

**GREY HORSE CORPORATION**  
**Management's Discussion and Analysis (MD&A)**  
**First Quarter Ended March 31, 2009**

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

This MD&A has been prepared with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators ("NI 51-102"), and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the three months ended March 31, 2009, its audited consolidated financial statements and notes for the fiscal period ended December 31, 2008, and its MD&A for the year ended December 31, 2008. Except as otherwise indicated, all financial information in this MD&A is determined in accordance with Canadian Generally Accepted Accounting Principles (GAAP), and all dollar amounts referred to are in Canadian dollars. The information in this MD&A is current to May 12, 2009.

**Forward-looking statements**

This MD&A contains forward-looking statements that are based on the Corporation's expectations, estimates and projections regarding its business and the economic environment in which it operates. These statements (if and when they are made) are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. The key risks that could cause actual outcomes and results to differ from those expressed in the forward-looking statements are listed on page 11 of the Corporation's MD&A for the year ended December 31, 2008, filed on SEDAR on March 12, 2009.

Therefore, actual outcomes and results may differ materially from those expressed in these forward-looking statements and readers should not place undue reliance on such statements.

If and when forward-looking information is set out in this MD&A, the Corporation will also set out the material risk factors or assumptions used to develop the forward-looking information. Forward-looking information will be updated as required pursuant to the requirements of NI 51-102.

**Overall performance and key performance measures**

Under continued difficult economic conditions, the results for this quarter demonstrate the increasing strength of the Corporation's brand and its ability to increase its revenue. The Corporation was able to grow its client base in its core transfer agency business and the acquisition of Toro FX Inc., in the third quarter of 2008, appears increasingly to be a successful transaction as the foreign exchange segment drove revenue growth during the quarter. Management is, however, very realistic about the challenges to the Corporation's continued growth in the short-term.

The current weak capital market negatively affects the Corporation in numerous ways. The general low volume of equity-raising activities decreases demand for its transfer agent services. Low interest rates result in lower returns on its trust balances. A slowdown in corporate

transactions, such as mergers and acquisitions, decreases opportunities to provide trust or exchange-related services. Even so, management believes the Corporation has been successful in increasing its visibility and breadth, and in escalating its ability to obtain a significant share of the opportunities that do exist. Management is also heavily focused on managing staffing and other costs.

Revenue increased by 10% compared with the first quarter of 2008, from \$3,621 to \$3,972, aided in particular by the strong performance of the foreign exchange segment, which contributed \$1,090. The Corporation continued to increase its client volumes, and to attract clients with more complex business requirements, but revenues from the transfer agent and trust segment were nevertheless lower than in the corresponding quarter, reflecting weak capital market activity.

The Corporation did not earn any revenue this quarter from large-volume transactions (2008: \$nil). For the foreseeable future, the very low prevailing interest rates will challenge the Corporation's ability to earn significant margin income through its trust services. However, management believes the increasing strength of its foreign exchange segment, and that segment's expanding network of relationships, will enhance the corporation's ability to benefit from such transactions. As this quarter illustrates, such revenue is by its nature volatile, depending on fluctuations in capital market activities, exchange rates and other unpredictable factors.

Net income declined 22% when compared with Q1 2008, from \$270 to \$210 or from 4 cents to 3 cents per share. Operating costs increased by \$420 or 14% over the first quarter of 2008, entirely due to the Corporation acquiring its subsidiary, Toro FX Inc., in the third quarter of 2008. Without Toro, whose operating expenses were \$681 for the quarter, overall operating expenses would have been lower by approximately \$261, partly reflecting management's focus on containing costs, and partly reflecting lower direct costs linked to lower transfer agent and trust revenues.

Basic and diluted earnings per share decreased by 1 cent per share, from 4 to 3 cents per share.

Earnings before income taxes, depreciation and amortization (EBITDA) decreased by \$69 or 11%, from \$602 to \$533.<sup>1</sup>

Annualized Return on Equity decreased from 6% to 4%.<sup>2</sup> Over the last twelve month period, ROE has been 16%.<sup>3</sup>

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<sup>1</sup> EBITDA (Earnings Before Income Taxes, Depreciation and Amortisation and, for 2008, the loss on disposal of assets incurred during the first quarter) and Return on Equity (net income divided by the average of opening and closing shareholders' equity) do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other issuers. These measures are commonly tracked by financial analysts and investors and are also used as an indication of the Corporation's ability to invest in property, plant and equipment, and to raise and service debt. 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 Canadian GAAP.

<sup>2</sup> Refer to the previous footnote for a discussion on Return on Equity. The 4% figure is calculated as follows: Net income for the quarter / ((Jan 1, 2009 shareholders' equity + March 31, 2009 shareholders' equity) / 2) x 4

## Description of the business

There were no significant changes in the Corporation's business from the information provided on pages 4 to 6 of its MD&A for the year ended December 31, 2008.

As discussed in the year-end MD&A, the acquisition of Toro in July 2008 solidifies the Corporation's position in the foreign exchange market, while also extending its involvement in and exposure to a greater range of derivative assets and liabilities. The overall appearance of the balance sheet as at March 31, 2009, compared with the previous year, has evolved to reflect this, as well as related matters such as client margin deposits held in association with foreign exchange contracts.

During the quarter, in accordance with the terms of its share purchase agreement for acquiring Toro, the Corporation paid additional consideration of \$870 in cash released from escrow and 22,605 issued shares valued at \$117. These are reflected, together with costs of \$11, in an increase in goodwill.

## Results of operations

### Revenue

Type of Financial Service	Three months ended March 31, 2009	Three months ended March 31, 2008	Qtr. on Qtr. Change
Transfer agent	2,296	2,750	(454)
Corporate trust	477	622	(145)
Corporate compliance	98	129	(31)
Foreign exchange	1,090	21	1,069
Limited market dealer	11	99	(88)
<b>Total Grey Horse</b>	<b>3,972</b>	<b>3,621</b>	<b>351</b>

The following factors explain the changes in revenue from 2008 to 2009:

#### **Transfer agent – decrease of \$454 or 17%**

The Corporation's core transfer agent business acquired 31 net new additions during the quarter, including the largest client group in its history. Overall, at March 31, 2009, it provided services to 603<sup>4</sup> clients compared with 519 at March 31, 2008. However, ongoing weak market conditions, in particular a low level of equity-raising activities by the Corporation's customers, resulted in lower average revenue per customer compared with the first quarter of 2008.

<sup>3</sup> The 16% figure is calculated as follows: net income for the period from April 1, 2008 to March 31, 2009, divided by the average of reported shareholders' equity at April 1, 2008 and at March 31, 2009

<sup>4</sup> In its MD&A as at December 31, 2008, the Corporation reported that it provided services to 551 clients. It has retrospectively revised this number to 572, better reflecting its core definition of a client as a separate legal entity to which it provides transfer agent services.

**Corporate trust – decrease of \$145 or 23%**

Fee-driven trust revenues were lower than in 2008, again reflecting low market activity. Trust business revenues can be skewed by a small number of large transactions, depending in turn on fluctuations in capital market activities and other unpredictable factors. No such transactions occurred in the first quarter of either 2009 or 2008. Even when they occur, in the current environment of very low interest rates, the margin income on such transactions will be lower than experienced in recent years.

**Foreign exchange – increase of \$1,069 or N/A**

The Corporation's acquisition of Toro in the third quarter of 2008 continues to generate very positive results, driving this quarter's overall increase in revenue compared with the first quarter of 2008. This increase reflects the Corporation's enhanced day-to-day presence in this sector rather than large volume foreign exchange transactions; however, given its enhanced presence, management believes the frequency of such transactions should increase overall. The Corporation continues to integrate the activities of Toro, culturally and operationally, with those of its own pre-existing foreign exchange business, Equity Foreign Exchange Services Inc., and with the Grey Horse group as a whole, and management is very satisfied with progress on this.

The Corporation's corporate compliance and limited market dealer operations remained a relatively minor part of operations overall, although still providing some strategic value.

**Selling, general and administrative expenses:**

	Three months ended March 31, 2009	Three months ended March 31, 2008	Qtr. on Qtr. Change
Recoverable operating expenses	591	713	(122)
Staffing costs	1,681	1,325	356
Rent	217	164	53
Other selling, general and administration	950	817	133
<b>Total selling, general and administrative expenses</b>	<b>3,439</b>	<b>3,019</b>	<b>420</b>

Selling, general and administrative expenses increased overall by \$420 or 14%, driven by the acquisition of Toro in July 2008. Without Toro, whose operating expenses were \$681 for the quarter, overall operating expenses would have been lower by approximately \$261, reflecting management's current focus on containing the levels of staffing costs and other expenses. The Corporation's broader investment in its staff and in opening new offices was substantially complete by the first quarter of 2008

Recoverable operating expenses consists of expenses incurred primarily in providing transfer agent services (mainly costs of stationery, mailing, courier services and of the Corporation's value added services) and decreased generally in line with the decrease in transfer agent revenues.

**Net income and earnings per share**

Given the factors discussed above, net income decreased by \$60 or 22% compared with the first quarter of 2008. Basic and diluted earnings per share each decreased by 1 cent, from 4 to 3 cents per share.

## Financial condition and liquidity

	Three months ended March 31, 2009	Three months ended March 31, 2008	Qtr. on Qtr. Change
Cash flow from operating activities	419	(685)	1,104
Cash flow from investing activities	(137)	(451)	314
Cash flow from financing activities	-	(772)	772

	As at March 31, 2009	As at December 31, 2008	Change
Working capital	7,875	7,514	361
Cash and cash equivalents	10,442	10,160	282

The Corporation's cash at March 31, 2009 increased by \$282 compared with the figure at December 31, 2008. However, cash includes \$2,682 of customer deposits held in connection with foreign exchange transactions. Excluding these deposits, cash would have decreased by \$190 compared with December 31, 2008, and operating activities would have used cash of \$53, including payments of \$757 to Canadian federal and provincial governments for corporate taxes owed on fiscal year 2008 operating results. As described below under Capital resources, \$1,000 of the cash and cash equivalents at March 31, 2009 represents a redeemable short term investment certificate associated with the foreign exchange trading credit facility.

Cash flow from investing activities reflects a disbursement of \$881 in additional cash consideration related to the earn-out provisions of the Toro acquisition. This disbursement was offset by an amount of \$870 placed into escrow when the transaction closed and released from escrow when the earn-out event occurred. The Corporation also had \$12 of fixed asset additions and \$114 of intangible asset additions, primarily software.

### Capital resources

Overall, the Corporation believes current resources are sufficient to execute its business plan. It may however require further capital from time to time to pursue strategic initiatives.

### **Bank credit facilities**

Since late 2004, the Corporation has had credit facilities providing for an operating line of credit in an amount of up to \$750 and bearing interest at bank prime plus 1% (3.50% at March 31, 2009). At both March 31, 2009 and December 31, 2008, no amounts were drawn on the line of credit. This credit facility is secured by a first floating charge over the Corporation's assets.

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

Bank of Montreal has made a credit facility of \$1,350 available to EFX in respect of foreign exchange forward and option contracts with terms of one year or less. The first \$350 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 of the facility, the Corporation has placed \$1,000 in a redeemable short-term investment certificate with

Bank of Montreal (classified as cash and cash equivalents on the Corporation's balance sheet). EFX can increase the available credit facility further, to a maximum of \$2,000, by placing a further hold on cash or cash equivalents in the amount of the additional credit requested.

The Corporation 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 March 31, 2009, the Corporation has provided cash security to its other foreign exchange providers in an amount equivalent to approximately \$200 (Canadian dollars).

### **Regulatory requirements**

As part of the regulatory obligations 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 March 31, 2009, ETT was in compliance with all of the required ratios, which includes maintaining tangible assets (i.e. total assets not including intangibles or goodwill) sufficient to meet a minimum regulatory capital balance of \$3,000. At March 31, 2009, ETT exceeded this minimum by \$1,300 compared with \$1,800 at December 31, 2008. The principal reason for the decrease in this balance relates to the Corporation's adoption of changes to accounting standards (discussed below) related to Goodwill and Intangible Assets. The effect is to reclassify computer software assets from fixed to intangible assets, which results in excluding them from the calculation of tangible assets as described above.

### **Segregated funds**

Segregated funds represent funds held in connection with various corporate trust services. The Corporation held \$171,500 in such funds at March 31, 2009 compared with \$271,900 at December 31, 2008. As described above, the corporate trust business is highly variable and the volume of activity can vary significantly based on market conditions and on a small number of high value transactions. The Corporation earns margin income from holding these funds, which is included within corporate trust revenues.

### **Financial and other instruments**

The Corporation's financial instruments include cash, derivative assets and liabilities, accounts receivable, accounts payable and accrued liabilities, and client funds. In management's opinion, the Corporation is not exposed to significant credit, foreign exchange rate or liquidity risk arising from these financial instruments. The fair values of accounts receivable, accounts payable and accrued liabilities and customer deposits approximate their carrying values at March 31, 2009 because of their short term nature. The fair value of derivative assets and liabilities at March 31, 2009 was measured in Canadian dollars by calculating gains and losses on foreign exchange derivative contracts relative to established market rates, primarily foreign exchange rates at the end of the year. The Corporation has recognized \$19 in revenue for the unrealized fair market value loss on derivatives.

At March 31, 2009, the Corporation has entered into foreign exchange forward and option contracts with settlement dates in less than one year to buy the equivalent of approximately \$36,200 Canadian dollars and sell the equivalent of approximately \$36,300 Canadian dollars on behalf of clients. These obligations are offset by corresponding foreign exchange forward and option contracts with clients and the Corporation holds client margin deposits until contracts are settled.

## Transactions with related parties

During the quarter ended March 31, 2009 the Corporation was charged \$23 by Perley-Robertson, Hill & McDougall LLP, a partner of which is a director of the Corporation, and approximately \$121 by Thiel-Kom Web & Computer Consulting Corp., a company controlled by a senior manager of the Corporation, for IT consulting services. At March 31, 2009, \$21 and \$83 respectively remained outstanding relating to these charges. Transactions with related parties were conducted on terms that approximate market value and are measured at the exchange amounts. Further information is provided in note 11 to the Corporation's unaudited interim financial statements for the three months ended March 31, 2009.

## Summary of quarterly results

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

	3 months Mar. 31, 2009 Unaudited	3 months Dec. 31, 2008 Unaudited	3 months Sep. 30, 2008 Unaudited	3 months Jun. 30, 2008 Unaudited
Revenue	3,972	4,961	5,687	5,259
Selling, general and administrative expenses	3,439	3,810	3,532	4,073
EBITDA	533	1,151	2,155	1,186
Interest, amortization expenses and loss on disposal of assets	159	186	141	134
Income before income taxes	374	965	2,014	1,052
Taxes (current and future)	164	325	726	396
Net income and comprehensive income	210	640	1,288	656
Earnings per share, basic	0.03	0.10	0.19	0.10
Earnings per share, diluted	0.03	0.10	0.19	0.10
Cash and cash equivalents, end of period	10,442	10,160	9,929	8,970
Assets	24,592	24,703	22,583	19,330
Long-term liabilities	462	461	317	424
Dividends	-	-	-	-

	3 months Mar. 31, 2008 Unaudited	3 months Dec. 31, 2007 Unaudited	3 months Sep. 30, 2007 Unaudited	3 months Jun. 30, 2007 Unaudited
Revenue	3,621	4,054	3,576	6,504
Selling, general and administrative expenses	3,019	3,009	2,660	4,000
EBITDA	602	1,045	916	2,504
Interest, amortization expenses and loss on disposal of assets	147	88	106	126
Income before income taxes	455	957	810	2,378
Taxes (current and future)	185	327	319	889
Net income and comprehensive income	270	630	491	1,489
Earnings per share, basic	0.04	0.09	0.08	0.24
Earnings per share, diluted	0.04	0.09	0.07	0.23
Cash and cash equivalents, end of period	10,371	12,278	11,554	7,754
Assets	19,891	21,446	20,409	17,350
Long-term liabilities	426	432	454	453
Dividends	-	-	-	-

The only significant factor causing variations between the quarters, in addition to those discussed earlier in this MD&A, is the inherent seasonality of the transfer agent business. Most companies have fiscal year ends in December and, therefore, hold their annual general meetings between April and June, during the Corporation's second quarter. The Corporation earns a significant portion of its revenue from services provided in connection with such meetings and therefore tends to experience a peak of revenue from this source in the quarter. Other sources of revenue are not subject to this inherent seasonality and might be greater in other quarters.

## **Changes in accounting standards**

### **Section 3064 – Goodwill and Intangible Assets**

On January 1, 2009, the Corporation adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets". This revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. As required by this standard, the Corporation retroactively reclassified computer software assets from fixed assets to intangible assets. The Corporation has also reclassified computer software amortization from amortization of fixed assets to amortization of intangible assets. There is no impact on previously reported net income and comprehensive income.

### **International Financial Reporting Standards (IFRS)**

In February 2008, the AcSB confirmed that Canadian publicly accountable entities must adopt IFRS for fiscal years beginning on January 1, 2011. Preparing interim and annual financial statements for 2011 under IFRS will require restating, for comparative purposes, amounts reported by the Corporation under Canadian GAAP for the year ended December 31, 2010.

The Corporation is currently in the course of carrying out its initial scoping exercise, but has not yet reached any definitive conclusions about the likely impact of IFRS on its financial reporting. It expects during the second quarter to conclude this initial exercise and to identify implications for its information technology and data systems, internal control over financial reporting, disclosure controls and procedures, and other business activities that might be influenced by the change to IFRS. Management is also focusing on education and training requirements for the Corporation's financial reporting staff.

### **Disclosure controls and procedures**

Disclosure controls and procedures within the Corporation are designed to provide reasonable assurance that all relevant information is identified to its Disclosure Committee so as to ensure appropriate and timely decisions are made regarding public disclosure. Except for changes relating to the continuing integration of Toro, as discussed below, there were no material changes in the Corporation's disclosure controls and procedures during the quarter.

### **Internal controls over financial reporting**

Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles. However, an effective internal control system, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and, therefore, can only provide reasonable assurance as to financial statement preparation. Except for changes relating to the continuing integration of Toro, as discussed below, there were no material changes in the Corporation's ICFR during the quarter.

The Corporation acquired Toro in July 2008 and is well advanced at March 31, 2009 on ensuring that the controls and procedures applying to Toro are fully integrated with and comparable to those applying to the Corporation as a whole. Although the CEO and CFO have not identified any material weaknesses relating to Toro's controls and procedures, they have not formally

completed and documented all aspects of this work as at March 31, 2009. Therefore they have concluded it is appropriate to apply the provision in National Instrument 52-109 whereby acquisitions made not more than 365 days before the end of the financial period to which a certificate relates may be excluded from the scope of the design of DCP and ICFR, provided appropriate disclosure is made. Accordingly, the CEO and CFO have limited the scope of the design of DCP and ICFR at March 31, 2009 to exclude controls and procedures of Toro.

Summary financial information of Toro included in Grey Horse's consolidated financial statements is as follows:

Revenues	1,064
Net income	94
Current assets	3,593
Non-current assets	58
Current liabilities	3,651

### **Disclosure of outstanding share data**

The Corporation's shares trade on the Toronto Stock Exchange under the symbol GHC. The Corporation is authorized to issue an unlimited number of no par value common shares. On May 12, 2009, GHC had 6,581,112 shares outstanding and 529,922 stock options with a weighted average exercise price of \$7.34 expiring from March 2012 to September 2016.

### **Outlook**

The Corporation continues to focus on maintaining a systematic market approach, on increasing its visibility to potential clients and on proactively retaining its current relationships. It will also look for strategic opportunities to expand or solidify its current range of activities. As discussed in this MD&A, management is confident about the Corporation's capacities and future, and believes that, overall, this quarter's results justify its confidence. But market conditions remain mixed, potentially limiting the Corporation's ability to capitalize on all of its strengths as for any other financial services entity.

### **Additional information**

Additional information relating to the Corporation, including its most recent Annual Information Form, is available on its website at [www.greyhorsecapital.com](http://www.greyhorsecapital.com) and on the SEDAR website at [www.sedar.com](http://www.sedar.com)