

**GREY HORSE CORPORATION**  
**Management's Discussion and Analysis (MD&A)**  
**Third Quarter Ended September 30, 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 nine months ended September 30, 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 November 10, 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**

This was the most profitable quarter in the Corporation's history, with net income for the quarter of \$1,636 (2008 - \$1,289). The quarter's basic and diluted earnings per share of 25 cents (2008 - 19 cents) were also the highest in its history. Net income and basic earnings per share for the year to date are \$2,089 (2008 - \$2,215) and 32 cents (2008 - 34 cents) respectively.

At the date of its second quarter MD&A (August 11, 2009), the Corporation had sufficient information on third-quarter activity to anticipate a strong performance, based in particular on the trust-related transactions of its subsidiary, Equity Transfer & Trust Company ("ETT"). At that time, ETT expected to be entrusted during the third quarter with some \$9.8 billion related to financings and merger and acquisition activity, compared with \$0.4 billion for the first and

second quarters combined. Ultimately, due in particular to regulatory intervention in one major transaction, total activity in this area was slightly lower than expected, at \$9.6 billion.

Milestones for the quarter included being named as depository for a major transaction – the largest, by a factor of four, for which the Corporation has ever been engaged. Revenue for the quarter was \$6,427 (2008 - \$5,687) and for the year to date is \$15,492 (2008 - \$14,567). Despite the Corporation's clear progress on achieving its strategic objectives, quarterly revenue was not quite the highest in its history: revenue was greater (but profitability was less) in the second quarter ended June 2007, despite a lower underlying volume of activity. As previously communicated, the amount of trust and foreign exchange revenues earned by the Corporation from year to year on such large volume transactions does not, in any way, vary proportionally with the amount deposited, and the current environment of low interest rates severely limits the returns on such balances held in trust compared with previous periods. However, the acquisition of Toro FX Inc. ("Toro") in the third quarter of 2008, and the resulting expansion of the Corporation's foreign exchange business, continues to make a significant contribution to revenue and profitability, and to the overall diversity of Grey Horse's activities.

Operating costs for the quarter were \$3,780, compared to \$3,532 in 2008 (\$11,721 compared to \$10,623 for the year to date). The increase for the quarter was attributable to higher variable commission expenses. For the year to date, the increase is mainly attributable to acquiring Toro in July 2008. Excluding Toro operating costs for the first six months of \$1,400, current operating costs year to date would have decreased by \$302, reflecting management's focus on containing the level of staffing costs and other expenses.

Overall, the quarter's results confirm the perspective communicated previously by management in its MD&A. The volume of underlying activity demonstrates increasing acceptance of the Corporation's ability to undertake large-scale trust-related transactions, and illustrates the success of efforts to increase the visibility and breadth of Grey Horse's services, positioning it to win a steadily increasing share of these business opportunities. However, the Corporation's ability to capitalize fully on its strengths will continue to depend on highly unpredictable external events, and in particular on the state of the capital markets. The Corporation continues to be challenged not only by low interest rates, but by decreased demand for its services caused by a lower volume of equity-raising activities and of corporate transactions such as mergers and acquisitions.

Nevertheless, management believes it is exceptionally well-placed to benefit from an improvement in market conditions. The Corporation has no outstanding debt. Since its operating costs do not increase proportionally to its revenue, greater activity will translate rapidly into growth in net income. Even if conditions generally fail to improve, the opportunities existing in a deflated market (for example, for acquiring assets at reduced prices) should also create openings for the Corporation's services.

### **Description of the business**

There were no significant changes in Grey Horse's business from the information provided on pages 4 to 6 of its MD&A for the year ended December 31, 2008. As described in note 5 to the Corporation's unaudited financial statements for the nine months ended September 30, 2009, in accordance with its agreement for acquiring Toro, the Corporation paid additional consideration

of \$1,740 in cash released from escrow and issued 210,219 shares, which in combination increased goodwill by \$2,761. 102,600 of these shares were issued under an amendment to the purchase agreement to conclude the acquisition more rapidly than originally agreed, reflecting the early achievement of earnings targets. All aspects of the Toro acquisition are now complete.

As discussed in the year-end MD&A, the Corporation's acquisition of Toro in July 2008 has greatly solidified its 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 September 30, 2009, compared to the previous year, has evolved to reflect this, as well as related matters such as customer funds held in association with foreign exchange contracts.

## Results of operations

### Revenue

Type of Financial Service	Three months ended Sept. 30, 2009	Three months ended Sept. 30, 2008	Qtr. on Qtr. Change	Year to Date Sept. 30, 2009	Year to Date Sept. 30, 2008	Year on Year Change
Transfer agent	2,483	2,405	78	8,501	9,355	(854)
Corporate trust	1,023	989	34	1,882	2,381	(499)
Corporate compliance	88	111	(23)	302	392	(90)
Foreign exchange	2,827	2,143	684	4,785	2,280	2,505
Limited market dealer	6	39	(33)	22	159	(137)
<b>Total Grey Horse</b>	<b>6,427</b>	<b>5,687</b>	<b>740</b>	<b>15,492</b>	<b>14,567</b>	<b>925</b>

Revenue overall increased by \$740 or 13% compared with the third quarter of 2008 (increased by \$925 or 6% for the year to date). The following paragraphs explain the changes in revenue from 2008 to 2009.

#### **Transfer agent – increase of \$78 or 3% (third quarter)/decrease of \$854 or 9% (year to date)**

The Corporation experienced a small net decline in client volumes during the quarter: overall, at September 30, 2009, it provided services to 587<sup>1</sup> clients compared with 592 at June 30, 2009. This net reduction reflects the low volume of new public listings, losses from reorganizations and similar non-controllable factors, and some relationships terminated by the Corporation (such as for non-payment); the Corporation has not lost a client due to service-related issues in well over 2 years. The client volume remains greater than at September 30, 2008, when the Corporation provided services to 560 clients. Although transfer agent revenue was somewhat higher for the current quarter than in the prior year, average revenue per customer for the year to date was lower, reflecting a low level of equity-raising activities by the Corporation's customers.

<sup>1</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 – increase of \$34 or 3% (third quarter)/decrease of \$499 or 21% (year to date)**

As already noted, the Corporation experienced significant success this quarter in attracting major customers for its trust services, including the largest transaction in its history. However, in the current environment of very low interest rates, the margin income earned by the Corporation on these transactions is lower compared to previous years, and revenue from these operations remains significantly behind 2008 for the year to date. Trust business revenues can be materially affected by a small number of large transactions, depending in turn on fluctuations in capital markets and other unpredictable factors.

**Foreign exchange – increase of \$684 (32%) (third quarter)/increase of \$2,505 (110%) (year to date)**

The Corporation's acquisition of Toro in the third quarter of 2008 continues to generate highly positive results, reflecting the Corporation's enhanced day-to-day presence in this sector, and generating additional business opportunities. The Corporation has now integrated the activities of Toro, culturally and operationally, with those of its own pre-existing foreign exchange business, Equity Foreign Exchange Services Inc., and the two entities legally amalgamated in July 2009.

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 Sept. 30, 2009	Three months ended Sept. 30, 2008	Qtr. on Qtr. Change	Year to Date Sept. 30, 2009	Year to Date Sept. 30, 2008	Year on Year Change
Recoverable operating expenses	456	484	(28)	2,305	2,637	(332)
Staffing costs	2,011	1,693	318	5,578	4,426	1,152
Rent	218	195	23	642	583	59
Other selling, general and administration	1,095	1,160	(65)	3,196	2,977	219
<b>Total selling, general and administrative expenses</b>	<b>3,780</b>	<b>3,532</b>	<b>248</b>	<b>11,721</b>	<b>10,623</b>	<b>1,098</b>

Selling, general and administrative expenses increased overall by \$248 or 7% for the third quarter (\$1,098 or 10% for the year to date). In the third quarter, the increase was attributable to higher variable commission expenses. For the year to date, the increase is mainly attributable to acquiring Toro in July 2008. Excluding Toro operating costs for the first six months of \$1,400, current operating costs for the year to date would have decreased by \$302. The Corporation's broader investment in its staff and in opening new offices was substantially complete by the first quarter of 2008, and management has been focusing rigorously on controlling costs.

Recoverable operating expenses consist 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 increased by \$347 or 27% compared with the third quarter of 2008, but decreased by \$126 or 6% compared with the comparative year to date, to \$1,636 and \$2,089 respectively. While individual quarters may outperform last year, reflecting the Corporation's enhanced foreign exchange revenues and depending on the occurrence of margin income transactions, the generally weak market conditions make it difficult to maintain such outperformance consistently.

Basic earnings per share increased by 6 cents or 32% for the third quarter and decreased by 2 cents or 6% for the year to date, to 25 cents and 32 cents per share respectively. Diluted earnings per share also increased by 6 cents or 32% for the third quarter but decreased by 1 cent or 3% for the year to date.

Earnings before income taxes, depreciation and amortization (EBITDA) increased by \$493 or 23%, to \$2,648 (decreased by \$172 or 4% for the year to date, to \$3,771).<sup>2</sup>

Annualized Return on Equity for the third quarter increased from 29% to 32%.<sup>3</sup>

### **Financial condition and liquidity**

	Three months ended Sept. 30, 2009	Three months ended Sept. 30, 2008	Qtr to Qtr Change	Year to date Sept. 30, 2009	Year to date Sept. 30, 2008	Year to Year Change
Cash flow from operating activities	1,028	2,843	(1,815)	1,575	2,494	(919)
Cash flow from investing activities	(269)	(1,599)	1,330	(483)	(2,320)	1,837
Cash flow from financing activities	(393)	(285)	(108)	(393)	(2,524)	2,131

	As at Sept. 30, 2009	As at December 31, 2008	Change
Working capital	9,564	7,514	2,050
Cash and cash equivalents	10,859	10,160	699

<sup>2</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>3</sup> Refer to the previous footnote for a discussion on Return on Equity. The 32% figure is calculated as follows: Net income for the quarter / ((June 30, 2009 shareholders' equity + September 30, 2009 shareholders' equity)/2) x 4

The Corporation's cash at September 30, 2009 increased by \$699 compared with the figure at December 31, 2008. Cash includes \$1,009 (December 31, 2008 - \$2,209) of customer funds held in connection with foreign exchange transactions; excluding these funds, cash would have increased by \$1,900 compared with December 31, 2008, and operating activities for the year to date would have provided cash of \$2,776, 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, \$1,650 of the cash and cash equivalents at September 30, 2009 represents a redeemable short term investment certificate associated with the foreign exchange trading credit facility.

Cash flows used in investing activities reflect \$1,775 in additional cash consideration related to the earn-out provisions of the Toro acquisition. This disbursement was offset by an amount of \$1,740, placed into escrow when the transaction closed, and released when the earn-out event occurred. The Corporation also had \$251 of fixed asset additions and \$198 of intangible asset additions, primarily software. Cash flows used in financing activities reflect \$393 expended on repurchasing shares under the normal course issuer bid described in Capital resources below.

### **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, ETT 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% (3.25% at September 30, 2009). At both September 30, 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 ETT'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 \$2,000 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 \$1,650 of the facility, the Corporation has placed \$1,650 in a redeemable short term investment certificate with Bank of Montreal (classified as cash and cash equivalents on the Corporation's balance sheet).

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 September 30, 2009, the Corporation has provided cash security to its other foreign exchange providers in an amount equivalent to approximately \$690 (Canadian dollars).

### **Commitments**

During the period, the Corporation entered into a license and maintenance agreement for transaction processing software, for an initial term projected to end in December 2014. Under the agreement, the Corporation will pay minimum annual fees of not less than \$270 (US dollars).

### **Normal course issuer bid**

During the quarter the Corporation announced a normal course issuer bid, enabling Grey Horse to acquire up to 333,306 Common Shares for cancellation during the period from September 11, 2009 to September 10, 2010. The Common Shares will be purchased on the open market from time to time through the facilities of the TSX or other Canadian marketplaces. During the quarter, 79,800 shares were purchased for cancellation at an average price of \$5.11.

### **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 September 30, 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 September 30, 2009, ETT exceeded this minimum by \$2,400, compared with \$1,800 at December 31, 2008.

### **Segregated funds**

Segregated funds represent cash and short-term deposits held in connection with various corporate trust services. The Corporation held \$96,000 in such funds at September 30, 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 customer funds held. 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 funds held approximate their carrying values at September 30, 2009 because of their short term nature. The fair value of derivative assets and liabilities at September 30, 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 period end. The Corporation has recognized \$55 in revenue for the unrealized fair market value loss on derivatives.

At September 30, 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 \$29,000 Canadian dollars and sell the equivalent of approximately \$48,400 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 September 30, 2009 the Corporation was charged \$19 by Perley-Robertson, Hill & McDougall LLP, a partner of which is a director of the Corporation, for legal

services. At September 30, 2009, \$9 remained outstanding relating to this charge. 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 nine months ended September 30, 2009.

## Summary of quarterly results

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

	3 months Sep. 30, 2009 Unaudited	3 months Jun. 30, 2009 Unaudited	3 months Mar. 31, 2009 Unaudited	3 months Dec. 31, 2008 Unaudited
Revenue	6,427	5,092	3,973	4,961
Selling, general and administrative expenses	3,780	4,502	3,439	3,810
EBITDA	2,648	590	534	1,151
Interest, amortization expenses and loss on disposal of assets	159	163	159	186
Income before income taxes	2,488	427	375	965
Taxes (current and future)	852	185	164	325
Net income and comprehensive income	1,636	242	211	640
Earnings per share, basic	0.25	0.04	0.03	0.10
Earnings per share, diluted	0.25	0.04	0.03	0.10
Cash and cash equivalents, end of period	10,859	10,493	10,442	10,160
Assets	27,029	25,618	24,592	24,703
Long-term liabilities	479	473	462	461
Dividends	-	-	-	-

	3 months Sep. 30, 2008 Unaudited	3 months Jun. 30, 2008 Unaudited	3 months Mar. 31, 2008 Unaudited	3 months Dec. 31, 2007 Unaudited
Revenue	5,687	5,259	3,621	4,054
Selling, general and administrative expenses	3,532	4,073	3,019	3,009
EBITDA	2,155	1,186	602	1,045
Interest, amortization expenses and loss on disposal of assets	141	134	147	88
Income before income taxes	2,014	1,052	455	957
Taxes (current and future)	726	396	185	327
Net income and comprehensive income	1,289	656	270	630
Earnings per share, basic	0.19	0.10	0.04	0.09
Earnings per share, diluted	0.19	0.10	0.04	0.09
Cash and cash equivalents, end of period	9,929	8,970	10,371	12,278
Assets	22,583	19,330	19,891	21,446
Long-term liabilities	317	424	426	432
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 that quarter. Other sources of revenue are not subject to this inherent seasonality and might be greater in other quarters.

## **Changes in accounting standards**

### **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.

During the third quarter the Corporation made significant progress on analyzing in detail the impact of IFRS on its financial reporting, having earlier concluded its initial scoping exercise during the second quarter. The Corporation has identified various additional disclosure requirements, but has not at the current time reached any final conclusions about whether any major recognition and measurement changes will result from the conversion. It is continuing to carry out this analysis, and to assess 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.

### **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. Other than for completing the integration of Toro, 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. Other than for completing the integration of Toro, there were no material changes in the Corporation's ICFR during the quarter.

### **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 November 10, 2009, GHC had 6,688,926 shares outstanding and 575,756 stock options with a weighted average exercise price of \$7.10 expiring from March 2012 to September 2016.

### **Outlook**

Although encouraged by the third quarter successes, the Corporation's outlook remains substantially the same as in recent quarters, and management is unable at the date of this MD&A to draw any particular conclusions about the overall prospects for the Corporation's fourth quarter. Grey Horse remains primarily focused on systematically improving and delivering

excellent services at competitive rates, to continue growing its client base and market share, and on proactively increasing its visibility across Canada to prospective clients and to capital transaction participants who select financial service providers.

It remains difficult at this time to predict the pace at which capital market activity will return to normal levels, but the Corporation's performance against the current backdrop continues to support confidence in the Corporation's management, service capabilities and prospects. Moreover, Grey Horse has a strong balance sheet, positioning it well to strategically capitalize on selective investment opportunities to expand or solidify its current range of activities, or to increase shareholder value.

### **Additional information**

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