATION**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2008 AND 2007

14. Per share amounts

The following table sets out the computation of basic and diluted earnings per share:

	2008	2007
Numerator		
Earnings - basic	\$ 2,854,517	\$ 3,196,708
Earnings - diluted	\$ 2,854,517	\$ 3,196,708
Denominator		
Weighted average number of common shares outstanding - basic	6,589,924	6,414,197
Effect of dilutive shares	94,559	372,992
Weighted average number of common shares outstanding - diluted	6,684,483	6,787,189
Basic earnings per share	\$ 0.43	\$ 0.50
Diluted earnings per share	\$ 0.43	\$ 0.47

15. Related party transactions

During the year ended December 31, 2008, the Company was charged \$293,177 (2007 - \$158,935) by a law firm, a partner of which is a director of the Company. Included in accounts payable and accrued liabilities are \$92,717 (December 31, 2007 - \$10,100) owing to this firm. The Company was also charged approximately \$36,000 (2007 - \$74,000) by directors or companies related to directors for consulting services and brokerage commissions on insurance premiums. Included in accounts payable and accrued liabilities are \$0 (December 31, 2007 - \$67,632) related to these charges.

During the year ended December 31, 2008, the Company was charged by a company controlled by a senior manager approximately \$440,000 (2007- \$16,000) for IT consulting services. Included in accounts payable and accrued liabilities are \$70,032 (December 31, 2007 - \$0) related to these charges.

Additionally, during the year ended December 31, 2008, the Company charged to directors or companies related to directors and officers approximately \$35,700 (2007 - \$0) for transfer agency and other fees

Transactions with related parties were measured at the exchange amounts.

16. Supplemental cash flow information

	2008	2007
Income taxes paid	\$ 1,517,583	\$ 1,000,899
Non-cash transactions:		
Shares issued on acquisition of subsidiary	\$ 269,966	\$ —

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

17. Commitments

(a) Leases

ETT has entered into lease agreements to lease office space, which expire in 2011, 2012 and 2017. The estimated annual payments for these leases in each of the next five years and thereafter are as follows:

2009	\$	840,933
2010		843,147
2011		845,177
2012		718,495
2013		634,361
Thereafter		1,804,014
	\$	<u>5,686,127</u>

(b) Regulatory requirements

On June 1, 2006 the Company's subsidiary, ETT, was continued as a federal trust company. As part of the regulatory requirements of its trust status, ETT must maintain certain capital adequacy ratios, which are regularly reviewed by the Office of the Superintendent of Financial Institutions (OSFI). At December 31, 2008, ETT was in compliance with all of the required ratios. This included maintaining tangible assets (i.e. total assets not including intangibles or goodwill) sufficient to meet a minimum regulatory capital balance of \$3 million and at December 31, 2008 ETT exceeded this minimum by \$1.8 million.

(c) Bank credit facility

The Company has entered into an agreement related to credit facilities providing for an operating line of credit in an amount of up to \$750,000 bearing interest at bank prime plus 1% (4.50% at December 31, 2008). At both December 31, 2008 and 2007 no amounts were outstanding against the line of credit. The Company's Bank Credit Facility is secured by a first floating charge over substantially all of the assets of the Company.

(d) Foreign exchange credit facilities

The Company has entered into agreements for foreign exchange trading credit facilities as follows:

- (i) Bank of Montreal has made a credit facility of \$1,350,000 available to EFX, in respect of foreign exchange forward and option contracts with terms of one year or less. The first \$350,000 of this facility is guaranteed by Grey Horse, including a security agreement placing a charge over substantially all the Corporation's assets. To allow it to draw on the remaining \$1,000,000 of the facility, the Corporation has placed \$1,000,000 in a redeemable short term investment certificate with Bank of Montreal. EFX can increase the available credit facility further, to a maximum of \$2,000,000 by placing a further hold on cash or cash equivalents in the amount of the additional credit requested.

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

17. Commitments (continued)

(ii) The Company has foreign exchange trading agreements with other providers under which it is required to provide cash margin as required on a per transaction basis. At December 31, 2008, the Company has provided cash security to its other foreign exchange providers in an amount equivalent to approximately \$200,000 Canadian dollars.

(e) Foreign exchange contracts outstanding

At December 31, 2008, the Company has entered into foreign exchange forward and option contracts with settlement dates in less than one year to buy the equivalent of approximately \$18.3 million Canadian dollars and sell the equivalent of approximately \$9.3 million Canadian dollars on behalf of clients. These obligations are offset by corresponding foreign exchange forward and option contracts with clients and the Company holds client margin deposits until contracts are settled (Note 6).

18. Cash in escrow

In accordance with the terms of the share purchase agreement for Toro, the Company has placed \$1,740,000 in escrow using the Company's subsidiary, Equity Transfer & Trust Company as escrow agent. Provided Toro meets certain financial targets the cash in escrow will be released to the former shareholders as additional consideration for their shares of Toro. To the extent financial targets are not met the escrowed funds will be returned to the Company on a pro rata basis. Releases will occur in two installments of \$870,000 each at release dates that correspond to financial reporting periods of six and twelve months after the acquisition date. The first release of \$870,000 occurred after year end as described in note 8.

19. Segregated funds

At December 31, 2008, ETT held, as segregated funds on behalf of its clients, cash and short-term deposits in the amount of \$271,900,000 (December 2007 - \$93,998,000).

20. Employee share purchase plan

The company offers an Employee Share Purchase Plan (ESPP) for all eligible employees of the company. This plan was implemented October 31, 2008 to provide employees with the opportunity to participate in the future growth of the company. Shares purchased through this plan are subject to a 12 month vesting period and as such unvested shares cannot be withdrawn before they are vested. The company contributions are recorded as payroll expenses included in the selling, general and administrative. The amount expensed was \$11,638 for the period ended December 31, 2008.

21. Cash and Cash Equivalents

Included in cash and cash equivalents at December 31, 2008 is the equivalent of \$1.5 million Canadian dollars in US dollars and the equivalent of \$0.25 million Canadian dollars in other foreign currencies.

Cash and cash equivalents includes a total of \$1.2 million Canadian dollars which is restricted under the terms of foreign exchange trading agreements and margin requirements per note 17 (d).

GREY HORSE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

22. Segment information

The company has two reportable segments: transfer agent & trust, and foreign exchange. The transfer agent & trust segment includes the operations of ETT, GCC and ESI and the foreign exchange segment includes the operations of EFX and Toro. These segments provide the services outlined at Note 2(l). These segments are managed separately because they are subject to different regulatory environments, have different technology requirements and serve different client needs. The accounting policies of the segments are the same as those described in the summary of significant accounting policies and segment performance is evaluated based on net income. The Company's corporate head office is not considered a reportable segment as its operations are administrative in nature and do not include substantive revenue-generating activities.

Period ended December 31, 2008	Transfer Agent & Trust	Foreign Exchange	Total all Segments	Reconciling Amounts (a)	Consolidated Total
Revenues from transfer agent services	\$ 11,432,897	\$ -	\$ 11,432,897	\$ -	\$ 11,432,897
Revenues from trustee services	3,121,341	2,484,492	5,605,833	-	5,605,833
Revenues from other services	677,232	1,563,122	2,240,354	-	2,240,354
Interest revenue	150,237	24,312	174,549	74,314	248,864
Total revenue	\$ 15,381,707	\$ 4,071,926	\$ 19,453,633	\$ 74,314	\$ 19,527,948
Amortization of fixed assets	\$ 416,116	\$ 16,377	\$ 432,493	\$ -	\$ 432,493
Segment net income	\$ 1,051,710	\$ 1,699,663	\$ 2,751,373	\$ 103,145	\$ 2,854,517
Segment assets	\$ 14,186,089	\$ 7,551,974	\$ 21,738,063	\$ 2,965,242	\$ 24,703,305
Expenditures for segment fixed assets	\$ 1,409,871	\$ 3,077	\$ 1,412,948	\$ -	\$ 1,412,948
Period ended December 31, 2007	Transfer Agent & Trust	Foreign Exchange	Total all Segments	Reconciling Amounts (a)	Consolidated Total
Revenues from transfer agent services	\$ 11,684,936	\$ -	\$ 11,684,936	\$ -	\$ 11,684,936
Revenues from trustee services	4,183,574	593,367	4,776,941	-	4,776,941
Revenues from other services	859,969	-	859,969	-	859,969
Interest revenue	214,793	28,258	243,051	74,478	317,529
Total revenue	\$ 16,943,272	\$ 621,625	\$ 17,564,898	\$ -	\$ 17,639,376
Amortization of fixed assets	\$ 289,614	\$ -	\$ 289,614	\$ -	\$ 289,614
Segment net income	\$ 3,139,542	\$ 160,061	\$ 3,299,603	\$ (102,895)	\$ 3,196,708
Segment assets	\$ 16,629,040	\$ 705,182	\$ 17,334,222	\$ 4,111,912	\$ 21,446,134
Expenditures for segment fixed assets	\$ 636,575	\$ 28,063	\$ 664,638	\$ -	\$ 664,638

(a) Reconciling amounts relate to corporate head office income and expense. Significant reconciling items for total consolidate assets are detailed below.

	December 31, 2008	December 31, 2007
Cash balances at corporate headquarters	\$ 2,840,241	\$ 3,964,158
Other unallocated assets	125,001	147,754
Consolidated assets	<u>\$ 2,965,242</u>	<u>\$ 4,111,912</u>