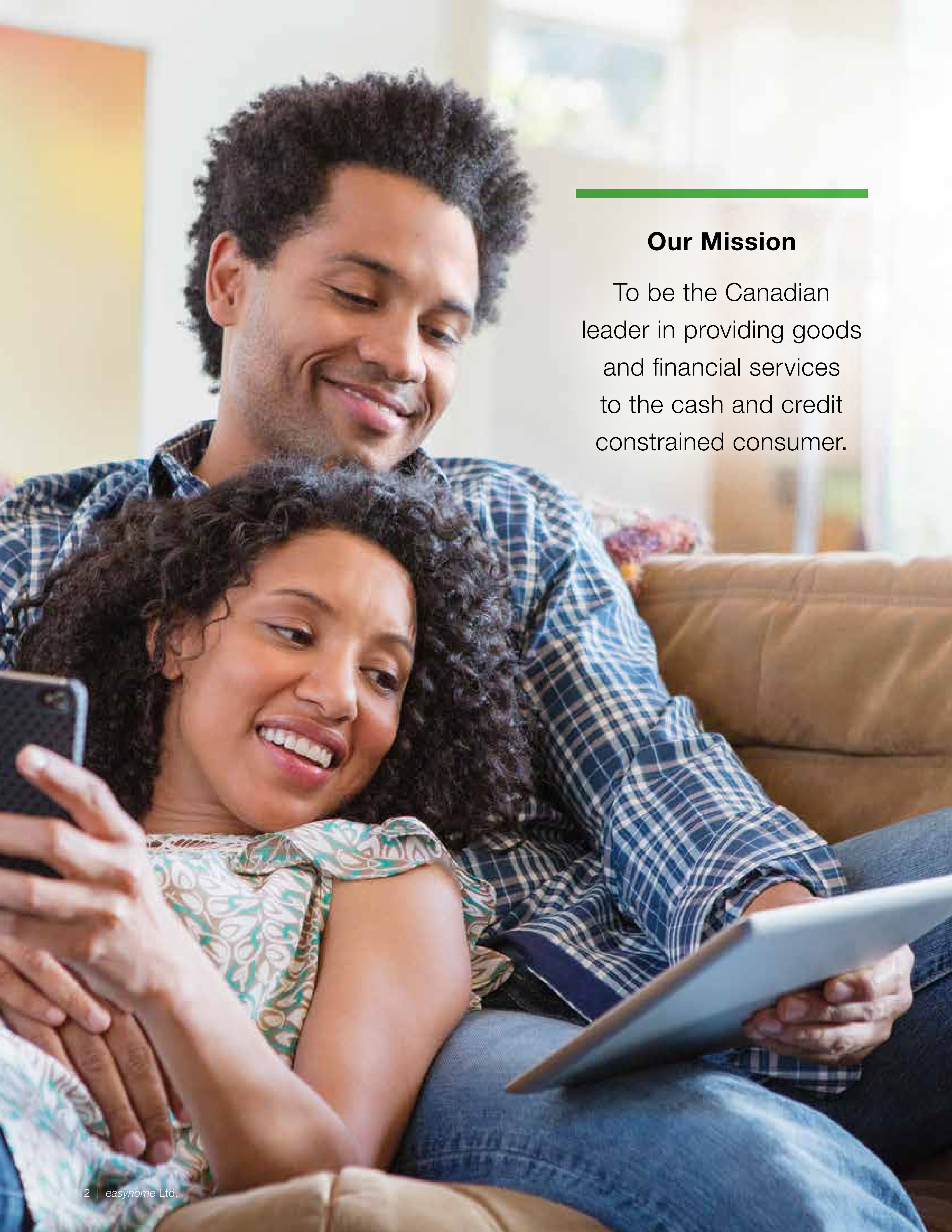
2013 Annual Report

Executing our strategy helped us to achieve record results while improving the lives of our customers.

We achieved record results and reached many milestones but **our greatest success** was assisting our customers in achieving their dreams.

During 2013 we delivered on our previous commitments of evolving our delivery channels, expanding our *easyfinancial* footprint and executing with efficiency and effectiveness. Moving forward into 2014, our commitment to these long-term priorities remains steadfast. This unwavering focus will allow us to take advantage of the market opportunities in front of us as we better meet the needs of our target customers.



Our Mission

To be the Canadian leader in providing goods and financial services to the cash and credit constrained consumer.

About *easyhome*

Our oldest business is *easyhome* leasing which leases top-quality, brand name household furnishings, appliances and home electronic products to consumers under weekly or monthly agreements. *easyhome* Leasing's programs appeal to a wide variety of consumers who are looking for alternatives to traditional retailers and who are attracted to a leasing transaction that does not involve a credit check or an initial down payment and offers them the flexibility to terminate the arrangement at any time. These consumers may not be able to purchase merchandise because of a lack of credit or insufficient cash resources, they may have a short-term or otherwise temporary need for the merchandise, or they may simply want to use the merchandise, with no long-term obligation, before making a purchase decision.

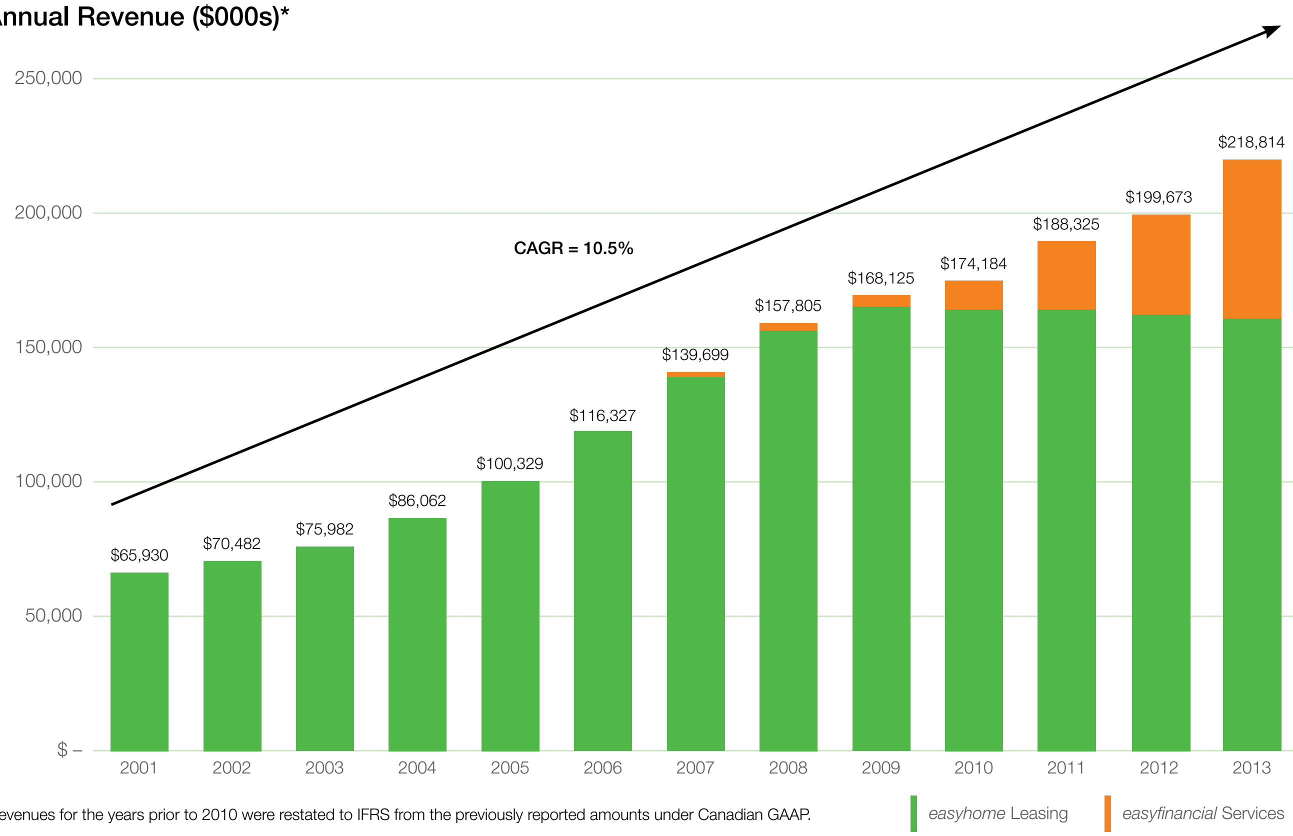
easyhome Leasing operates through corporately owned stores located across Canada and through a network of franchised locations in both Canada and the United States which expands our reach without committing significant capital.

easyfinancial is our financial services business which offers unsecured, installment loans in amounts from $500 to $5,000 for 6-to-36 month terms. Customers can choose to repay the entire loan balance at any time during the term without penalty.

easyfinancial is a logical complement to *easyhome* Leasing, leveraging its expertise in transacting with a similar customer segment. The loans we offer occupy a critical niche in the marketplace, bridging the gap between traditional financial institutions and costly pay-day lenders. *easyfinancial's* products appeal to cash and credit constrained consumers who are not effectively served by traditional financial institutions because they are deemed to be too high of a credit risk, and these same consumers prefer to avoid the high fees and onerous repayment terms imposed on them by pay-day lenders. As a credit reporting lender, *easyfinancial's* loan products can serve as a vehicle to help rebuild credit.

The products we offer to consumers carry a higher risk of default than those offered by traditional banks. To assist with the management of this risk, easyhome has developed proprietary underwriting practices and credit scoring models that have been developed using the historical performance of our portfolios. We continuously enhance these practices and advance our scoring models to make better decisions, balancing growth against expected charge offs, with a goal of maximizing total returns.

Annual Revenue ($000s)*



*Revenues for the years prior to 2010 were restated to IFRS from the previously reported amounts under Canadian GAAP.

Highlights

Achieved 9.6% total revenue growth and 17.7% same store sales growth

2013 was the twelfth consecutive year of growing revenues and delivering positive net income

Achieved 35% growth in adjusted earnings and 32% growth in adjusted earnings per share which provided record results

Grew *easyfinancial's* consumer loans receivable portfolio by 57% to finish the year with a gross consumer loans receivable portfolio of $110.7 million

Following 2012's share price appreciation of 72%, the market price of *easyhome's* shares increased by 92% in 2013

The balance sheet was strengthened to support future growth by increasing the Company's debt facilities and completing a $20.0 million common share equity offering

E-commerce transactional websites were launched for both business units, allowing the Company to reach customers who wish to transact electronically

easyfinancial further prepared for its 3-year growth plan by implementing a new, industry leading credit underwriting model and opening a Shared Service Centre

easyhome Leasing completed the integration of the 15 merchandise leasing stores acquired at the end of 2012, contributing to an improvement of operating margins

Opened 36 new *easyfinancial* locations

Financial Summary

(in $000s except per share amounts, employee counts, percentages and ratios)	2013	2012	2011	2010
Income statement				
Revenue	218,814	199,673	188,325	174,184
Operating income	24,965	17,709	15,267	9,710
Net income	14,182	11,057	9,612	6,072
Diluted earnings per share	1.15	0.92	0.81	0.58
Balance sheet				
Lease assets	68,453	68,075	66,996	67,692
Gross consumer loans receivable	110,704	70,658	47,565	23,800
Total assets	232,900	189,927	159,123	139,088
External debt	61,374	39,611	33,123	18,251
Shareholders' equity	135,633	105,013	97,542	91,511
Cash flow				
Net issuance of consumer loans receivable	52,152	31,425	29,398	16,872
Purchase of lease assets	49,423	55,446	48,614	47,130
Purchase of property and equipment, intangibles and goodwill	11,233	11,630	5,584	6,226
Dividend payments	4,060	4,038	3,913	3,562
Key metrics				
Adjusted earnings[1]	14,182	10,481	9,612	8,844
Adjusted earnings per share[1]	1.15	0.87	0.81	0.84
Operating margin (adjusted)[1]	11.4%	8.7%	8.1%	7.9%
Return on equity (adjusted)[1]	12.4%	10.4%	10.2%	10.4%
Same store revenue growth	17.7%	8.9%	8.2%	4.3%
External debt to shareholders' equity	0.45	0.38	0.34	0.20
External debt to adjusted EBITDA[1]	2.01	1.82	1.72	0.95
Employees	1,254	1,241	1,259	1,191

[1]Certain financial statement amounts have been adjusted to exclude unusual and non-recurring items. Further details on such adjustments can be found in Management's Discussion and Analysis.

In 2013, **we delivered on the promises** we made to shareholders. We expanded *easyfinancial* and secured financing for future growth. We increased our leasing customer base and improved its profitability.

David Ingram

President and Chief Executive Officer

In 2013, our stated strategy was to evolve, expand and execute. Our delivery of this strategy lead to record financial performance and growth during 2013. We also made continued progress in building out *easyhome* as a company with size, scale and a proven platform to succeed. Diluted earnings per share for 2013 of $1.15 was a record for the company and an improvement of 28 cents or 32% over the adjusted diluted earnings per share reported for 2012.

In addition to the strong financial performance during 2013, the Company made significant progress on its strategic initiatives. The balance sheet was strengthened to support future growth by increasing the Company's debt facilities and completing a $20.0 million common share equity offering. E-commerce transactional websites were launched for both business units, allowing the Company to reach customers who wish to transact electronically. *easyfinancial* further prepared for its 3-year growth plan by implementing a new, industry leading credit underwriting model and opening a Shared Service Centre to provide operational support to the retail branches in areas such as collections, customer retention and customer care. easyhome Leasing completed the integration of the 15 merchandise leasing stores acquired at the end of 2012 and improved its profitability. Finally, we laid the groundwork to introduce new products that leverage our core competency in transacting with the cash and credit constrained consumer.

Our goal is to be the Canadian leader in providing goods and financial services to the cash and credit constrained consumer. Our strategy is unchanged and we will continue to focus on the same three strategic imperatives: namely, to evolve, expand and execute.

Evolve

First, we will continue to evolve our delivery channels to better meet the needs of our customer. We all know that consumers have an increasing propensity to shop and transact either online or with mobile technology. With fairly basic online advertising and search engine optimization in use today, 40% of our loan applications are originating online. In 2014, we will increase our investment in electronic marketing and employ more sophisticated techniques. We will also further engage social media tools to significantly increase our online application volume, a channel with a relatively low cost of acquisition.

Our goal is to provide the customer with a true omni-channel experience. We wish to enable our customers to start their transaction in one channel and complete it seamlessly through another if so desired. Today, a customer can commence their loan application online and complete it within a branch or via the Shared Service Centre, improving their level of satisfaction, which we believe will ultimately lead to higher sales conversion ratios. In 2014, we will further integrate our electronic presence within our retail network by rolling out tablets to all of our *easyhome* stores and *easyfinancial* branches, thereby streamlining the application process and increasing sales conversions while maintaining the strength of our credit screening processes.

Additionally, we will continue to develop our indirect lending channel. This will give merchants an option to seamlessly provide financing for their customers who do not qualify for their traditional financing products. These customers can apply for a loan from *easyfinancial* at the point of purchase. Our indirect lending solution helps the merchant convert an otherwise lost sale into revenue while providing us with a low cost of customer acquisition.

Our leasing business complements the indirect lending channel. Many *easyfinancial* consumer loans sourced in the indirect channel will be secured against purchases in product categories that are similar to those offered by *easyhome* Leasing. In the event the loan goes into default, the repossessed goods can be added to the assets of our *easyhome* Leasing stores, thus allowing us to realize value from these repossessed assets and providing us with a competitive advantage that is difficult to replicate.

Finally, the stable foundation of our growth plans for *easyfinancial* comes from our long-standing success in the leasing business. Our leasing business continues to be the industry leader in Canada because of our focus on customer service, appealing and welcoming retail locations and our industry-leading risk controls, processes and data analytics. We make the experience for customers simple, pleasing and memorable. In 2013, we took these same characteristics online, with the launch of a transactional website. Research shows that leasing customers are demanding the same online services as they get with other retail experiences. We expect this trend to continue, and we will take full advantage of applying our expertise in risk management, modeling and customer knowledge from our physical locations to the online experience.

Expand

Expanding the size, scale and scope of *easyfinancial* is our second strategic imperative. We believe there is a large and fragmented market in Canada for unsecured consumer loans within our chosen consumer demographic. We estimate that the historic Canadian market for unsecured consumer loans, consistent with the product offered by *easyfinancial*, was in excess of $1.5 billion and that this market was served by over 600 retail locations. We see a tremendous opportunity to leverage our strengths to become the dominant player in this category and the only national multi-channel provider.

In 2013, we opened 36 new *easyfinancial* locations, bringing our total as of December 31, 2013 to 119. Next year, we have a similar target of 30-35 new locations, and by 2016, we expect to have 225 *easyfinancial* branches.

Longer term, our research indicates the market could support up to 250 *easyfinancial* locations in Canada. While we will focus on expanding our online presence in 2014, we believe that a strong branch network enhances our brand awareness and provides the customer with additional flexibility and choice.

Loan book growth will be driven through our enhanced online presence, our growing branch network and through our indirect channel. Given the strong growth of *easyfinancial* in 2013, we are confident that our loan book will reach between $160 and $170 million by year's end. Our three-year loan book guidance calls for a $250 million consumer loans receivable portfolio by year end 2016.

We continue to explore opportunities to further assist our selected customer base in the form of complementary financial products and services. In early 2014 we launched *easymortgages*, a licensed mortgage brokerage. While we have no plans to act as a mortgage lender, the brokerage business will allow us to further assist our customers without a significant capital investment. 20% of our *easyfinancial* customers are homeowners and we will leverage our existing customer relationships and data set to funnel leads to our licensed brokers. This opportunity will further expand as we add customers and additional retail branches.

Execute

Finally, we continue to focus on our third strategic imperative, executing with efficiency and effectiveness.

At the store or branch level, this means tight cost controls and store level execution. To assist with both of these items, we opened our Shared Service Centre in the fourth quarter of 2013 to provide operational support to both business units. Local stores will continue to provide a strong level of service directly to their customers, while a number of support functions, such as customer retention, contract management and collections, will move to the Shared Service Centre where they can be performed more efficiently as we scale the business.

Due to our long history in the merchandise leasing market, we have developed an unparalleled understanding of the cash and credit constrained customer that makes up our target market. In our leasing business, we have over 70,000 active customers and an estimated market share in Canada greater than 60%. Our approach has always been to have strong models in place to quickly evaluate customer applications, and to present an appealing offer to our clients. We have attractive and welcoming stores, a strong selection of brand-name products and tailored, manageable payment options. We also believe in service, including same-day delivery and set-up and the flexibility to return products.

From this long customer experience, we have been able to develop leading-edge lending models for *easyfinancial* and offer consumer loans between $500 and $5,000. Our market segment is underserved in Canada. It lies between the offerings from chartered banks, and the payday loan industry. *easyfinancial* fills that gap. Our credit model utilizes an artificial neural network to provide highly accurate, real-time, transparent decisions and profiles, which enables *easyfinancial* to optimize its lending decisions.

We have enhanced our credit risk and collection teams and invested in leading-edge underwriting and credit adjudication models. We started to realize the benefits of these enhancement in the fourth quarter of 2013 as demonstrated by the improved performance of the loan portfolio. There is still more work to be done in this area and so we will continue to optimize our loan decisioning models with a goal of balancing loan origination velocity and charge offs to optimize returns.

By continuing to invest in new technology and adding expertise with people skilled in adjudication, risk management and mobile technology, we will pursue our growth strategy in the coming years.

2013 was a strong year for the company. We are pleased with the performance of our business units during this past year and are excited about our growth prospects. The performance of our leasing business significantly outpaced our competitors in the U.S. while *easyfinancial* continued to capture a significant and growing share of the tremendous untapped market opportunity. We have built a strong and difficult-to-replicate foundation based on profitable businesses, a healthy balance sheet, robust infrastructure, a strength in data analytics and capable people. We have set challenging but achievable targets and we have delivered on our prior commitments. All of these foundational elements give us confidence to deliver on our goals in 2014 and beyond.

Our record performance in 2013 would not have been possible without the contributions of our entire team who work tirelessly to satisfy the needs of our cash and credit constrained consumers. We truly believe that we have achieved our goals while improving the lives of our valued customers.

David Ingram
President and Chief Executive Officer

March 5, 2014

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Date: March 5, 2014

The following Management's Discussion and Analysis ["MD&A"] presents an analysis of the financial condition of *easyhome* Ltd. and its subsidiaries [collectively referred to as "*easyhome*" or the "Company"] as at December 31, 2013 compared to December 31, 2012, and the results of operations for the three month period and year ended December 31, 2013 compared with the corresponding periods of 2012. This MD&A should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the year ended December 31, 2013. The financial information presented herein has been prepared in accordance with International Financial Reporting Standards ["IFRS"], unless otherwise noted. All dollar amounts are in thousands of Canadian dollars unless otherwise indicated.

This MD&A is the responsibility of management. The Board of Directors has approved this MD&A after receiving the recommendations of the Company's Audit Committee, which is comprised exclusively of independent directors, and the Company's Disclosure Committee.

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. Although these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to our financial statements. The Company discusses these measures because it believes that they facilitate the understanding of the results of its operations and financial position.

Additional information is contained in the Company's filings with Canadian securities regulators, including the Company's Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at *www.easyhome.ca*.

Caution Regarding Forward Looking Statements

This MD&A includes forward-looking statements about *easyhome*, including, but not limited to, its business operations, strategy and expected financial performance and condition. Forward-looking statements include, but are not limited to, those with respect to the estimated number of new locations to be opened, targets for growth of the consumer loans receivable portfolio, annual revenue growth targets, strategic initiatives, new product offerings and new delivery channels, anticipated cost savings, planned capital expenditures, anticipated capital requirements, liquidity of the Company, plans and references to future operations and results and critical accounting estimates. In certain cases, forward-looking statements that are predictive in nature, depend upon or refer to future events or conditions, and/or can be identified by the use of words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'budgeted', 'estimates', 'forecasts', 'targets' or negative versions thereof and similar expressions, and/or state that certain actions, events or results 'may', 'could', 'would', 'might' or 'will' be taken, occur or be achieved.

Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations and business prospects and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company's operations, economic factors and the industry generally, as well as those factors referred to in the section entitled "Risk Factors". There can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those expressed or implied by forward-looking statements made by the Company, due to, but not limited to important factors such as the Company's ability to enter into new lease and/or financing agreements, collect on existing lease and/or financing agreements, open new locations on favourable terms, secure new franchised locations, purchase products which appeal to customers at a competitive rate, respond to changes in legislation, react to uncertainties related to regulatory action, raise capital under favourable terms, manage the impact of litigation (including shareholder litigation), control costs at all levels of the organization and maintain and enhance the system of internal controls. The Company cautions that the foregoing list is not exhaustive.

The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements, which may not be appropriate for other purposes. The Company is under no obligation (and expressly disclaims any such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise, unless required by law.

Overview of the Business

easyhome Ltd. is the Canadian leader in providing goods and financial services to the cash and credit constrained consumer. *easyhome* Ltd. serves its customers through two key operating divisions, *easyhome* Leasing and *easyfinancial*.

The activities of both *easyhome* Leasing and *easyfinancial* are governed by federal laws which set a maximum rate of interest and by the various consumer disclosure acts that exist in each province. As the Company does not offer pay-day loans and does not accept customer deposits, it is not subject to pay-day loan legislation or the rules set out for banks by the Office of the Superintendent of Financial Institutions

Overview of *easyhome* Leasing

The oldest and largest segment of *easyhome's* business is merchandise leasing, with an option to purchase, top-quality, brand name household furnishings, appliances and home electronic products to consumers under weekly or monthly agreements. The Company's programs appeal to a wide variety of consumers who are looking for alternatives to traditional retailers and who are attracted to a leasing transaction that does not involve a credit check, does not require an initial down payment, includes delivery and set up and offers them the flexibility to terminate the arrangement at any time. These consumers may not be able to purchase merchandise because of a lack of credit or insufficient cash resources, who have a short-term or otherwise temporary need for the merchandise, or who simply want to use the merchandise, with no long-term obligation, before making a purchase decision.

Customers who wish to lease merchandise with an option to purchase from *easyhome* are required to enter into *easyhome*'s standard form merchandise leasing agreement (a "Merchandise Lease Agreement"). The Merchandise Lease Agreement provides that the customer will lease merchandise for a set term and make periodic payments on a weekly or monthly basis. Generally, customers are required to make an initial up-front lease payment and thereafter the periodic payments are collected in advance for each payment period. If the customer makes all of the periodic payments throughout the lease term, he or she will obtain ownership of the merchandise. In addition, at specified times during the term of a Merchandise Lease Agreement, customers can exercise an option to purchase the leased merchandise at a predetermined price. *easyhome* maintains ownership of its merchandise until this purchase option is exercised. Ultimately, *easyhome* customers have the flexibility to return the merchandise at any time without any further obligations.

easyhome Leasing operates through corporately owned stores located across Canada and through a network of franchised locations in both Canada and the United States. The franchising business is built around the same principles of operational excellence as the Company's corporate stores and both corporate and franchised stores utilize common marketing programs, operating procedures and support and administrative infrastructures.

Overview of *easyfinancial*

easyfinancial is the Company's financial services arm, offering installment loans and other ancillary financial services. *easyfinancial* offers unsecured, installment loans in amounts from $500 to $5,000 for 6 to 36 month terms with bi-weekly, semi-monthly and monthly repayment options. Customers can choose to repay the entire loan balance at any time during the term without penalty. As a credit reporting lender, *easyfinancial* positions its loan products as a vehicle to help rebuild credit and provide access to financing for the cash and credit constrained consumer.

easyfinancial is a logical complement to *easyhome's* Leasing business, leveraging the resources of its parent and its expertise in transacting with a similar customer segment.

easyfinancial's loans occupy a critical niche in the marketplace, bridging the gap between traditional financial institutions and costly pay-day lenders. Traditional financial institutions are unable to effectively offer credit solutions to consumers that are deemed to be a higher credit risk due to the consumer's financial situation or less than perfect credit history. These same consumers prefer to avoid the high fees and onerous repayment terms imposed on them by pay-day lenders for access to credit solutions that they require to deal with unforeseen financial situations. *easyfinancial's* products appeal to these cash and credit constrained consumers who are looking for alternatives.

The Company believes that there is significant demand for the products offered by *easyfinancial* in the Canadian marketplace. Historically, the consumer demand for these loans was satisfied by the consumer lending arms of several large, international financial institutions. Since 2009, many of the largest participants in this market have either closed their operations or dramatically reduced their size due to changes in banking regulations related to risk adjusted capital reserves, leaving *easyfinancial* as the only national participant with stated growth aspirations. The Company estimates that the historic Canadian market for unsecured consumer installment loans, consistent with the products offered by *easyfinancial*, was in excess of $1.5 billion and that this market was serviced by over 600 retail locations.

The *easyfinancial* business was initially developed using a kiosk that was physically located within an existing *easyhome* Leasing location. In 2011, to better meet customer demand for its products, the Company determined that the *easyfinancial* business would scale more successfully by operating out of stand-alone locations that were physically separated from the *easyhome* Leasing stores. These larger and higher capacity stand-alone locations also exhibited a more rapid growth trajectory. The first *easyfinancial* stand-alone location was opened in July 2011. Going forward, future location growth will be focused on stand-alone locations which will also free up retail showroom space at the *easyhome* Leasing stores.

The Company recognizes that the loan products it offers to consumers carry a higher risk of default than the loan products offered by traditional banks and, as such, the Company will incur a higher level of delinquencies and charge offs, but that this will be offset by the higher yield generated on the consumer loans receivable. To assist with the management of this risk, the Company has developed proprietary underwriting practices and credit scoring models that have been developed using the historical performance of its portfolio. The Company continuously enhances these practices and scoring models to make better lending decisions, with a goal of maximizing total returns.

Corporate Strategy

The Company is committed to being the Canadian leader in providing goods and financial services to the cash and credit constrained consumer. To maintain this position, the Company must continuously evolve to meet the needs of its chosen consumer segment. Additionally, the Company must focus on maintaining its competitive advantage by capitalizing on the key aspects of each business unit, including brand awareness, superior customer service and its cross-country retail network. Cost efficiencies through economies of scale and shared services will further contribute to the Company's ability to contend with competitive activities in the marketplace.

To achieve this long-term goal, the Company has three key business priorities:

- Evolving the delivery channels to better meet the needs of its customers
- Expanding the size and scope of *easyfinancial*
- Executing with efficiency and effectiveness

Evolving the Delivery Channels

Historically, all of *easyhome's* interactions with its leasing and financial services customers have occurred at a physical retail location. Internet access and mobile technology, however, are changing the way that businesses interact with their customers. Additionally, the rapid speed in which information can now be shared has provided consumers with greater knowledge that they can use to search out alternatives.

While *easyhome's* business units have had an online presence for many years, it has been purely informational. In 2013, transactional websites were launched by *easyhome* Leasing for the leasing of new furniture, appliances and electronics, and *easyfinancial* for securing consumer installment loans. These new delivery channels allow the Company to reach consumers who may not have access to a physical location or those who prefer to interact through the privacy and convenience of the internet. Further optimization of these channels will be achieved through ongoing analysis of transactional performance data and the enhancement of the transactional websites.

As a further means of responding to consumer demand and capturing growth, *easyfinancial* will also evolve its delivery channels by exploring indirect lending. Indirect lending involves creating partnerships with merchants, both online and offline, to provide financing for their customers who do not qualify for the traditional credit products offered by these merchants. Under such a delivery channel, these customers will be given the option of applying for a loan through *easyfinancial* at the point of purchase, thereby allowing them to purchase the desired products or services from the merchant partner. Lastly, effective centralized support services will ensure a superior customer experience by providing just in time support to the indirect lending channel backed by a fully integrated, real-time CRM platform.

The *easyhome* Leasing business will complement this expansion into indirect lending. Consumer loans made by *easyfinancial* to consumers for the purchase of product categories that are similar to those offered by *easyhome* Leasing will be secured by the purchased merchandise. In the event that the loan goes into default, the goods can be repossessed and the value of these recovered goods can be realized by leasing or selling the assets through the *easyhome* Leasing store network. In this manner, the Company can better manage its risk and has a significant competitive advantage over potential competitors that lack a viable outlet for realizing against the security.

Expanding the Size and Scope of *easyfinancial*

In addition to evolving its delivery channels, the Company will continue to focus on expanding the size and scope of *easyfinancial*. The Company believes that there is significant demand for the products offered by *easyfinancial* in the Canadian marketplace and that a large portion of this demand is currently not being satisfied.

The Company has made significant investments in its processes and infrastructure to position its easyfinancial business for long-term sustainable growth, including making the following key enhancements:

- Outside experts were engaged by the Company to evaluate all of the key *easyfinancial* control processes and make recommendations on industry best practices. All of the opportunities identified by these experts have been addressed.
- The Company has developed an internal competence in evaluating and managing credit risk. Using leading edge, data-driven modeling and analytical techniques, underwriting and credit adjudication rules were enhanced with the goal of balancing throughput and charge offs to optimize returns.
- An industry standard banking platform was implemented to ensure that the loans receivable portfolio could be appropriately managed and information could be securely maintained on a scalable infrastructure.
- The *easyfinancial* management team was enhanced through the recruitment of senior managers with broad experience in the financial services and mobile technology industries.
- Through a combination of equity offerings, debt offerings and renegotiation of existing lending relationships, the Company secured the necessary capital to fund the expected growth for the near-term. The continued successful growth of the *easyfinancial* portfolio and the strengthened balance sheet should provide for access to further levels of capital in the future at reduced costs.

Unlike *easyhome* Leasing, the retail footprint of *easyfinancial* is not yet mature and requires expansion. The Company estimates that its retail footprint for *easyfinancial* could expand to over 250 locations across Canada. The Company is responding to this opportunity by strategically adding new stand-alone locations. In addition to providing more convenient access to the customers that wish to transact in a physical retail environment, the critical mass of physical locations will strengthen the Company's financial services brand, establishing *easyfinancial* as the leader in providing financing solutions to consumers who are looking for an alternative to traditional banks and pay-day lenders.

Over the long-term, the Company expects the operating margin of its *easyfinancial* business unit to exceed 35% (before any allocation of indirect corporate costs, interest and taxes). This operating margin, however, will be muted in periods of rapid expansion. Additional *easyfinancial* store openings will provide a drag on margins as the relatively fixed cost base of a new location in the months after opening will be disproportionately large until the consumer loans receivable portfolio for that location has grown to a sufficient size to generate larger revenues. The Company will continue to make investments in technology as it develops the required platforms for the new delivery channels. Additionally, the Company will make greater investments in marketing and advertising expenditures, particularly in electronic media, that will drive further growth of the portfolio, but will increase the expense load in the periods where such marketing and advertising occurs.

The expansion of *easyfinancial* will also be aided by the introduction of complementary financial products. The Company has a stated goal of being the Canadian leader in providing goods and financial services to the cash and credit constrained consumer and so the Company intends to build out a suite of products that can ladder a customer from establishing credit to home ownership. In cases where the Company has the expertise and resources to offer these products directly, it will do so. In other cases, it will look to partner with primary providers of these products and offer such products to the Company's customers under a commission or fee type arrangement. As an example, in 2014 the Company launched a licensed mortgage brokerage business designed to assist customers in obtaining mortgage financing.

Executing with Efficiency and Effectiveness

The Company believes that the products and services presented to its customers are clearly differentiated from its competitors. *easyhome* Leasing has established itself as the Canadian market leader by providing a more inviting retail experience than its direct competitors, providing consumers with the guaranteed lowest weekly payment rates, and by employing more engaged and better trained retail associates. *easyfinancial* provides consumers with a financing alternative that is less costly than pay-day loans and quicker and more convenient than traditional banks, all in an inviting retail or electronic environment.

To meet the demands of its customers and to maximize the profitability of the overall business, the Company will continue to focus on improving its level of execution across all areas of the business.

Offer High Levels of Customer Service and Satisfaction

Customer retention is of paramount importance. Frequent and positive customer interactions encourage repeat business and provide high levels of service and satisfaction. As part of its effort to provide superior customer service, the Company offers quick delivery of its merchandise and rapid loan decisions and funding. The Company believes that competent, knowledgeable and motivated personnel are necessary in order to achieve high levels of customer service and satisfaction. Accordingly, the Company has intensive employee training programs, as well as performance measurement programs, incentive driven compensation plans and other tools, in order to drive a positive customer experience and ensure customer retention.

Increase Store Level Efficiency

Although the Company will pursue the previously described methods to encourage customer retention and growth, it must also aggressively manage all discretionary spending. Supplier relationships and economies of scale will be leveraged to reduce overall costs. Idle inventory levels within its stores will be maintained at optimum levels, balancing the need to provide customers with the choice and selection they require with the capital committed and management effort required to maintain this inventory. Other costs, especially labour, will be tightly controlled through centrally established thresholds, allowing spending to occur only when it will result in improved revenues. In addition, the Company will remediate and, if necessary, close underperforming stores, merging their portfolios with other nearby locations.

Utilize Data Analysis as a Competitive Advantage

The Company has a tremendous volume of customer data that it has gained from years of operating its merchandise leasing and consumer lending businesses. The Company has made significant investments in information technology to safeguard the privacy of this data and also to allow the business to analyze this data to make better business decisions. The intelligent use of this data and analysis will allow *easyfinancial* to continually enhance its underwriting practices and credit scoring models to make better lending decisions. It will allow *easyhome* Leasing to better understand the retention patterns of its customers and develop marketing and customer relationship programs that are tailored to each customer's needs while maximizing profitability to the Company.

Leverage the Synergies of Both Business Units

The *easyhome* Leasing and *easyfinancial* businesses offer different products to a common customer segment and share many operational practices such as customer relationship management, collections and contract administration. Historically, and as is common with both industries, these practices have been performed by each business unit at the local operating store level. While this approach results in more direct contact with customers, it makes it difficult to foster best practices and achieve economies of scale.

In the fourth quarter of 2013, the Company opened a new Shared Service Centre to provide operational support for both business units in areas such as collections, customer retention and customer care and to support the new delivery channels that do not operate with a dedicated local presence. The Company believes that this hybrid structure will allow local operators to continue to provide a strong level of service directly to their customers, and will enable many administrative and support functions to be performed at a reduced cost, employing best practices. Going forward, additional opportunities for providing coordinated operational support for all business units will be explored.

Continue to Invest in New Technologies

As indicated previously, the Company has made significant investments in technology over the past several years to provide *easyfinancial* with a scalable platform on which to support significant future growth and to allow new delivery channels to be accessed. This investment in new technologies will continue into the future as the Company evolves its delivery channels and expands the size and scope of *easyfinancial*. Investments in new technology will also be made to provide the operators and support staff with additional tools so that they can better service their customers and obtain greater levels of efficiency.

Outlook

The discussion in this section is qualified in its entirety by the cautionary language regarding forward-looking statements found in the "Caution Regarding Forward Looking Statements" of this MD&A.

Update of 2013 Targets

	Actual Results for 2013	Original Targets for 2013	Explanation for Variance to Targets
New *easyhome* Leasing stores opened in year			
Corporately owned stores	**–**	–	Target achieved
Franchise stores that are consolidated for financial statement purposes	**1**	3 – 4	Store openings were reduced as available capital was allocated to *easyfinancial*
Franchise stores	**3**	3 – 5	Target achieved
New *easyfinancial* locations opened in year	**36**	25 – 35	Target achieved
Gross consumer loans receivable portfolio at year end	**$110.7 million**	$90 – $100 million	Stronger than anticipated demand for the *easyfinancial* product
Total revenue growth	**9.6%**	8 – 12%	Target achieved

2014 Targets

Looking to 2014, *easyhome's* strategic focus remains unchanged. The Company will focus on evolving its delivery channels, expanding the size and scope of *easyfinancial* and executing with efficiency and effectiveness.

The following table outlines the Company's targets for 2014 and provides the material assumptions used to develop such forward-looking statements. In addition to targets on new store openings and revenue growth, the Company has provided additional targets specific to the *easyfinancial* business as this business unit has a relatively short history and is going through a period of rapid expansion. These targets are inherently subject to risks which are identified in the following tables, as well as those risks referred to in the section entitled "Risk Factors".

	Targets for 2014	Assumptions	Risk Factors[1]
New *easyhome* Leasing stores opened in year			
Corporately owned stores	–	• The Company will focus on maximizing profitability at its existing locations.	• Retail business conditions are assumed to be unchanged from 2013. If these business conditions show marked improvement and consumer confidence levels increase, the Company will consider opening additional corporate stores.
Franchise stores that are consolidated for financial statement purposes	**2**	• Consistent with the rate of growth experienced over the past several years. • The performance trends of franchise stores within this group remain consistent.	• The Company's ability to recruit appropriately skilled franchise operators. • The performance of franchise stores within this group.
Franchise stores	**3**	• Consistent with the rate of growth experienced over the past several years.	• Finding suitable franchise candidates with sufficient financial resources.
New *easyfinancial* locations opened in year	**30 – 35**	• The new capital secured in 2013 will allow the Company to more aggressively expand the *easyfinancial* retail presence. • Virtually all new locations will operate as stand-alone branches.	• The earnings drag from newly opened locations is within acceptable levels. • The Company's ability to secure new real estate and experienced personnel. • Continued access to capital.
Gross consumer loans receivable portfolio a year end	**$160 – $170 million**	• The new store opening plan and the development of new delivery channels occur as expected. • Increased expenditures on marketing and advertising within the *easyfinancial* business unit.	• Retail business conditions are assumed to be within normal parameters with respect to consumer demand and margins. • The Company's ability to secure new real estate and experienced personnel. • Continued access to capital.
Total revenue growth	**10 – 12%**	• Nominal growth for the *easyhome* Leasing business unit. • Continued accelerated growth of the consumer loans receivable portfolio, driven by new delivery channels, additional store openings and increased marketing and advertising expenditures. • No changes to the yield on *easyfinancial*'s products.	• Retail business conditions are assumed to be within normal parameters with respect to consumer demand and margins. • Changes to regulations governing the products offered by the Company.
easyfinancial operating margin	**28 – 32%**	• Increased spending on advertising and marketing and the development and implementation of new technologies will negatively impact margins in the near-term. • Margins will be further negatively impacted in the near-term by the earnings drag from newly opened locations.	• The Company's ability to achieve operating efficiencies as its locations mature. • The earnings drag from newly opened locations is within acceptable levels. • The additional marketing and advertising expenditures deliver the expected growth.

[1] Risk factors include those risks referred to in the section entitled "Risk Factors".

Three Year Targets (2016)

In addition to specific targets for the 2014 fiscal year, the Company has established several three year targets that it is working to achieve by the end of 2016.

The following table outlines the Company's three year targets and provides the material assumptions used to develop such forward-looking statements. These targets are inherently subject to risks which are identified in the following tables, as well as those risks referred to in the section entitled "Risk Factors".

	Three Year Targets	Assumptions	Risk Factors[1]
Total number of *easyfinancial* locations at the end of 2016	**225**	• All new locations will operate as stand-alone branches.	• Retail business conditions are assumed to be within normal parameters with respect to consumer demand and margins. • The Company's ability to secure new real estate and experienced personnel. • Continued access to capital.
Gross consumer loans receivable portfolio at the end of 2016	**$250 million**	• The new store opening plan and the development of new delivery channels occur as expected. • Increased expenditures on marketing and advertising within the *easyfinancial* business unit.	• Retail business conditions are assumed to be within normal parameters with respect to consumer demand and margins. • The Company's ability to secure new real estate and experienced personnel. • Continued access to capital.
easyfinancial operating margin in 2016	**32%**	• Although the long term *easyfinancial* operating margin is expected to be 35%, margins in 2016 will be moderated by the investments made to drive further growth. • Yield and cost rates at mature locations are indicative of future performance.	• Retail business conditions are assumed to be within normal parameters with respect to consumer demand and margins. • The Company's ability to achieve operating efficiencies as its locations mature.

[1] Risk factors include those risks referred to in the section entitled "Risk Factors".

Analysis of Results for the Year Ended December 31, 2013

Financial Highlights and Accomplishments

- 2013 was the twelfth consecutive year of growing revenues and delivering positive net income. Since 2001, total revenue has seen a compounded annual growth rate of 10.5% while net income has grown from a loss of $1.9 million in 2001 to net income of $14.2 million in 2013.
- *easyhome* continued to grow revenue during 2013. Revenue for the year increased to $218.8 million from $199.7 million in 2012, an increase of $19.1 million or 9.6%. The growth was driven primarily by the expansion of *easyfinancial* and its consumer loans receivable portfolio. Same store revenue growth for the year, which includes revenue growth from *easyfinancial*, was 17.7%. Excluding the impact of *easyfinancial*, same store revenue growth was 7.3%.
- The Company continued to secure the additional capital needed to fund the growth of its consumer loans receivable portfolio at lower costs throughout the year. On June 18, 2013, the term loan facility supporting *easyfinancial* was amended to increase the borrowing limit from $20.0 million to $50.0 million while also reducing the cost of borrowing from 11.78% to 9.98%. On October 3, 2013, the Company amended the terms of its bank revolving credit facility to eliminate a scheduled reduction in the maximum limit, extending the maximum limit of $35.0 million through to the maturity date of October 4, 2015. Finally, on November 12, 2013, the Company completed a $20.0 million bought deal short form prospectus offering of common shares. In aggregate, 1,346,900 common shares in the capital of the Company were issued, at a price of $14.85 per common share, for total gross proceeds of $20.0 million.
- The consumer loans receivable portfolio grew by $40.0 million compared with growth of $23.1 million in the prior year. The gross consumer loans receivable portfolio as at December 31, 2013 was $110.7 million compared with $70.7 million as at December 31, 2012. During the year, *easyfinancial* opened 36 new locations to bring its year end location count to 119 as at December 31, 2013.
- On December 31, 2012 the Company completed an exchange of stores with a large U.S. based merchandise leasing company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by *easyhome* in the U.S. and the purchase of the assets and operations of 15 leasing stores in Canada. During the first quarter of 2013, the Company completed the integration of the 15 Canadian stores it acquired in the fourth quarter of 2012. Four of these stores were converted to *easyhome* branded locations and continue to operate while 11 stores were closed and their leasing portfolios were transferred to nearby *easyhome* stores. Additionally during 2013, the Company closed a further 9 underperforming *easyhome* Leasing stores that were nearing the end of their lease terms. Upon closing, the portfolios of these stores were transferred to other nearby stores resulting in an improvement to operating income.
- Operating income increased from $17.7 million in 2012 to $25.0 million in 2013, an increase of $7.3 million or 41.0%. Excluding the impact of restructuring and other items, adjusted operating earnings improved by $7.6 million or 44.0%. Similarly, adjusted operating margin improved from 8.7% in 2012 to 11.4% in 2013, driven by margin improvements in both *easyhome* Leasing (improved from 13.6% in 2012 to 16.4% in 2013) and *easyfinancial* (improved from 30.7% in 2012 to 31.0% in 2013) as well as the relative growth of *easyfinancial*.
- The improvement in operating income was partially offset by higher incentive compensation within corporate expenses. Stock based compensation expense, which is driven in part by movements in the Company's share price, increased by $1.8 million in 2013 as compared to 2012, driven by the 92% increase in the Company's share price during 2013. Accrued short-term bonus expense, which is based on earnings performance against targets, increased due to the improved operating results of the Company during the year.
- Net income for the year ended December 31, 2013 was $14.2 million or $1.15 per share on a diluted basis compared with $11.1 million or $0.92 per share in 2012. Diluted earnings per share increased by 25.0% year over year. Excluding the impact of restructuring and other items, adjusted earnings per share increased by $0.28 or 32.2%.

Summary Financial Results and Key Performance Indicators

(in $000's except earnings per share and percentages)	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012	Variance $ / %	Variance % Change
Summary Financial Results				
Revenue	**218,814**	199,673	19,141	9.6%
Operating expenses before depreciation and amortization	**140,137**	129,198	10,939	8.5%
EBITDA margin[1]	**14.0%**	11.1%	2.9%	–
Depreciation and amortization expense	**53,712**	52,766	946	1.8%
Operating income	**24,965**	17,709	7,256	41.0%
Operating margin[1]	**11.4%**	8.9%	2.5%	–
Finance costs	**5,638**	2,643	2,995	113.3%
Effective income tax rate	**26.6%**	26.6%	–	–
Net income for the period	**14,182**	11,057	3,125	28.3%
Diluted earnings per share	**1.15**	0.92	0.23	25.0%
Adjusted (Normalized) Financial Results[1]				
Adjusted EBITDA margin	**14.0%**	10.9%	3.1%	–
Adjusted operating earnings	**24,965**	17,331	7,634	44.0%
Adjusted operating margin	**11.4%**	8.7%	2.7%	–
Adjusted earnings	**14,182**	10,481	3,701	35.3%
Adjusted earnings per share	**1.15**	0.87	0.28	32.2%
Key Performance Indicators[1]				
Same store revenue growth	**17.7%**	8.9%	8.8%	–
Same store revenue growth excluding *easyfinancial*	**7.3%**	1.3%	6.0%	–
Potential monthly lease revenue	**11,430**	11,634	(204)	(1.8%)
Change in potential monthly lease revenue due to ongoing operations	**243**	290	(47)	(16.2%)
easyhome Leasing operating margin	**16.4%**	13.6%	2.8%	–
Gross consumer loans receivable	**110,704**	70,658	40,046	56.7%
Growth in consumer loans receivable	**40,046**	23,093	16,953	73.4%
Bad debt expense as a percentage of *easyfinancial* revenue	**25.3%**	25.8%	(0.5%)	–
Net charge offs as a percentage of average gross consumer loans receivable	**13.9%**	14.7%	(0.8%)	–
easyfinancial operating margin	**31.0%**	30.7%	0.3%	–
System-Wide Performance Indicators				
Total system revenue[2]	**258,031**	232,186	25,845	11.1%
Total system potential monthly lease revenue[3]	**14,768**	14,554	214	1.5%
Total franchisee revenue[4]	**41,122**	34,149	6,973	20.4%

[1] See description in section "Key Performance Indicators and Non-IFRS Measures".
[2] Includes revenue per consolidated financial statements less revenue received from unconsolidated franchisees plus revenue of unconsolidated franchises.
[3] Includes potential monthly lease revenue for the Company as well as for unconsolidated franchises.
[4] Includes revenue from unconsolidated franchise locations.

Store Locations Summary

	Locations as at Dec. 31, 2012	Locations opened during 2013	Locations closed / sold during 2013	Conversions	Locations as at Dec. 31, 2013
***easyhome* Leasing**					
Corporately owned stores	195	–	(20)	(2)	**173**
Consolidated franchise locations	9	1	–	(1)	**9**
Total consolidated stores	204	1	(20)	(3)	**182**
Canadian franchise stores	16	–	–	3	**19**
U.S. franchise stores	33	3	–	–	**36**
Total franchise stores	49	3	–	3	**55**
Total *easyhome* Leasing stores	253	4	(20)	–	**237**
easyfinancial					
Kiosks (in store)	81	1	(7)	(10)	**65**
Stand-alone locations	18	25	–	10	**53**
National loan office	1	–	–	–	**1**
Total *easyfinancial* locations	100	26	(7)	–	**119**

Summary Financial Results by Operating Segment

($ in 000's except earnings per share)	Year ended December 31, 2013 *easyhome* Leasing	*easyfinancial*	Corporate	Total
Revenue	**160,296**	**58,518**	**–**	**218,814**
Total operating expenses before depreciation and amortization	**82,778**	**38,435**	**18,924**	**140,137**
Depreciation and amortization	**51,210**	**1,918**	**584**	**53,712**
Operating income (loss)	**26,308**	**18,165**	**(19,508)**	**24,965**
Finance costs				**5,638**
Income before income taxes				**19,327**
Income taxes				**5,145**
Net income for the period				**14,182**
Diluted earnings per share				**1.15**

($ in 000's except earnings per share)	Year ended December 31, 2012 *easyhome* Leasing	*easyfinancial*	Corporate	Total
Revenue	161,907	37,766	–	199,673
Total operating expenses before depreciation and amortization and restructuring and other items	87,087	25,421	17,068	129,576
Restructuring and other items	1,296	–	(1,674)	(378)
Depreciation and amortization	51,470	751	545	52,766
Operating income (loss)	22,054	11,594	(15,939)	17,709
Finance costs				2,643
Income before income taxes				15,066
Income taxes				4,009
Net income for the period				11,057
Diluted earnings per share				0.92

Revenue

Revenue for the year ended December 31, 2013 was $218.8 million compared to $199.7 million in the same period in 2012, an increase of $19.1 million or 9.6%.

***easyhome* Leasing** – Revenue for the year ended December 31, 2013 was $160.3 million, a decline of $1.6 million or 1.0% from the comparable period in 2012. The year over year change in revenue can be attributed to several factors:

- On December 31, 2012 the Company completed an exchange of stores with a large U.S. based merchandise leasing company. The portfolios of the 15 stores acquired in Canada generated $3.7 million less in revenue during 2013 compared to the revenue generated in 2012 by the stores sold in the U.S. Lower ancillary fees and collection rates and higher customer attrition contributed to this decline.
- Store closures and sales which occurred during the past 15 months (net of the transfer of portfolios to nearby locations) resulted in a $4.8 million decline in revenue.
- Growth in the franchise network, both from consolidated franchise locations and fees generated from unconsolidated franchises, contributed to $2.3 million of revenue growth.
- Finally, improvements to ongoing operations, including the operational changes that were initiated during the third quarter of 2012, resulted in organic portfolio and revenue growth across the store network culminating in revenue improvements of $4.6 million in the year ended December 31, 2013 compared with the prior year.

easyfinancial – Revenue for the year ended December 31, 2013 was $58.5 million, an increase of $20.8 million or 54.9% from the comparable period in 2012. The increase was due to the growth of the consumer loans receivable portfolio, which increased from $70.7 million as at December 31, 2012 to $110.7 million as at December 31, 2013, an increase of 56.7%. The gross consumer loans receivable portfolio grew $40.0 million during 2013 compared with growth of $23.1 million in 2012.

Total Operating Expenses before Depreciation and Amortization (and Restructuring and Other Items)

Total operating expenses before depreciation and amortization and restructuring and other items was $140.1 million for the year ended December 31, 2013, an increase of $10.6 million or 8.2% from the comparable period in 2012. Operating expenses before depreciation and amortization and restructuring and other items represented 64.0% of revenue for the year ended December 31, 2013 compared with 64.9% in 2012. The increase of $10.6 million in total operating expenses before depreciation and amortization and restructuring and other items was driven primarily by the higher costs associated with an expanded *easyfinancial* business as well as higher corporate costs offset by lower operating costs in the *easyhome* Leasing business.

***easyhome* Leasing** – Total operating expenses before depreciation and amortization and restructuring and other items for the year ended December 31, 2013 was $82.8 million, a decrease of $4.3 million or 4.9% from 2012. The decline was driven primarily by the sale or closure of underperforming stores over the past 24 months, including the sale of the loss making U.S. stores in the fourth quarter of 2012. Overall, consolidated store count declined from 204 as at December 31, 2012 to 182 as at December 31, 2013.

easyfinancial – Total operating expenses before depreciation and amortization was $38.4 million for the year ended December 31, 2013, an increase of $13.0 million or 51.2% from 2012. Operating expenses, excluding bad debt, were $23.6 million in the period, up $8.0 million or 51.1% from 2012. The increase was driven by i) the growth of the branch network which increased from 88 locations at the beginning of 2012 to 100 at the end of 2012 to 119 at the end of 2013, ii) the shift from in store kiosks to higher capacity, but higher cost, stand-alone branches (stand-alone locations increased from 2 at the beginning of 2012 to 18 at the end of 2012 to 53 at the end of 2013), iii) higher levels of marketing expenditures to drive customer and portfolio growth, and iv) incremental costs to develop new distribution channels and manage the growing branch network.

Bad debt expense in 2013 increased to $14.8 million from $9.8 million in 2012, an increase of $5.0 million or 51.3%. The increase was due to the growth of the consumer loans receivable portfolio which increased from $70.7 million as at December 31, 2012 to $110.7 million as at December 31, 2013, an increase of 56.7%. Bad debt expense, expressed as a percentage of *easyfinancial* revenue, was 25.3% for the year ended December 31, 2013 down from the 25.8% reported for 2012. Net charge offs as a percentage of the average gross consumer loans receivable was 13.9% in 2013, down from 14.7% in 2012.

Corporate – Total operating expenses before depreciation and amortization and restructuring and other items was $18.9 million for the year ended December 31, 2013, an increase of $1.9 million or 10.9% from 2012. The increase was due primarily to higher incentive compensation expenses. Stock based compensation expense, which is driven in part by movements in the Company's share price, increased by $1.8 million in 2013 as compared to 2012. This increase was driven by the share price increasing 91.8% during 2013. Accrued short-term bonus expense, which is based on earnings performance against targets, increased due to the improved operating results of the Company compared with 2012. Other corporate expenses, including salaries and administrative costs, were reduced year over year. Corporate expenses before depreciation and amortization and restructuring and other items represented 8.6% of revenue in 2013 compared to 8.5% of revenue in 2012.

Restructuring and other items

Total restructuring and other items in 2012 resulted in a net recovery of $0.4 million. There were no restructuring and other items in 2013.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2013 was $53.7 million, up $0.9 million or 1.8% from 2012. The increase was driven primarily by *easyfinancial* and the growth in its branch network (particularly stand-alone locations) as well as increased amortization of new technologies that went live over the past 24 months. Depreciation and amortization within the *easyhome* Leasing business declined due to lower revenue (certain lease asset classes are depreciated on the units of activity method). Depreciation and amortization represented 24.5% of revenue for the year ended December 31, 2013, down from 26.4% in 2012.

Operating Income (Income before Finance Costs and Income Taxes)

Operating income for the year ended December 31, 2013 was $25.0 million compared to $17.7 million for 2012, an increase of $7.3 million or 41.0%. Excluding restructuring and other items, operating income improved by $7.6 million or 44.0%. Adjusted operating margin was 11.4% for the year compared with 8.7% in 2012.

easyhome Leasing – Operating income was $26.3 million for the year ended December 31, 2013, an increase of $4.3 million or 19.3% from 2012. Excluding restructuring and other items, operating income increased $3.0 million or 12.8% compared with 2012. The earnings growth was driven primarily by the positive impact of the 2012 restructuring and store closures, the sale of the loss making U.S. corporate stores and the acquisition of stores in the fourth quarter of 2012. Operating margin, excluding the impact of restructuring and other items, for the year ended December 31, 2013 was 16.4%, up from 14.4% in 2012.

easyfinancial – Operating income was $18.2 million for the year ended December 31, 2013 compared with $11.6 million for the comparable period in 2012, an increase of $6.6 million or 56.7%. Operating margin for the period was 31.0% compared with 30.7% in 2012. While the average loan book per branch increased significantly, operating margin remained largely consistent with the prior period as the Company continued to expand its branch network (including the continued shift to higher capacity, albeit higher cost, stand-alone branches), increased its expenditures to develop new distribution channels, incurred higher advertising and marketing spend to drive customer and loan book growth and experienced higher depreciation and amortization related to the new technologies.

Finance Costs

Finance costs for the year ended December 31, 2013 were $5.6 million, up $3.0 million from 2012. The increase was due to the higher average debt levels during the period and an increased cost of borrowing in 2013 as compared to 2012.

Income Tax Expense

The effective income tax rate for the year ended December 31, 2013 of 26.6% was consistent with 2012.

Net Income and EPS

Net income for the year was $14.2 million or $1.15 per share on a diluted basis, compared to net income for 2012 of $11.1 million or $0.92 per share. Excluding restructuring and other items in 2012, adjusted earnings for the year increased by $3.7 million or $0.28 per share, an improvement of 35.3% and 32.2% respectively.

Selected Annual Information

Operating Results

(in $000's except dividends and per share amounts)	2013	2012	2011	2010	2009
Accounting basis	**IFRS**	IFRS	IFRS	IFRS	C-GAAP
Revenue	**218,814**	199,673	188,325	174,184	173,346
Net income	**14,182**	11,057	9,612	6,072	5,055
Dividends declared on common shares	**4,178**	4,043	4,029	3,562	3,561
Cash dividends declared per common share	**0.34**	0.34	0.34	0.34	0.34
Earnings per Share					
Basic	**1.16**	0.92	0.81	0.58	0.48
Diluted	**1.15**	0.92	0.81	0.58	0.48

Assets and Liabilities

($ in $000's)	As at Dec. 31, 2013	As at Dec. 31, 2012	As at Dec. 31, 2011	As at Dec. 31, 2010	As at Dec. 31, 2009
Accounting basis	**IFRS**	IFRS	IFRS	IFRS	C-GAAP
Total Assets	**232,900**	189,927	159,123	139,088	130,192
Total Liabilities					
Bank debt	**23,496**	21,281	33,123	18,251	29,884
Term loan	**37,878**	18,330	–	–	–
Other	**35,893**	45,303	28,458	29,326	22,164
	97,267	84,914	61,581	47,577	52,048

Analysis of Results for the Three Months Ended December 31, 2013

Fourth Quarter Highlights

- On November 12, 2013, the Company completed a $20.0 million bought deal short form prospectus offering of common shares. In aggregate, 1,346,900 common shares in the capital of the Company were issued, at a price of $14.85 per common share, for total gross proceeds of $20.0 million.
- *easyhome* continued to grow revenue during the fourth quarter of 2013. Revenue for the quarter increased to a record high of $57.8 million from $51.7 million in the fourth quarter of 2012, an increase of $6.1 million or 11.8%. The growth was driven primarily by the expansion of *easyfinancial* and its consumer loans receivable portfolio. Same store revenue growth for the quarter, which includes revenue growth from *easyfinancial*, was 20.3%. Excluding the impact of *easyfinancial*, same store revenue growth was 6.8%. Same store revenue growth excluding the impact of *easyfinancial* was positively impacted by the acquisition of the stores acquired from a large U.S. based merchandise leasing company on December 31, 2012 as the portfolios of most of these stores were merged with nearby *easyhome* stores.
- During the fourth quarter of 2013, the consumer loans receivable portfolio experienced record growth, increasing by $17.9 million compared with growth of $11.1 million in the fourth quarter of 2012. The gross consumer loans receivable as at December 31, 2013 was $110.7 million compared with $70.7 million as at December 31, 2012, up 56.7%. Similarly, *easyfinancial* revenue increased by 64.9% in the quarter compared to the comparable period of 2012, driven by the expanded consumer loans receivable portfolio. During the quarter, *easyfinancial* opened 10 new stand-alone locations.
- The operating margin for *easyfinancial* was 34.1% for the fourth quarter of 2013 compared with 27.3% for the fourth quarter of 2012. Strong loan book and revenue growth in the quarter coupled with improved loan losses more than offset the increased costs associated with new branch openings, increased advertising and marketing spend and higher administrative costs. Bad debt as a percentage of revenue declined to 24.6% in the quarter compared with 27.6% in the fourth quarter of 2012. Similarly, charge offs as a percentage of the average loan book declined from 14.3% in the fourth quarter of 2012 to 13.2% in the current quarter.
- Operating income was $7.5 million for the quarter and reached a record level. Operating income was up $1.7 million or 29.7% from the fourth quarter of 2012. Excluding restructuring and other items in 2012, operating income improved by $2.5 million or 50.9%. Adjusted operating margin was 13.0% for the quarter compared with 9.6% in the fourth quarter of 2012.
- Net income for the fourth quarter of 2013 was $4.3 million or $0.33 per share on a diluted basis compared with $3.8 million or $0.31 per share in the fourth quarter of 2012, an increase of $0.6 million and $0.02 respectively. Excluding the impact of restructuring and other items in 2012 which positively impacted the prior period, adjusted earnings increased by $1.5 million or 50.3% while diluted earnings per share increased by $0.09 or 37.5%. The shares issued in the fourth quarter of 2013 moderated the growth of earnings per share as compared to the growth in net income.

Summary Financial Results and Key Performance Indicators

(in $000's except earnings per share and percentages)	Three months ended Dec. 31, 2013	Dec. 31, 2012	Variance $ / %	Variance % Change
Summary Financial Results				
Revenue	**57,796**	51,694	6,102	11.8%
Operating expenses before depreciation and amortization	**36,708**	32,784	3,924	12.0%
EBITDA margin	**15.5%**	12.7%	2.8%	–
Depreciation and amortization expense	**13,579**	13,120	459	3.5%
Operating income	**7,509**	5,790	1,719	29.7%
Operating margin[1]	**13.0%**	11.2%	1.8%	–
Finance costs	**1,414**	1,215	199	16.4%
Effective income tax rate	**28.9%**	17.7%	11.2%	–
Net income for the period	**4,336**	3,766	570	15.1%
Diluted earnings per share	**0.33**	0.31	0.02	6.5%
Adjusted (Normalized) Financial Results[1]				
Adjusted EBITDA margin	**15.5%**	11.1%	4.4%	–
Adjusted operating earnings	**7,509**	4,976	2,533	50.9%
Adjusted operating margin	**13.0%**	9.6%	3.4%	–
Adjusted earnings	**4,336**	2,885	1,451	50.3%
Adjusted earnings per share	**0.33**	0.24	0.09	37.5%
Key Performance Indicators[1]				
Same store revenue growth	**20.3%**	9.0%	11.3%	–
Same store revenue growth excluding *easyfinancial*	**6.8%**	2.7%	4.1%	–
Potential monthly lease revenue	**11,430**	11,634	(204)	(1.8%)
Change in potential monthly lease revenue due to ongoing operations	**662**	614	48	7.8%
easyhome Leasing operating margin	**16.4%**	15.6%	0.8%	–
Gross consumer loans receivable	**110,704**	70,658	40,046	56.7%
Growth in consumer loans receivable	**17,912**	11,080	6,832	61.7%
Bad debt expense as a percentage of *easyfinancial* revenue	**24.6%**	27.6%	(3.0%)	–
Net charge offs as a percentage of average gross consumer loans receivable	**13.2%**	14.3%	(1.1%)	–
easyfinancial operating margin	**34.1%**	27.3%	6.8%	–
System-Wide Performance Indicators				
Total system revenue[2]	**68,197**	60,515	7,682	12.7%
Total system potential monthly lease revenue[3]	**14,768**	14,554	214	1.5%
Total franchisee revenue[4]	**10,979**	9,318	1,661	17.8%

[1] See description in section "Key Performance Indicators and Non-IFRS Measures".
[2] Includes revenue per consolidated financial statements less revenue received from unconsolidated franchisees plus revenue of unconsolidated franchises.
[3] Includes potential monthly lease revenue for the Company as well as for unconsolidated franchises.
[4] Includes revenue from unconsolidated franchise locations.

Store Locations Summary

	Locations as at Sept. 30, 2013	Locations opened during quarter	Locations closed / sold during quarter	Conversions	Locations as at Dec. 31, 2013
***easyhome* Leasing**					
Corporately owned stores	175	–	(1)	(1)	**173**
Consolidated franchise locations	8	1	–	–	**9**
Total consolidated stores	183	1	(1)	(1)	**182**
Canadian franchise stores	18	–	–	1	**19**
U.S. franchise stores	34	2	–	–	**36**
Total franchise stores	52	2	–	1	**55**
Total *easyhome* Leasing stores	235	3	(1)	–	**237**
easyfinancial					
Kiosks (in store)	68	–	(2)	(1)	**65**
Stand-alone locations	43	9	–	1	**53**
National loan office	1	–	–	–	**1**
Total *easyfinancial* locations	112	9	(2)	–	**119**

Summary Financial Results by Operating Segment

($ in 000's except earnings per share)	Three months ended December 31, 2013 *easyhome* Leasing	*easyfinancial*	Corporate	Total
Revenue	**39,742**	**18,054**	**–**	**57,796**
Total operating expenses before depreciation and amortization	**20,384**	**11,290**	**5,034**	**36,708**
Depreciation and amortization	**12,822**	**606**	**151**	**13,579**
Operating income (loss)	**6,536**	**6,158**	**(5,185)**	**7,509**
Finance costs				**1,414**
Income before income taxes				**6,095**
Income taxes				**1,759**
Net income for the period				**4,336**
Diluted earnings per share				**0.33**

($ in 000's except earnings per share)	Three months ended December 31, 2012 *easyhome* Leasing	*easyfinancial*	Corporate	Total
Revenue	40,745	10,949	–	51,694
Total operating expenses before depreciation and amortization and restructuring and other items	21,747	7,634	4,217	33,598
Restructuring and other items	–	–	(814)	(814)
Depreciation and amortization	12,650	331	139	13,120
Operating income (loss)	6,348	2,984	(3,542)	5,790
Finance costs				1,215
Income before income taxes				4,575
Income taxes				809
Net income for the period				3,766
Diluted earnings per share				0.31

Revenue

Revenue for the three month period ended December 31, 2013 was $57.8 million compared to $51.7 million in the same period in 2012, an increase of $6.1 million or 11.8%.

easyhome Leasing – Revenue for the three month period ended December 31, 2013 was $39.7 million, a decrease of $1.0 million from the comparable period in 2012. Factors impacting revenue in the period include:

- On December 31, 2012 the Company completed an exchange of stores with a large U.S. based merchandise leasing company. The portfolios of the 15 stores acquired in Canada generated $1.4 million less in revenue during the fourth quarter of 2013 compared to the revenue generated in the fourth quarter of 2012 by the stores sold in the U.S. Lower ancillary fees and collection rates and higher customer attrition contributed to this decline.
- Store closures and sales which occurred during the past 15 months (net of the transfer of portfolios to nearby locations) resulted in a $1.3 million decline in revenue.
- Growth in the franchise network, both from consolidated franchise locations and fees generated from unconsolidated franchises, contributed to $0.7 million of revenue growth.
- Finally, improvements to ongoing operations resulted in organic portfolio and revenue growth across the store network culminating in revenue improvements of $1.0 million in the fourth quarter of 2013 compared with the fourth quarter of 2012.

easyfinancial – Revenue for the three month period ended December 31, 2013 was $18.1 million, an increase of $7.1 million or 64.9% from the comparable period in 2012. The increase was due to the growth of the consumer loans receivable portfolio, which increased from $70.7 million as at December 31, 2012 to $110.7 million as at December 31, 2013, an increase of 56.7%. The consumer loans receivable portfolio grew $17.9 million during the fourth quarter of 2013 compared with growth of $11.1 million for the fourth quarter of 2012.

Total Operating Expenses before Depreciation and Amortization (and Restructuring and Other Items)

Total operating expenses before depreciation and amortization and restructuring and other items was $36.7 million for the three month period ended December 31, 2013, an increase of $3.1 million or 9.3% from the comparable period in 2012. Operating expenses before depreciation and amortization and restructuring and other items represented 63.5% of revenue for the fourth quarter of 2013 compared with 65.0% last year. The $3.1 million increase in total operating expenses was driven primarily by the higher costs associated with an expanded *easyfinancial* business, and increased incentive compensation expense driven by the rising share price in the quarter and partially offset by lower costs in the *easyhome* Leasing business due to a reduced number of retail locations.

easyhome Leasing – Total operating expenses before depreciation and amortization and restructuring and other items for the three month period ended December 31, 2013 was $20.4 million, a decrease of $1.4 million or 6.3% from the comparable period in 2012. This decline was driven primarily by the sale or closure of underperforming stores over the past fifteen months, including the sale of the loss making U.S. stores in the fourth quarter of 2012. Consolidated store count consists of corporately owned stores as well as consolidated franchise stores where control is achieved other than through ownership of a majority of voting rights. Consolidated store count declined from 204 as at December 31, 2012 to 182 at December 31, 2013.

easyfinancial – Total operating expenses before depreciation and amortization was $11.3 million for the fourth quarter of 2013, an increase of $3.7 million or 47.9% from the comparable period in 2012. Operating expenses, excluding bad debt, increased by $2.2 million or 48.2% in the quarter. The increase was driven by i) 19 additional locations when compared to December 31, 2012, ii) the shift from in store kiosks to higher capacity stand-alone branches, iii) higher levels of marketing expenditures to drive customer and portfolio growth and iv) incremental expenditures to develop new distribution channels and manage the growing branch network. Overall, branch count increased from 100 as at December 31, 2012 to 119 as at December 31, 2013. Additionally, stand-alone branches (which have a greater capacity and a faster growth trajectory than kiosks but also have a higher cost structure) increased from 18 as at December 31, 2012 to 53 as at December 31, 2013.

Bad debt expense increased to $4.4 million for the fourth quarter of 2013 from $3.0 million during the comparable period in 2012, up 47.4%. The $1.4 million increase was due to the growth of the consumer loans receivable portfolio which increased by 56.7% over the past twelve months.

Bad debt expense, expressed as a percentage of *easyfinancial* revenue, was 24.6% for the fourth quarter of 2013, an improvement against the 27.6% reported for the fourth quarter of 2012. Net charge offs as a percentage of the average gross consumer loans receivable annualized, was 13.2% in the fourth quarter of 2013, down from the 14.3% reported in the fourth quarter of 2012.

Corporate – Total operating expenses before depreciation and amortization and restructuring and other items was $5.0 million for the fourth quarter of 2013 compared to $4.2 million in the fourth quarter of 2012, an increase of $0.8 million or 19.4%. Stock based compensation expense, which is driven in part by movements in the Company's share price, increased by $0.3 million in the fourth quarter of 2013 compared to the fourth quarter of 2012. The remaining cost increases related primarily to increased corporate compensation and administrative costs to manage the Company's growing business. Corporate expenses before depreciation and amortization represented 8.7% of revenue in the fourth quarter of 2013 as compared to 8.2% of revenue in fourth quarter of 2012.

Restructuring and Other Items

Total restructuring and other items in the three month period ended December 31, 2012 resulted in a net recovery of $0.8 million. There were no restructuring and other items in the three month period ended December 31, 2013.

Depreciation and Amortization

Depreciation and amortization for the three month period ended December 31, 2013 was $13.6 million, up $0.5 million or 3.5% from the comparable period in 2012. The increase was attributable to: i) the increased number of *easyfinancial* stand-alone locations, ii) the amortization of the new *easyfinancial* systems and iii) lower impairment recoveries within the leasing business in the current quarter as compared to the fourth quarter of 2012.

Depreciation and amortization represented 23.5% of revenue for the three months ended December 31, 2013, down from 25.4% in the comparable period of 2012.

Operating Income (Income before Finance Costs and Income Taxes)

Operating income for the three month period ended December 31, 2013 was $7.5 million compared to $5.8 million for the comparable period in 2012, an increase of $1.7 million or 29.7%. Excluding restructuring and other items from the fourth quarter of 2012, adjusted operating earnings improved by $2.5 million or 50.9% while adjusted operating margin improved from 9.6% in the fourth quarter of 2012 to 13.0% in the fourth quarter of 2013.

easyhome Leasing – Operating income was $6.5 million for the fourth quarter of 2013, an increase of $0.2 million or 3.0% from the fourth quarter of 2012. The growth in operating income was driven by the sale of the loss making U.S. corporate stores and the addition of the portfolios of the acquired stores in the fourth quarter of 2012. Operating margin for the fourth quarter of 2013 was 16.4%, up from 15.6% in the fourth quarter of 2012.

easyfinancial – Operating income was $6.2 million for the fourth quarter of 2013 compared with $3.0 million for the comparable period in 2012, an increase of $3.2 million or 106%. Operating margin for the fourth quarter of 2013 was 34.1% compared with 27.3% in the fourth quarter of 2012. The growth in operating income was driven by the larger consumer loans receivable portfolio, a higher average loan book per branch and improvements in consumer loan losses.

Finance Costs

Finance costs for the three month period ended December 31, 2013 were $1.4 million, up $0.2 million from the same period in 2012. The increase related to the higher average debt levels in the fourth quarter of 2013 compared to the fourth quarter of 2012.

Income Tax Expense

The effective income tax rate for the fourth quarter of 2013 was 28.9% compared to 17.7% in the fourth quarter of 2012. The effective income tax rate in the fourth quarter of 2012 was reduced by the gain generated on the sale of the U.S. corporate stores in the fourth quarter of 2012 which was not taxable due to the application of tax losses carried forward from prior fiscal periods. Excluding the impact of the gain generated on the sale of the U.S. corporate stores, the effective income tax rate for the fourth quarter of 2012 was 26.0%.

Net Income and EPS

Net income for the fourth quarter of 2013 was $4.3 million, or $0.33 per share on a diluted basis compared to net income for the fourth quarter of 2012 of $3.8 million, or $0.31 per share. Excluding restructuring and other items in the fourth quarter of 2012, adjusted earnings for the fourth quarter of 2012 were $2.9 million, or $0.24 per share.

Selected Quarterly Information

($ in millions except per share amounts and percentages)	Dec. 2013	Sept. 2013	Jun. 2013	Mar. 2013	Dec. 2012	Sept. 2012	Jun. 2012	Mar. 2012	Dec. 2011
Revenue	**57.8**	54.9	53.8	52.4	51.7	49.3	48.9	49.8	49.3
Net income for the period	**4.3**	3.8	3.1	2.9	3.8	2.6	2.0	2.6	2.6
Net income as a percentage of revenue	**7.5%**	6.8%	5.8%	5.6%	7.3%	5.3%	4.1%	5.3%	5.3%
Earnings per Share[1]									
Basic	**0.34**	0.32	0.26	0.24	0.32	0.22	0.17	0.22	0.22
Diluted	**0.33**	0.31	0.26	0.24	0.31	0.22	0.17	0.22	0.22

[1] Quarterly earnings per share are not additive and may not equal the annual earnings per share reported. This is due to the effect of stock issued during the year on the basic weighted average number of common shares outstanding together with the effects of rounding.

Key Performance Indicators and Non-IFRS Measures

The Company measures the success of its strategy using a number of key performance indicators as described in more detail below. Several of these key performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS.

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. Although these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to the Company's financial statements. The Company discusses these measures because it believes that they facilitate the understanding of the results of its operations and financial position.

Several non-IFRS measures that are used throughout this discussion are defined as follows:

Same Store Revenue Growth

Same store revenue growth measures the revenue growth for all stores that have been open for a minimum of 15 months. To calculate same store revenue growth for a period, the revenue for that period is compared to the same period in the prior year. Same store revenue growth is influenced by both the Company's product offerings as well as the number of stores which have been open for a 12-36 month time frame, as these stores tend to be in the strongest period of growth at this time.

	Three months ended		Year ended	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Same store revenue growth	**20.3%**	9.0%	**17.7%**	8.9%
Same store revenue growth excluding *easyfinancial*	**6.8%**	2.7%	**7.3%**	1.3%

Potential Monthly Lease Revenue

Potential monthly lease revenue reflects the revenue that the Company's portfolio of leased merchandise would generate in a month providing it collected all lease payments due in that period. Growth in potential monthly lease revenue is driven by several factors including an increased number of customers, an increased number of leased assets per customer as well as an increase in the average price of the leased items. The Company believes that its potential monthly lease revenue is an important indicator of how revenue may change in future periods.

(in $000's)	Three months ended Dec. 31, 2013	Three months ended Dec. 31, 2012	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012
Opening balance – Potential monthly lease revenue	**10,843**	11,133	**11,634**	11,694
Change due to store openings or acquisitions during the period	**26**	803	**26**	866
Change due to store closures or sales during the period	**(101)**	(917)	**(473)**	(1,216)
Change due to ongoing operations	**662**	614	**243**	290
Net change	**587**	501	**(204)**	(60)
Ending balance – Potential monthly lease revenue	**11,430**	11,634	**11,430**	11,634

Gross Consumer Loans Receivable

Gross consumer loans receivable reflects the period end balance of the portfolio before provisioning for potential future charge offs. Growth in gross consumer loans receivable is driven by several factors including an increased number of customers and an increased loan value per customer. The Company believes that its gross consumer loans receivable value is an important indicator of the *easyfinancial* business and of how revenue may grow in future periods.

(in $000's)	Three months ended Dec. 31, 2013	Three months ended Dec. 31, 2012	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012
Gross consumer loans receivable	**110,704**	70,658	**110,704**	70,658
Growth in gross consumer loans receivable during period	**17,912**	11,080	**40,046**	23,093

easyfinancial Loan Losses

Net charge offs are actual loans charged off net of recoveries. Average gross consumer loans receivable has been calculated based on the average month end loan balance for the indicated period. This metric is a measure of the collection performance of the *easyfinancial* consumer loans receivable portfolio. For interim periods, the rate is annualized. Bad debt expense as a percentage of *easyfinancial* revenue is another measure that reflects the collection performance of the *easyfinancial* consumer loans receivable portfolio. Bad debt expense includes actual write offs net of recoveries and the impact of changes to the allowance for loan losses taken against the consumer loans receivable portfolio.

(in $000's except percentages)	Three months ended Dec. 31, 2013	Three months ended Dec. 31, 2012	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012
Net charge offs	**3,414**	2,362	**12,106**	8,293
Average gross consumer loans receivable	**103,537**	66,130	**86,968**	56,414
Net charge offs as a percentage of average gross consumer loans receivable (annualized)	**13.2%**	14.3%	**13.9%**	14.7%
Bad debt expense as a percentage of *easyfinancial* revenue	**24.6%**	27.6%	**25.3%**	25.8%

Adjusted Operating Earnings, Adjusted Earnings, Adjusted Earnings Per Share

At various times, operating income, net income and earnings per share may be affected by unusual items which have occurred in the period and which impact the comparability of these measures with other periods. Items are considered unusual if they are outside of normal business activities, significant in amount and scope and are not expected to occur on a recurring basis. The Company defines i) adjusted operating earnings as operating income excluding such unusual and non-recurring items, ii) adjusted earnings as net income excluding such items and iii) adjusted earnings per share as diluted earnings per share excluding such items. The Company believes that adjusted operating earnings, adjusted earnings and adjusted earnings per share are important measures of the profitability of operations adjusted for the effects of unusual items.

Items which can be used to adjust operating income, net income and earnings per share for the three months and years ended December 31, 2013 and 2012 include those indicated in the chart below:

	Three months ended		Year ended	
(in $000's except number of shares and per share amounts)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Operating income as stated	**7,509**	5,790	**24,965**	17,709
Restructuring and other items included in operating expenses[1]	**–**	–	**–**	1,379
Insurance reimbursement included in operating expenses[2]	**–**	–	**–**	(943)
Gain on disposal of U.S. leasing stores, net of restructuring costs[3]	**–**	(814)	**–**	(814)
Net restructuring and other items	**–**	(814)	**–**	(378)
Adjusted operating earnings	**7,509**	4,976	**24,965**	17,331
Net income as stated	**4,336**	3,766	**14,182**	11,057
Restructuring and other items included in operating expenses[1]	**–**	–	**–**	1,379
Insurance reimbursement included in operating expenses[2]	**–**	–	**–**	(943)
Gain on disposal of U.S. leasing stores, net of restructuring costs[3]	**–**	(814)	**–**	(814)
Tax impact of above items	**–**	(67)	**–**	(198)
Net restructuring and other items	**–**	(881)	**–**	(576)
Adjusted earnings	**4,336**	2,885	**14,182**	10,481
Weighted average number of diluted shares outstanding	**13,094**	12,050	**12,309**	11,999
Diluted earnings per share as stated	**0.33**	0.31	**1.15**	0.92
Per share impact of restructuring and other items	**–**	(0.07)	**–**	(0.05)
Adjusted diluted earnings per share	**0.33**	0.24	**1.15**	0.87

[1] During the third quarter of 2012, the Company restructured the management and operating procedures of its leasing segment and closed 13 of its underperforming locations incurring incremental charges of $1.4 million.

[2] During the third quarter of 2012, the Company received a reimbursement of a portion of the costs incurred to perform a forensic investigation into an employee fraud from its insurers.

[3] On December 31, 2012, the Company completed an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by *easyhome* in the U.S. and the purchase of the assets and operations of 15 leasing stores in Canada. The Company recorded a gain of $814 on this transaction, net of certain related restructuring costs. The gain is recorded in the corporate segment.

Operating Expenses Before Depreciation and Amortization

The Company defines operating expenses before depreciation and amortization as total operating expenses excluding depreciation and amortization expenses for the period. The Company believes that operating expenses before depreciation and amortization is an important measure of the cost of operations adjusted for the effects of purchasing decisions that may have been made in prior periods.

(in $000's except percentages)	Three months ended		
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Operating expenses before depreciation and amortization as stated	**36,708**	32,784	32,784
Restructuring and other items	**–**	–	814
Adjusted operating expenses before depreciation and amortization	**36,708**	32,784	33,598
Divided by revenue	**57,796**	51,694	51,694
Operating expenses before depreciation and amortization as % of revenue	**63.5%**	63.4%	65.0%

(in $000's except percentages)	Year ended		
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Operating expenses before depreciation and amortization as stated	**140,137**	129,198	129,198
Restructuring and other items	**–**	–	(378)
Adjusted operating expenses before depreciation and amortization	**140,137**	129,198	129,576
Divided by revenue	**218,814**	199,673	199,673
Operating expenses before depreciation and amortization as % of revenue	**64.0%**	64.7%	64.9%

Operating Margin

The Company defines operating margin as operating income divided by revenue. The Company believes operating margin is an important measure of the profitability of operations which in turn, assists it in assessing the Company's ability to generate cash to pay interest on its debt and to pay dividends.

	Three months ended		
(in $000's except percentages)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Operating income	**7,509**	5,790	5,790
Restructuring and other items	**–**	–	(814)
Adjusted operating earnings	**7,509**	5,790	4,976
Divided by revenue	**57,796**	51,694	51,694
Operating margin	**13.0%**	11.2%	9.6%

	Year ended		
(in $000's except percentages)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Operating income	**24,965**	17,709	17,709
Restructuring and other items	**–**	–	(378)
Adjusted operating earnings	**24,965**	17,709	17,331
Divided by revenue	**218,814**	199,673	199,673
Operating margin	**11.4%**	8.9%	8.7%

Earnings before Interest, Taxes, Depreciation and Amortization and EBITDA Margin

The Company defines EBITDA as earnings before interest, taxes, depreciation and amortization, excluding depreciation of lease assets. The Company uses EBITDA, among other measures, to assess the operating performance of its ongoing businesses. EBITDA margin is calculated as EBITDA divided by revenue.

	Three months ended		
(in $000's except periods and percentages)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Net income as stated	**4,336**	3,766	3,766
Finance costs	**1,414**	1,215	1,215
Income tax expense	**1,759**	809	809
Depreciation and amortization, excluding depreciation of lease assets	**1,421**	786	786
EBITDA	**8,930**	6,576	6,576
Restructuring and other items	**–**	–	(814)
Adjusted EBITDA	**8,930**	6,576	5,762
Divided by revenue	**57,796**	51,694	51,694
EBITDA margin	**15.5%**	12.7%	11.1%

	Year ended		
(in $000's except periods and percentages)	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2012 (adjusted)
Net income as stated	**14,182**	11,057	11,057
Finance costs	**5,638**	2,643	2,643
Income tax expense	**5,145**	4,009	4,009
Depreciation and amortization, excluding depreciation of lease assets	**5,634**	4,387	4,387
EBITDA	**30,599**	22,096	22,096
Restructuring and other items	**–**	–	(378)
Adjusted EBITDA	**30,599**	22,096	21,718
Divided by revenue	**218,814**	199,673	199,673
EBITDA margin	**14.0%**	11.1%	10.9%

Return on Equity

The Company defines return on equity as annualized net income in the period divided by average shareholders' equity for the period. The Company believes return on equity is an important measure of how shareholders' invested capital is utilized in the business.

(in $000's except periods and percentages)	Three months ended		
	Dec. 31, 2013	**Dec. 31, 2012**	**Dec. 31, 2012 (adjusted)**
Net income as stated	**4,336**	3,766	3,766
Restructuring and other items	**–**	–	(814)
Tax impact of restructuring and other items	**–**	–	(67)
Net restructuring and other items	**–**	–	(881)
Adjusted earnings	**4,336**	3,766	2,885
Multiplied by number of periods in year	**X 4/1**	X 4/1	X 4/1
Divided by average shareholders' equity for the period	**124,216**	103,366	103,366
Return on equity	**14.0%**	14.6%	11.2%

(in $000's except periods and percentages)	Year ended		
	Dec. 31, 2013	**Dec. 31, 2012**	**Dec. 31, 2012 (adjusted)**
Net income as stated	**14,182**	11,057	11,057
Restructuring and other items	**–**	–	(378)
Tax impact of restructuring and other items	**–**	–	(198)
Net restructuring and other items	**–**	–	(576)
Adjusted earnings	**14,182**	11,057	10,481
Multiplied by number of periods in year	**X 4/4**	X 4/4	X 4/4
Divided by average shareholders' equity for the period	**114,071**	100,668	100,668
Return on equity	**12.4%**	11.0%	10.4%

Financial Condition

The following table provides a summary of certain information with respect to the Company's capitalization and financial position as at December 31, 2013 and December 31, 2012.

(in $000's except for ratios)	Dec. 31, 2013	Dec. 31, 2012
Total assets	**232,900**	189,927
External debt (includes term loan)	**61,374**	39,611
Other liabilities	**35,893**	45,303
Total liabilities	**97,267**	84,914
Shareholders' equity	**135,633**	105,013
Total capitalization (total debt plus total shareholders' equity)	**197,007**	144,624
External debt to shareholders' equity	**0.45**	0.38
External debt to total capitalization	**0.31**	0.27
External debt to Adjusted EBITDA	**2.01**	1.82

Total assets were $232.9 million at December 31, 2013, an increase of $43.0 million or 22.6% over December 31, 2012. The growth in total assets was driven primarily by: i) the increased size of the net consumer loans receivable portfolio which increased by $37.3 million from December 31, 2012 to December 31, 2013 and ii) the Company's investment in property and equipment and intangible assets (specifically software) which increased by $5.4 million year over year.

The growth in total assets has been financed by a $12.4 million increase in total liabilities (which includes a $21.8 million increase in external debt) and a $30.6 million increase in total shareholder's equity (which includes the net $19.0 million raised in the common share equity offering completed on November 12, 2013). Although the Company has continued to maintain its dividend payments to its shareholders, a large portion of the Company's earnings over the prior 12 months have been retained to fund the growth of *easyfinancial*.

The Company's external debt included a bank revolving credit facility which supported the leasing business and a term loan facility which supported *easyfinancial*.

Canadian dollar loans under the bank revolving credit facility bore interest at the lead lenders prime rate plus 150 to 250 bps, depending on the Company's total debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio. The bank revolving credit facility was fully secured by a first charge on substantially all of the assets of the Company and its subsidiaries, excluding *easyfinancial*, and a second charge on the assets of *easyfinancial*. The Company's interest rate under the facility as at December 31, 2013 was 5.00%. On October 3, 2013, the Company amended the terms of the bank revolving credit facility to eliminate a scheduled reduction in the maximum limit, extending the maximum limit of $35.0 million through to the maturity date of October 4, 2015.

Canadian dollar loans under the term loan credit facility bore interest at 8.7% over the Canadian Bankers' Acceptance rate. All borrowings under the term loan credit facility were secured by a first charge on the assets of *easyfinancial* and a second charge on substantially all of the other assets of the Company and its subsidiaries and will mature on October 4, 2017. The Company's interest rate under the term loan facility as at December 31, 2013 was 9.98%.

At December 31, 2013 and December 31, 2012, the Company was in compliance with all of its financial covenants under its lending agreements.

Liquidity and Capital Resources

Summary of Cash Flow Components

(in $000's)	Three months ended Dec. 31, 2013	Three months ended Dec. 31, 2012	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012
Cash provided by operating activities before issuance of consumer loans receivable	**22,276**	29,144	**70,989**	89,581
Net issuance of consumer loans receivable	**(21,329)**	(13,495)	**(52,152)**	(31,425)
Cash provided by operating activities	**947**	15,649	**18,837**	58,156
Cash used in investing activities	**(21,162)**	(18,664)	**(57,880)**	(57,349)
Financing activities	**20,741**	6,605	**36,741**	2,805
Net increase (decrease) in cash for the period	**526**	3,590	**(2,302)**	3,612

Cash flows provided by operating activities for the three month period ended December 31, 2013 were $0.9 million. Included in this $0.9 million was a net investment of $21.3 million to increase the *easyfinancial* consumer loans receivable portfolio. If this net investment in the *easyfinancial* consumer loans receivable portfolio was treated as cash flows from investing activities, the cash flows generated by operating activities would be $22.3 million in the fourth quarter of 2013, down $6.9 million compared to the fourth quarter of 2012. While net income was higher, the decline in cash flow provided by operating activities was due primarily to changes in the Company's working capital, particularly the $7.0 million payable outstanding as at December 31, 2012 related to the 15 Canadian merchandise leasing stores acquired in the fourth quarter of 2012.

Cash flows from financing activities for the three month period ended December 31, 2013 were $20.7 million which included the net proceeds of $19.0 million from the common share equity offering that was completed on November 12, 2013.

Cash flows in the fourth quarter of 2013 enabled the Company to i) meet the growth demands of *easyfinancial* as described above, ii) invest $18.9 million in new lease assets, iii) invest $3.5 million in additional property and equipment and intangible assets, and iv) maintain its dividend payments.

Cash flows provided by operating activities for the year ended December 31, 2013 were $18.8 million. Included in this $18.8 million is a net investment of $52.2 million to increase the *easyfinancial* consumer loans receivable portfolio. If this net investment in the *easyfinancial* consumer loans receivable portfolio was treated as cash flow from investing activities, the cash flows generated by operating activities would be $71.0 million, down $18.6 million from the comparable period of 2012. A large portion of the change in cash flows provided by operating activities between 2012 and 2013 was due to the timing of cash payments and receipts related to the purchase and sale of stores that occurred in the fourth quarter of 2012. Additionally, cash flows from operating activities in 2013 were negatively impacted by the timing of vendor and income tax payments when compared to 2012.

Cash flows from financing activities for the year ended December 31, 2013 were $36.7 million which included the additional advance of $20.0 million under the Company's term loan facility and the net proceeds of $19.0 million from the common share equity offering that was completed on November 12, 2013.

The cash flows from operating activities for the year ended December 31, 2013 enabled the Company to i) meet the growth demands of *easyfinancial* as described above, ii) invest $49.4 million in new lease assets, iii) invest $11.2 million in additional property and equipment and intangible assets, and iv) maintain its dividend payments.

The Company believes that the cash flows provided by operations will be sufficient in the near-term to meet operational requirements, purchase lease assets, meet capital spending requirements and pay dividends. Also, the additional availability under the Company's credit facilities and the proceeds of the equity offering that closed on November 12, 2013 will allow the Company to grow its consumer loans receivable portfolio through much of 2014. However, for *easyfinancial* to achieve its full long-term growth potential, additional sources of financing over and above the currently available credit facility and term loan are required. There is no certainty that these long term sources of capital will be available or at terms favourable to the Company.

Outstanding Shares and Dividends

As at March 5, 2014 there were 13,289,325 shares, 538,225 options, 436,755 RSU's and no warrants outstanding.

For the three month period ended December 31, 2013, the Company paid a $0.085 per share quarterly dividend on outstanding common shares. The Company reviews its dividend distribution policy on a regular basis, evaluating its financial position, profitability, cash flow and other factors the Board of Directors considers relevant. No dividends may be declared in the event there is a default of the loan facility, or where such payment would lead to a default.

The following table sets forth the quarterly dividends paid by the Company in the fourth quarter of the years indicated:

	2013	2012	2011	2010	2009	2008	2007
Dividend per share	**$ 0.085**	$ 0.085	$ 0.085	$ 0.085	$ 0.085	$ 0.085	$ 0.070
Percentage increase	**0.0%**	0.0%	0.0%	0.0%	0.0%	21.4%	16.7%

Commitments, Guarantees and Contingencies

Commitments

The Company is committed to long-term service contracts and operating leases for premises, equipment, vehicles and signage. The minimum annual lease payments plus estimated operating costs and other commitments required for the next 5 years and thereafter are approximately as follows:

(in $000's)	Within 1 year	After 1 year but not more than 5 years	More than 5 years
Premises	21,346	45,427	4,144
Other operating lease obligations	1,238	2,172	–
Other	1,344	1,871	–
Total contractual obligations	23,928	49,470	4,144

Class Action Lawsuit

The Company and certain of its current and former officers were named as defendants in a lawsuit filed in the Ontario Superior Court of Justice on October 25, 2010. This lawsuit was commenced by Andrew Sorensen, on behalf of shareholders who acquired the Company's common shares between April 8, 2008 and October 15, 2010. The claim was brought under section 138 of the Ontario Securities Act. The plaintiff alleged, among other things, that, arising out of an employee fraud discovered in 2010, the Company and certain of its former and current officers made misrepresentations about the Company's consolidated financial statements being prepared in accordance with Canadian generally accepted accounting principles. The claim sought $10 million in general damages. On March 26, 2012, the lawsuit was certified as a class proceeding on consent.

During the first quarter of 2013, the Company reached an agreement to settle with the class action plaintiffs for $2.25 million, all inclusive, to be distributed to members of the class in accordance with procedures set out in the settlement agreement. On June 10, 2013, the court approved the settlement agreement. The settlement amount was paid by the Company's insurer pursuant to the Company's insurance policies and held in escrow by an administrator who distributes the funds to class members. The settlement agreement denies any admissions of liability on the part of the Company or any of its current or former officers or directors.

The settlement reflects an agreement between all parties to resolve the action and avoid increasing costs and time commitments necessarily involved in litigation. The Company has not recorded any liability related to these matters.

Other Legal Actions

The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, financial performance or cash flows.

The Company has agreed to indemnify its directors and officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

Risk Factors

Overview

The Company's activities are exposed to a variety of operational and financial risks. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee of the Board of Directors reviews the Company's risk management policies on an annual basis.

Dependence on Key Personnel

One of the biggest limiting factors in the Company's performance and expansion plans will be the hiring and retention of the best people for the job. Over the past few years, the Company has improved its hiring competencies and its training programs such that employee retention has improved by more than 50% since 2000.

In particular, the Company is dependent on the abilities, experiences and efforts of its senior management team and other key employees. The loss of these individuals without adequate replacement could materially adversely affect its business and operations.

As a consequence of its growth strategy and relatively high employee turnover at the store level, the Company requires a growing number of qualified managers and other store personnel to operate its stores successfully. There is competition for such personnel and there can be no assurances that the Company will be successful in attracting and retaining such personnel as it may require. If the Company is unable to attract and retain qualified personnel or its costs to do so increase dramatically, its operations would be materially adversely affected.

Government Regulation and Compliance

The Company takes reasonable measures to ensure compliance with governing statutes, regulations and regulatory policies. A failure to comply with such statutes, regulations or regulatory policies could result in sanctions, fines or other settlements that could adversely affect both its earnings and reputation. Changes to laws, statutes, regulations or regulatory policies could also change the economics of the Company's merchandise leasing and consumer lending businesses.

Numerous consumer protection laws and related regulations impose substantial requirements upon lenders involved in consumer finance, including leasing and lending. Also, federal and provincial laws impose restrictions on consumer transactions and require contract disclosures relating to the cost of borrowing and other matters. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions.

easyhome currently operates in an unregulated environment with regards to capital requirements. The Criminal Code of Canada, however, imposes a restriction on the cost of borrowing in any lending transaction of 60% per year. The application of capital requirements or a reduction in the maximum cost of borrowing could have a material adverse effect on the Company's financial condition, liquidity and results of operations.

Liquidity Risk

The Company manages its capital to maintain its ability to continue as a going concern and to provide adequate returns to shareholders by way of share appreciation and dividends. The capital structure of the Company consists of external debt and shareholders' equity, which comprises issued capital, contributed surplus and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, share repurchases, the payment of dividends, increasing or decreasing debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company's strategy, objectives, measures, definitions and targets have not changed significantly from the prior period.

The Company's revolving credit and term debt facilities must be renewed on a periodic basis. These facilities contain restrictions on the Company's ability to, among other things, pay dividends, sell or transfer assets, incur additional debt, repay other debt, make certain investments or acquisitions, repurchase or redeem shares and engage in alternate business activities. The facilities also contain a number of covenants that require the Company to maintain certain specified financial ratios. Failure to meet any of these covenants could result in an event of default under these facilities which could, in turn, allow the lenders to declare all amounts outstanding to be immediately due and payable. In such a case, the financial condition, liquidity and results of operations of the Company could materially suffer.

The Company has been successful in renewing and expanding the revolving credit and term debt facilities in the past. If the Company were unable to renew these facilities on acceptable terms when they became due, however, there could be a material adverse effect on the Company's financial condition, liquidity and results of operations.

Future Capital Needs

The Company believes that the cash flow expected to be provided by operations during 2014, coupled with the available loan facilities and the proceeds of the common share equity offering completed on November 12, 2013 will be sufficient in the near term to meet operational requirements, purchase leased assets, meet capital spending requirements and pay dividends. Additionally, the Company is able to manage the growth of its consumer loans receivable portfolio based on the amount of available financing.

The Company has publicly stated that it intends to significantly expand its consumer lending business. To achieve this goal, it will require additional funds which can be obtained through various sources, including debt or equity financing. There can be no assurance, however, that additional funding will be available when needed or will be available on terms acceptable to the Company. If additional funds are raised by issuing equity securities, shareholders may incur dilution.

Operational Risk

Operational risk, which is inherent in all business activities, is the potential for loss as a result of external events, human behaviour (including error and fraud or other inappropriate behaviour) or inadequacy or the failure of processes, procedures or controls. The impact may include financial loss, loss of reputation, and loss of competitive position or regulatory or civil penalties. While operational risk cannot be eliminated, the Company continues to take steps to mitigate this risk. The financial measure of operational risk is the actual losses incurred. No material losses occurred as a result of operational risk in 2013.

Litigation

From time to time the Company may be involved in material litigation. There can be no assurance that any litigation in which the Company may become involved in the future will not have a material adverse effect on the Company's business, financial condition or results of operations.

Competition

Competition from U.S. based merchandise leasing companies and others in the Canadian market will increase the competition for customers and employees. Although the Company believes that such competition will stimulate industry growth, this increased competition could have a material adverse effect on the Company's operational results should the Company not be able to adequately respond to it.

Other factors that may adversely affect the Company's growth are further competition from merchandise rental businesses and, to a lesser extent, rental stores that do not offer a purchase option. The Company also competes with discount stores and other retail outlets that offer an installment sales program or offer comparable products and prices and with financial institutions and payday lenders that offer consumer loans. Furthermore, additional competitors, both domestic and international, may emerge since barriers to entry are relatively low.

The Company's financial services business occupies a market niche between traditional financial institutions and short-term pay-day lenders. As such, it competes with companies from each of these sectors. Competition is based primarily on access, flexibility and cost (interest rate). Since the Company's products are more affordable than pay-day loans while being more accessible and flexible than banks, the Company offers alternatives to customers that are not being adequately served by the incumbent participants in either of these market sectors. Although there may be other, larger companies that offer products similar to those offered by the Company's financial services business, the Company believes that the potential marketplace is sufficiently large enough that such competition will not adversely affect the Company's operational results in the near term.

Future Growth

The Company's growth strategy is focused on *easyfinancial*. The Company's ability to increase its customer and revenue base is contingent, in part, on its ability to secure additional stand-alone locations and evolve its delivery channels to access customers through means other than traditional retail locations. Revenue growth could be impacted significantly if the Company is not able to hire and train high quality management and staff to operate the stores and kiosks. The growth in the *easyfinancial* loan book could also be impaired if the Company is unable to secure adequate financing.

Credit Risk

The maximum exposure to credit risk is represented by the carrying amount of the amounts receivable, consumer loans receivable and assets on lease with customers under merchandise lease agreements. The Company leases products and makes consumer loans to thousands of customers and has policies and procedures that are intended to ensure that it has no concentration of credit risk with any particular individual, company or other entity, although the Company is subject to a higher level of credit risk due to the credit constrained nature of many of the Company's customers.

The credit risk related to amounts receivable and consumer loans receivable results principally from the possibility of default on rebate payments, consumer loans and amounts due from licensee and former related parties. The Company deals with reputable companies, performs ongoing credit evaluations of creditors and consumers and allows for uncollectible amounts where determined to be appropriate.

The credit risk on the Company's consumer loans receivable is also impacted by both the credit policies and the lending practices which are overseen by the Company's senior management.

The credit risk related to assets on lease with customers results from the possibility of customer default with respect to agreed payments. The Company has a collection process in place in the event of payment default, which concludes with the recovery of the lease asset if satisfactory payment terms cannot be worked out, as the Company maintains ownership of the lease assets until payment options are exercised.

The Company cannot guarantee that delinquency and loss levels will correspond with the historical levels experienced and there is a risk that delinquency and loss rates could increase significantly.

Interest Rate Risk

Interest rate risk measures the Company's risk of financial loss due to adverse movements in interest rates. The Company is subject to interest rate risk as all credit facilities bear interest at variable rates. The Company does not hedge interest rates and future changes in interest rates will affect the amount of interest expense payable by the Company.

Foreign Exchange

The Company sources some of its merchandise out of the U.S. and as such, the Company's Canadian operations have U.S. denominated cash and payables balances. In addition a significant portion of the revenue generated by the Company's franchising business is denominated in U.S. dollars. As a result, the Company has both foreign exchange transaction and translation risk.

Although *easyhome* has significant U.S. denominated purchases, the Company has historically been able to price its lease transactions to compensate for the impact of foreign currency fluctuations on its purchases. The Company currently does not actively hedge foreign currency risk and transacts in foreign currencies on a spot basis.

Technology Risk

The Company is dependent upon the successful and uninterrupted functioning of its computer, internet and data processing systems. The failure of these systems could interrupt operations or materially impact the Company's ability to enter into new lease or lending transactions and service customer accounts. Although the Company has extensive information technology security plans and disaster recovery plans, if sustained, such a failure could have a material adverse effect on the Company's financial condition, liquidity and results of operations.

Economic Conditions

Current uncertainty in general economic conditions may negatively affect the Company's financial results. A prolonged period of economic decline could have a material adverse effect on its results of operations and financial condition and exacerbate some of the other risk factors described herein. The Company can neither predict the impact current economic conditions will have on its future results, nor predict when the economic environment will change.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual amounts could differ from these estimates.

Key areas of estimation where management has made difficult, complex or subjective judgments often in respect of matters that are inherently uncertain are:

- consumer loan losses
- cost of lease assets
- depreciation of lease assets
- depreciation of property and equipment
- allocation of the purchase price in business combinations
- impairment and recovery of non-financial assets
- impairment of goodwill and indefinite life intangibles
- fair value of stock-based compensation
- provisions
- contingencies
- taxation amounts
- unearned revenue
- consolidation of SPEs

Significant changes in assumptions, including those with respect to future business plans and cash flows, could change the recorded amounts by a material amount.

The Company's critical accounting estimates are fully described in the Company's December 31, 2013 Notes to the Financial Statements.

Adoption of New Accounting Standards and Standards Issued But Not Yet Effective

Certain new accounting standards were adopted by the Company in 2013. There was no financial impact, however, of adopting these new accounting standards except for certain additional note disclosure requirements. Refer to the Company's December 31, 2013 Notes to the Financial Statements for a description of accounting standards adopted in the period and standards issued but not yet effective.

Internal Controls

Disclosure Controls and Procedures ["DC&P"]

DC&P are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company's management, including the Chief Executive Officer ["CEO"] and Chief Financial Officer ["CFO"], so that timely decisions can be made regarding disclosure.

The Company's management, under supervision of, and with the participation of, the CEO and CFO, have designed and evaluated the Company's DC&P, as required in Canada by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings". Based on this evaluation, the CEO and CFO have concluded that the design of the system of disclosure controls and procedures were effective as at December 31, 2013.

Internal Control over Financial Reporting ["ICFR"]

ICFR is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, to provide reasonable assurances regarding the reliability of financial reporting and preparation of the Company's consolidated financial statements in accordance with IFRS. Management is responsible for establishing and maintaining ICFR and designs such controls to attempt to ensure that the required objectives of these internal controls have been met. Management uses the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In designing and evaluating such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance and may not prevent or detect all misstatements as a result of, among other things, error or fraud. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and/or procedures may deteriorate.

Changes to ICFR During 2013

There were no material changes in the Company's ICFR that occurred or were finalized during the year ended December 31, 2013.

Evaluation of ICFR at December 31, 2013

As at December 31, 2013, under the direction and supervision of the CEO and CFO, the Company has evaluated the effectiveness of the Company's ICFR. The evaluation included a review of key controls, testing and evaluation of such test results. Based on this evaluation, the CEO and CFO have concluded that the design and operation of the Company's internal control over financial reporting were effective as at December 31, 2013.

Management’s Responsibility for Financial Reporting

The accompanying consolidated financial statements and the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) and include some amounts based on management’s best estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

easyhome Ltd. maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, financial records are accurate and reliable, and the Company’s assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out its responsibility for the financial statements through its Audit Committee. This Committee meets periodically with management and the external auditors to review the financial statements and the annual report and to discuss audit, financial and internal control matters. The Company’s external auditors have full and free access to the Audit Committee.

The financial statements have been subject to an audit by the Company’s external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

David Ingram
President and Chief Executive Officer

Steve Goertz
Senior Vice President & Chief Financial Officer

Independent Auditors' Report

To the Shareholders of *easyhome* Ltd.

We have audited the accompanying consolidated financial statements of easyhome Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of *easyhome* Ltd. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 5, 2014

Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)		As at December 31, 2013	As at December 31, 2012
ASSETS			
Cash	Note 6	**2,329**	4,631
Amounts receivable	Note 7	**7,206**	5,536
Prepaid expenses		**1,699**	964
Consumer loans receivable	Note 8	**103,936**	66,584
Lease assets	Note 9	**68,453**	68,075
Property and equipment	Note 10	**15,793**	13,729
Deferred tax assets	Note 18	**3,997**	4,232
Intangible assets	Note 11	**9,524**	6,213
Goodwill	Note 11	**19,963**	19,963
TOTAL ASSETS		**232,900**	189,927
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Bank revolving credit facility	Note 13	**23,496**	21,281
Accounts payable and accrued liabilities		**24,301**	33,155
Income taxes payable		**3,929**	4,216
Dividends payable	Note 15	**1,130**	1,012
Deferred lease inducements		**2,749**	2,462
Unearned revenue		**3,763**	3,922
Provisions	Note 14	**21**	536
Term loan	Note 13	**37,878**	18,330
TOTAL LIABILITIES		**97,267**	84,914
Contingencies	Note 22		
Shareholders' equity			
Share capital	Note 15	**79,923**	60,885
Contributed surplus	Note 16	**4,169**	3,035
Accumulated other comprehensive income (loss)		**307**	(137)
Retained earnings		**51,234**	41,230
TOTAL SHAREHOLDERS' EQUITY		**135,633**	105,013
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**232,900**	189,927

See accompanying notes to the consolidated financial statements

On behalf of the Board:

David Ingram, Director

Donald K. Johnson, Director

Consolidated Statements of Income

(expressed in thousands of Canadian dollars except earnings per share)		Year Ended December 31, 2013	Year Ended December 31, 2012
REVENUE			
Lease revenue		**153,347**	156,049
Interest income		**37,581**	24,701
Other		**27,886**	18,923
		218,814	199,673
EXPENSES BEFORE DEPRECIATION AND AMORTIZATION			
Salaries and benefits		**66,127**	63,885
Stock based compensation	Note 16	**3,803**	2,035
Advertising and promotion		**7,379**	7,757
Bad debts		**14,800**	9,779
Occupancy		**26,232**	25,832
Distribution and travel		**6,988**	7,300
Other		**14,808**	12,988
Restructuring and other items	Note 17	**–**	(378)
		140,137	129,198
DEPRECIATION AND AMORTIZATION			
Depreciation of lease assets		**48,078**	48,379
Depreciation of property and equipment		**4,389**	4,019
Amortization of intangible assets		**1,309**	621
Impairment, net	Note 10	**(64)**	(253)
		53,712	52,766
Total operating expenses		**193,849**	181,964
Operating income		**24,965**	17,709
Finance costs	Note 13	**5,638**	2,643
Income before income taxes		**19,327**	15,066
Income tax expense (recovery)	Note 18		
Current		**4,554**	5,309
Deferred		**591**	(1,300)
		5,145	4,009
Net income		**14,182**	11,057
Basic earnings per share	Note 19	**1.16**	0.92
Diluted earnings per share	Note 19	**1.15**	0.92

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

(expressed in thousands of Canadian dollars)	Year Ended December 31, 2013	Year Ended December 31, 2012
Net income	**14,182**	11,057
Other comprehensive income (loss)		
Change in foreign currency translation reserve	**444**	(300)
Transfer of realized translation losses	**–**	215
Comprehensive income	**14,626**	10,972

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

(expressed in thousands of Canadian dollars)		Share Capital	Contributed Surplus	Total Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2012		**60,885**	**3,035**	**63,920**	**41,230**	**(137)**	**105,013**
Common shares issued		**19,038**	**–**	**19,038**	**–**	**–**	**19,038**
Stock-based compensation	Note 16	**–**	**1,134**	**1,134**	**–**	**–**	**1,134**
Comprehensive income (loss)		**–**	**–**	**–**	**14,182**	**444**	**14,626**
Dividends		**–**	**–**	**–**	**(4,178)**	**–**	**(4,178)**
Balance, December 31, 2013		**79,923**	**4,169**	**84,092**	**51,234**	**307**	**135,633**
Balance, December 31, 2011		60,207	3,171	63,378	34,216	(52)	97,542
Common shares issued		678	–	678	–	–	678
Stock-based compensation	Note 16	–	(136)	(136)	–	–	(136)
Comprehensive income (loss)		–	–	–	11,057	(85)	10,972
Dividends		–	–	–	(4,043)	–	(4,043)
Balance, December 31, 2012		60,885	3,035	63,920	41,230	(137)	105,013

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)		Year Ended December 31, 2013	Year Ended December 31, 2012
OPERATING ACTIVITIES			
Net income		**14,182**	11,057
Add (deduct) items not affecting cash			
Depreciation of lease assets		**48,078**	48,379
Depreciation of property and equipment		**4,389**	4,019
Impairment, net	Note 10	**(64)**	(253)
Amortization of intangible assets		**1,309**	621
Stock-based compensation	Note 16	**1,134**	188
Bad debt expense		**14,800**	9,779
Deferred income tax expense (recovery)		**235**	(1,299)
Gain on sale of property and equipment		**(1,259)**	(2,429)
		82,804	70,062
Net change in other operating assets and liabilities	Note 20	**(11,815)**	19,519
Net issuance of consumer loans receivable		**(52,152)**	(31,425)
Cash provided by operating activities		**18,837**	58,156
INVESTING ACTIVITIES			
Purchase of lease assets		**(49,423)**	(55,446)
Purchase of property and equipment		**(6,693)**	(6,145)
Purchase of intangible assets		**(4,540)**	(2,846)
Purchase of goodwill		**–**	(2,639)
Proceeds on sale of property and equipment		**2,776**	9,727
Cash used in investing activities		**(57,880)**	(57,349)
FINANCING ACTIVITIES			
Advances (repayments) of bank revolving credit facility		**2,215**	(11,842)
Advances of term loan		**19,548**	18,330
Payment of common share dividends	Note 15	**(4,060)**	(4,038)
Redemption of deferred share units		**–**	(78)
Issuance of common shares	Note 15	**19,038**	433
Cash provided by financing activities		**36,741**	2,805
Net (decrease) increase in cash during the period		**(2,302)**	3,612
Cash, beginning of period		**4,631**	1,019
Cash, end of period		**2,329**	4,631

See accompanying notes to the consolidated financial statements

1. Corporate Information

easyhome Ltd. [“Parent Company”] was incorporated under the laws of Alberta, Canada by Certificate and Articles of Incorporation dated December 14, 1990 and was continued as a corporation in Ontario pursuant to Articles of Continuance dated July 22, 1993. The Parent Company has common shares listed on the Toronto Stock Exchange [“TSX”]. The Parent Company’s head office is located in Mississauga, Ontario, Canada.

The Company’s principal operating activities include i) merchandise leasing of household furnishings, appliances and home electronic products to consumers under weekly or monthly leasing agreements, and ii) offering unsecured instalment loans to consumers.

The Company operates in two reportable segments: *easyhome* Leasing and *easyfinancial*. As at December 31, 2013, the Company operated 237 *easyhome* Leasing stores (including 55 franchises and 9 consolidated SPE franchises) and 119 *easyfinancial* locations (2012 – 253 *easyhome* Leasing stores including 49 franchises and 9 consolidated SPE locations, and 100 *easyfinancia*l locations).

2. Basis of Preparation

The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2014.

Statement of Compliance with IFRS

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board [“IASB”]. The policies applied in these consolidated financial statements were based on IFRS issued and outstanding as at December 31, 2013.

3. Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company, all wholly owned subsidiaries where control is established by the Parent Company’s ability to determine strategic, operating, investing and financing policies without the cooperation of others, and certain special purposes entities [“SPEs”] where control is achieved on a basis other than through ownership of a majority of voting rights [collectively referred to as “*easyhome*” or the “Company”].

As at December 31, 2013, the Parent Company’s principal subsidiaries were:

- RTO Asset Management Inc.
- *easyfinancial* Services Inc. [“*easyfinancial*”]
- *easyhome* U.S. Ltd.

The Company’s SPE’s consisted of certain franchises for which the Company exerts effective control by the provision of financing rather than through ownership of a majority of voting rights. An entity is controlled when the Company has power over an entity, exposure, or rights, to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company’s SPEs are fully consolidated from the date at which the Company obtains control, until the date that such control ceases. Control ceases when the SPE has the ability to operate as a stand-alone entity without financial and operational support from the Company, which is generally considered to be the date at which the SPE repays the amounts loaned to it by the Company.

The financial statements of the subsidiaries and SPEs were prepared for the same reporting period as the consolidated financial statements of the Parent Company using consistent accounting policies as described in these consolidated financial statements.

All intra-group transactions and balances were eliminated on consolidation.

Presentation Currency

The consolidated financial statements are presented in Canadian dollars ["CAD"], which is the Parent Company's functional currency. The functional currency is the currency of the primary economic environment in which a reporting entity operates and is normally the currency in which the entity generates and expends cash. All financial information presented in CAD has been rounded to the nearest thousand, unless noted otherwise.

Foreign Currency Translation

The Parent Company's presentation and functional currency is the Canadian dollar. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Company's U.S. subsidiary, *easyhome* U.S. Ltd., is the U.S. dollar. The functional currency of all other entities in the Company is the Canadian dollar.

Foreign currency transactions are initially recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate on the reporting date. All differences are recorded in comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The assets and liabilities of foreign operations are translated into CAD at the rate of exchange prevailing at the reporting date and items in comprehensive income are translated at the average exchange rates prevailing for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of accumulated other comprehensive income relating to that particular foreign operation is recognized in net income.

The Parent Company has monetary items that are receivable from foreign operations. A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the Parent Company's net investment in that foreign operation. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized in income in the separate financial statements of the foreign operation. In the consolidated financial statements such exchange differences are recognized initially in other comprehensive income and reclassified from accumulated other comprehensive income to net income on disposal of the net investment in foreign operations.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding promotional discounts, rebates and sales taxes. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements except for the sale of certain customer protection products where it acts as agent and therefore recognizes such revenue on a net basis.

i) Lease Revenue

Merchandise is leased to customers pursuant to agreements that provide for weekly or monthly lease payments collected in advance. The lease agreements can be terminated by the customer at the end of the weekly or monthly lease period without any further obligation or cost to the customer.

Lease revenue consists of lease payments, product damage liability waivers and processing and other fees. Revenue from lease agreements is recognized when earned. Lease revenue also consists of revenue from the ultimate sale of goods to customers which represents the culmination of the lease asset life cycle and occurs when title passes to the customer. Such revenue is measured at the fair value of the consideration received or receivable.

ii) Interest Revenue

Interest revenue from consumer loans receivable is recognized when earned using the effective interest rate method.

iii) Other Revenue

Other revenue consists primarily of the sale of customer protection products, revenue generated from franchising including royalties and franchise fees, and other fees, all of which are recognized when earned.

Vendor Rebates

The Company participates in various vendor rebate programs, including vendor volume rebates and vendor advertising incentives. The Company records the benefit of vendor volume rebates on purchases made as a reduction of lease assets based on the rebate amounts the Company believes are probable and reasonably estimable during the term of each rebate program. Vendor advertising incentives that are related to specific advertising programs are accounted for as a reduction of the related expenses.

Cash

Cash is comprised of bank balances, cash on hand, and demand deposits, adjusted for in-transit items such as outstanding cheques and deposits.

Financial Assets

Financial assets consist of amounts receivable and consumer loans receivable, which are stated net of an allowance for loan losses. Financial assets are initially measured at fair value.

Amounts receivable are subsequently measured at amortized cost and are carried at the amount of cash expected to be received.

The Company's consumer loans receivable are subsequently measured at amortized cost. Amortized cost is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the consumer loans receivable to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future loan losses. There are no significant incremental costs incurred in writing consumer loans.

The Company does not have any financial assets that are subsequently measured at fair value.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from an asset.

Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the event has a negative impact on the estimated cash flows of the financial asset and the loss can be reliably estimated.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized as a bad debts expense. The allowance for loan losses consists of both specific allowances on identified impaired loans and an estimate of incurred losses in the loan portfolio that have not yet been identified based on an assessment of historical loss rates and patterns. Loans identified as impaired are written down to the net present value of the expected cash flows using the effective interest rate method.

Financial assets, together with the associated allowances, are written off when there is no realistic prospect of further recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to bad debts expense.

Lease Assets

Lease assets are stated at cost net of accumulated depreciation and accumulated impairment losses, if any.

The cost of lease assets comprises their purchase price and any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. Vendor volume rebates are recorded as a reduction of the cost of lease assets.

As the leases are effectively cancellable by the customer with a week's notice, and there are no bargain purchase option provided to the customer, the customer leases are considered operating in nature. Lease agreements entitle customers to buy out a lease asset earlier in accordance with conditions stipulated in the lease agreement.

The residual value, useful life and depreciation method of the lease assets are reviewed at each financial year end, and if expectations differ from previous estimates, they are adjusted and the changes are accounted for prospectively as a change in accounting estimates. In the event management determines that the Company can no longer lease or sell certain lease assets, they are written off. The residual value of lease assets is nominal.

Depreciation on lease assets is charged to net income as follows:

- Assets on lease, excluding game stations, computers and related equipment, are depreciated in proportion to the lease payments received to the total expected lease amounts provided over the lease agreement term [the "units of activity method"]. Lease assets that are subject to the units of activity method of depreciation that are not on lease for less than 90 consecutive days are not depreciated during such period. After that they are depreciated on a straight-line basis over 36 months. When an asset goes on lease, depreciation will revert to the units of activity method.
- Game stations are depreciated on a straight-line basis over 18 months. Computers and related equipment are depreciated on a straight-line basis over 24 months. The depreciation for game stations, computers and related equipment commences at the earlier of the date of the first lease or 90 days after arrival in the store and continues uninterrupted thereafter on a straight-line basis over the periods indicated.
- Depreciation for all lease assets includes the remaining book value at the time of disposition of the lease assets that have been sold and amounts which have been charged off as stolen, lost or no longer suitable for lease.

The Company's lease assets are subject to theft, loss or other damage from its customers. The Company records a provision against the carrying value of lease assets for estimated losses.

Property and Equipment

The cost of property and equipment comprises their purchase price and any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

Property and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other expenses are charged to net income as repairs and maintenance expense when incurred.

Depreciation on property and equipment is charged to net income.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Category	Estimated Useful Lives
Furniture and fixtures	7 Years
Computer and office equipment	5 and 7 Years
Automotive	5 Years
Signage	7 Years
Leasehold improvements	The lesser of 5 years or lease term

Property and equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gains or losses arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) are included in net income in the period the assets are derecognized.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their estimated fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in net income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period for potential impairment indicators. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in net income.

Customer lists and software are amortized over their estimated useful lives of five years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Company's trademarks have been assessed to have an indefinite life.

Gains or losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amounts of the asset and are recognized in net income when the assets are derecognized.

Development Costs

Development costs, including those related to the development of software, are recognized as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of the expected future benefit. During the period of development, the asset is tested for impairment annually.

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations incurred subsequent to January 1, 2010 are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the fair values of the assets, liabilities and contingent liabilities can only be calculated on a provisional basis, the business combination is recognized initially using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within twelve months of the date of acquisition.

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortized. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's operating segments that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those segments.

Impairment of Non-financial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset or a cash-generating unit ["CGU"] may be impaired. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that this is at the individual store level.

If an indication of impairment exists, or when annual testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case it is determined for the CGU to which the asset belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs to sell, an appropriate valuation model is used. In cases where fair value less costs to sell cannot be estimated, value in use is utilized as the basis to determine the recoverable amount. Impairment losses are recognized in net income.

The impairment test calculations are based on detailed budgets and forecasts which are prepared annually for each CGU to which the assets are allocated. These budgets and forecasts generally cover a period of five years with a long-term growth rate applied after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset or CGU does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized in net income.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each group of CGUs to which the goodwill relates. Where the recoverable amount of the CGUs is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level and when circumstances indicate that the carrying value may be impaired.

Financial Liabilities

Financial liabilities are initially recognized at fair value and in the case of loans and borrowings, they are recognized at the fair value of proceeds received, net of directly attributable transaction costs. The Company's financial liabilities include a bank revolving credit facility, interest-bearing loans and borrowings and accounts payable and accrued liabilities.

After initial recognition, the Company's interest bearing debt is subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any fees or costs related to the interest bearing debt. Interest expense is included in finance costs.

Non-interest bearing financial liabilities, such as accounts payable and accrued liabilities are carried at the amount owing.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Any gains or losses are recognized in net income when liabilities are derecognized.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

i) Company as a Lessee

Finance leases which transfer substantially all the risks and rewards incidental to ownership of the leased item are capitalized at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Subsequent lease payments are apportioned between finance charges and a reduction of the lease liability. Finance charges are recognized in net income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. The Company has not entered into any finance leases.

Operating lease payments (net of any amortization of incentives) are expensed as incurred. Incentives received from the lessor to enter into an operating lease are capitalized and depreciated over the term of the lease.

ii) Company as a Lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. The leasing income is recognized on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

The Company is in the business of leasing assets. As the leases are effectively cancellable by the customer with a week's notice, and there are no bargain purchase option provided to the customer, the customer leases are considered operating in nature.

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, and the costs to settle the obligation are both probable and reliably measurable. Where there is expected to be a reimbursement of some or all of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted. Where discounting is used, the increase in the provision as a result of the passage of time is recognized as a finance cost.

Contingencies

Contingent liabilities are recognized in the consolidated financial statements where the likelihood of the obligation arising is considered probable and measurable by management. Contingent assets are not recognized in the consolidated financial statements even if probable, rather note disclosure is provided. Probable is defined as being more than 50% likely to occur.

Taxes

i) Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the end of the reporting period.

Current income tax assets and liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current income tax relating to items recognized directly in equity is recognized in equity and not in net income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

ii) Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deductible income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The following temporary differences do not result in deferred income tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- goodwill; and
- investment in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will be available to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

iii) Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of amounts receivable or accounts payable and accrued liabilities in the consolidated statements of financial position.

Stock-based Payment Transactions

The Company has stock-based compensation plans as described in note 16.

i) Equity-Settled Transactions

The Company has stock options, Restricted Share Units ["RSU"] and Deferred Share Units ["DSU"] which are currently accounted for as equity-settled awards. The cost of such equity-settled transactions is measured by reference to the fair value determined using the market value on the grant date or the Black-Scholes option valuation model, as appropriate. The inputs into this model are based on management's judgments and estimates.

The cost of equity-settled transactions is charged to net income, with a corresponding increase in contributed surplus, over the period in which the performance and or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized at the beginning and end of that period and is recognized in stock based compensation expense.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified and if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they are a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled awards are treated equally.

ii) Cash-Settled Transactions

The Company has Performance Share Units ["PSU"] which mirror the value of the Company's publicly-traded common shares and can only be settled in cash ["cash-settled transactions"]. The cost of cash-settled transactions is measured initially at fair value at the grant date. The liability is remeasured to fair value, at each reporting date up to and including the settlement date, based on the value of the Company's publicly-traded common shares and the Company's best estimate of the number of cash-settled instruments that will ultimately vest. Changes in fair value are recognized in stock based compensation expense.

The cost of cash-settled transactions is charged to net income, with a corresponding increase in liabilities, over the period in which the performance and or service conditions are fulfilled. The cumulative expense recognized for cash-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of cash-settled instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized during the period and is recognized in stock based compensation expense.

No expense is recognized for awards that do not ultimately vest.

Earnings Per Share

Basic earnings per share is computed by dividing the net income by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the treasury stock method, which assumes that the cash that would be received on the exercise of options and warrants is applied to purchase shares at the average price during the period and that the difference between the shares issued upon exercise of the options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

These accounting judgments, estimates and assumptions are continuously evaluated and are based on management's historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates, which could materially impact these consolidated financial statements. Changes in estimates will be reflected in the consolidated financial statements in future periods.

Key areas of estimation where management has made difficult, complex or subjective judgments often in respect of matters that are inherently uncertain are as follows:

i) Consumer Loan Losses

The allowance for loan losses consists of both specific allowances on identified impaired loans and an estimate of incurred losses in the loan portfolio that have not yet been identified based on an assessment of historical loss rates and patterns.

ii) Cost of Lease Assets

Lease assets are recorded at cost, including freight. Vendor volume rebates are recorded as a reduction of the cost of lease assets and are determined based on the rebate amounts the Company believes are probable and reasonably estimable during the term of each rebate program.

iii) Depreciation of Lease Assets

Assets on lease, (excluding game stations, computers and related equipment) are depreciated in the proportion of lease payments received to total expected lease amounts provided over the lease agreement term, which are estimated by management for each product category.

iv) Depreciation of Property and Equipment

Property and equipment are recorded at cost, including freight, and are depreciated on a straight-line basis over their estimated useful lives, which are estimated by management for each class of asset.

v) Allocation of the Purchase Price in Business Combinations

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuation of property, plant and equipment, intangible assets, and goodwill, among other items.

vi) Impairment on Non-Financial Assets

The indicators of impairment are based on management's judgment. If an indication of impairment exists, or when annual testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the recoverable amount, management estimates the asset's or CGU's value in use. Value in use is based on the estimated future cash flows of the asset or CGU discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment test calculations are based on detailed budgets and forecasts which are prepared for each CGU to which the assets are allocated. These budgets and forecasts generally cover a period of three years with a long-term growth rate applied after the third year. Key areas of management judgment involve the three-year cash flow forecast, the growth rate applied to cash flows subsequent to the three years and the discount rate.

vii) Impairment of Goodwill and Indefinite Life Intangibles

In assessing the recoverable amount, management estimated the group of CGU's value in use. Value in use is based on the estimated future cash flows of the asset or CGU discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The impairment test calculations are based on detailed budgets and forecasts which are prepared for each CGU to which the assets are allocated. These budgets and forecasts generally cover a period of three years with a long-term growth rate applied after the third year. Key areas of management judgment involve the three-year cash flow forecast, the growth rate applied to cash flows subsequent to the three years and the discount rate.

viii) Fair Value of Stock-Based Compensation

The fair value of stock options granted is measured at the grant date using either the related market value or the Black-Scholes option valuation model, as appropriate. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. The Company's share options have characteristics significantly different from those of freely traded options and because changes in subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a single reliable measure of the fair value of the unit options granted.

The vesting of the Company's stock-based compensation plans is based on the expected achievement of long-term targets, the assessment of which is subject to management's judgment.

ix) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, and the costs to settle the obligation are both probable and reliably measurable, as determined by management.

x) Contingencies

Contingent liabilities are recognized in the consolidated financial statements where the likelihood of the obligation arising is deemed probable and measurable by management. Contingent assets are not recognized in the consolidated financial statements even if probable; rather note disclosure is provided. Probable is defined as being more than 50% likely to occur as determined by management.

xi) Taxation Amounts

Income tax provisions, including current and deferred income tax assets and liabilities, may require estimates and interpretations of federal and provincial income tax rules and regulations and judgments as to their interpretation and application to the Company's specific situation. Therefore, it is possible that the ultimate value of the tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on the Company's consolidated financial statements.

xii) Unearned Revenue

Unearned revenue includes lease fees that have not yet been earned and processing fees that are received at the inception of a consumer lease. The processing fees are recognized into income over the expected life of the lease agreement, as estimated by management.

xiii) Consolidated SPE Franchises

The Company consolidates certain SPE franchises for which it does not have ownership of a majority of voting shares, based on whether the Company effectively exerts control over the entity as determined by management. An entity is controlled when the Company has power over an entity, exposure, or rights, to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity.

4. Adoption of Accounting Standards

On January 1, 2013, the Company applied, for the first time, certain standards and amendments. None of these changes had any impact on the Company's consolidated financial statements other than additional disclosure requirements as described below.

IAS 1 Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 changed the grouping of items presented in other comprehensive income. Items within other comprehensive income that may be reclassified to net income or loss are required to be separated from items that will not. This amendment did not have an impact on the Company's financial position, financial performance or note disclosures.

IAS 34 Interim Financial Reporting and Segment Information for Total Assets and Liabilities (Amendment)

The amendment to IAS 34 clarified the requirements relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8, Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Company has removed its disclosure of segment asset and liabilities as these amounts are not regularly provided to the chief operating decision maker.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)

The amendment required an entity to disclose information about rights to set off financial instruments and related arrangements (e.g., collateral agreements). The new disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. This amendment did not have an impact on the Company's disclosures.

IFRS 10 Consolidated Financial Statements

IFRS 10 established a single control model that applied to all entities including SPEs. IFRS 10 replaced the parts of previously existing IAS 27, Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 changed the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. Based on an assessment of the Company's power and control over SPE franchises, these entities continue to meet the requirements to be consolidated and therefore the adoption of IFRS 10 did not have an impact on the Company's financial position, financial performance or note disclosures.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard requires additional considerations in determining whether an entity is consolidated as part of the consolidated financial statements, and the disclosure of these considerations. The adoption of this standard did not have an impact on the Company's financial position or financial performance, however, it required additional disclosures that have been included as part of the Company's significant accounting policies in note 3.

IFRS 13 Fair Value Measurement

IFRS 13 established a single source of guidance under IFRS for all fair value measurements. IFRS 13 did not change when an entity was required to use fair value, but rather provided guidance on how to measure fair value under IFRS when fair value was required or permitted. The application of IFRS 13 did not impact the fair value measurements carried out by the Company. IFRS 13 also required specific disclosures on fair values, some of which replaced existing disclosure requirements in other standards, including IFRS 7, Financial Instruments: Disclosures. The adoption of IFRS 13 did not have an impact on the Company's financial position or financial performance. The new standard required additional disclosures of a fair value hierarchy table, including financial assets and liabilities that are measured at amortized cost. See note 25 for the application of this standard.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5. Standards Issued But Not Yet Effective

IFRS 9 Financial Instruments

The Company will be required to adopt IFRS 9, Financial Instruments, which is the first phase of the IASB's project to replace IAS 39. On November 19, 2013, the IASB decided that the previously set mandatory effective date of January 1, 2015 would not allow sufficient time for entities to prepare to apply IFRS 9, and that a new date should be determined when IFRS 9 is closer to completion. IFRS 9 will provide new requirements for the way in which an entity should classify and measure financial assets and liabilities that are in the scope of IAS 39, with a final standard targeted in the first half of 2014. The Company has not yet assessed the impact of this standard.

6. Cash

(in $000's)	December 31, 2013	December 31, 2012
Cash on hand and at banks	**2,329**	4,631

7. Amounts Receivable

(in $000's)	December 31, 2013	December 31, 2012
Vendor rebate receivable	**964**	1,075
Due from franchisees	**2,014**	1,736
Loan interest receivable	**1,573**	1,021
Other	**2,655**	1,704
	7,206	5,536
Current	**5,661**	4,536
Non-current	**1,545**	1,000
	7,206	5,536

Other amounts receivable consist of amounts due from customers, indirect taxes, insurance and other items.

8. Consumer Loans Receivable

Consumer loans receivable represent amounts advanced to customers of *easyfinancial*. Loan terms generally range from 6 to 36 months.

(in $000's)	December 31, 2013	December 31, 2012
Consumer loans receivable	**110,704**	70,658
Allowance for loan losses	**(6,768)**	(4,074)
	103,936	66,584
Current	**55,444**	34,425
Non-current	**48,492**	32,159
	103,936	66,584

An aging analysis of consumer loans receivable past due is as follows:

	December 31, 2013		December 31, 2012	
(in $000's except percentages)	$	% of total loans	$	% of total loans
1 – 30 days	**5,445**	**4.9%**	2,822	4.0%
31 – 44 days	**811**	**0.7%**	543	0.8%
45 – 60 days	**855**	**0.8%**	589	0.8%
61 – 90 days	**1,005**	**0.9%**	796	1.1%
	8,116	**7.3%**	4,750	6.7%

The changes in the allowance for loan losses are summarized below:

	Year Ended	
(in $000's)	December 31, 2013	December 31, 2012
Balance, beginning of year	**4,074**	2,627
Net amounts written off against allowance	**(12,106)**	(8,293)
Increase due to lending and collection activities	**14,800**	9,740
Balance, end of year	**6,768**	4,074

9. Lease Assets

(in $000's)	Total
Cost	
As at December 31, 2011	111,842
Additions	51,887
Acquisitions (note 11)	3,559
Disposals	(65,348)
Foreign exchange differences	119
As at December 31, 2012	102,059
Additions	49,423
Disposals	(51,606)
Foreign exchange differences	221
As at December 31, 2013	**100,097**
Accumulated Depreciation	
As at December 31, 2011	(44,846)
Depreciation for the year	(48,379)
Disposals	59,281
Foreign exchange differences	(40)
As at December 31, 2012	(33,984)
Depreciation for the year	(48,078)
Disposals	50,462
Foreign exchange differences	(44)
As at December 31, 2013	**(31,644)**
Net Book Value	
As at December 31, 2012	68,075
As at December 31, 2013	**68,453**

10. Property And Equipment

(in $000's)	Furniture and Fixtures	Computer and Office Equipment	Automotive	Signage	Leasehold Improvements	Total
Cost						
As at December 31, 2011	10,387	10,302	461	4,960	14,358	40,468
Additions	1,735	858	–	472	2,367	5,432
Acquisitions (note 11)	156	5	–	–	552	713
Disposals	(1,303)	(1,852)	(4)	(677)	(1,747)	(5,583)
Foreign exchange differences	6	2	–	2	9	19
As at December 31, 2012	10,981	9,315	457	4,757	15,539	41,049
Additions	1,818	1,324	–	605	2,946	6,693
Disposals	(420)	(2,850)	(183)	(294)	(881)	(4,628)
Foreign exchange differences	27	11	2	9	51	100
As at December 31, 2013	**12,406**	**7,800**	**276**	**5,077**	**17,655**	**43,214**
Accumulated Depreciation and Provision for Impairment						
As at December 31, 2011	(6,192)	(6,898)	(258)	(3,673)	(10,835)	(27,856)
Depreciation	(1,029)	(1,014)	(76)	(364)	(1,536)	(4,019)
Provision for impairment	(263)	(114)	–	(142)	(415)	(934)
Recovery of impairment	305	162	–	220	500	1,187
Disposals	794	1,649	2	441	1,421	4,307
Foreign exchange differences	(2)	(1)	–	–	(2)	(5)
As at December 31, 2012	(6,387)	(6,216)	(332)	(3,518)	(10,867)	(27,320)
Depreciation	(1,170)	(909)	(60)	(413)	(1,837)	(4,389)
Provision for impairment	(53)	(40)	–	(7)	(35)	(135)
Recovery of impairment	7	7	–	47	138	199
Disposals	333	2,784	159	236	730	4,242
Foreign exchange differences	(4)	(1)	(1)	(1)	(11)	(18)
As at December 31, 2013	**(7,274)**	**(4,375)**	**(234)**	**(3,656)**	**(11,882)**	**(27,421)**
Net Book Value						
As at December 31, 2012	4,594	3,099	125	1,239	4,672	13,729
As at December 31, 2013	**5,132**	**3,425**	**42**	**1,421**	**5,773**	**15,793**

The amount of property and equipment classified as under construction or development and not being amortized was $1.8 million as at December 31, 2013 (2012 – $0.1 million).

Various impairment indicators were used to determine the need to test a cash-generating unit ["CGU"] for impairment. A CGU was defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company determined that this was at the individual store level. Examples of impairment indicators include a significant decline in revenue, performance significantly below budget and expectations and negative CGU operating income. Where these impairment indicators existed, the carrying value of the assets within a CGU was compared with its estimated recoverable value which was generally considered to be the

CGU's value in use. When determining the value in use of a CGU, the Company developed a discounted cash flow model for the individual CGU. Sales and cost forecasts were based on actual operating results, three-year operating budgets consistent with strategic plans presented to the Company's Board of Directors and a 3% long-term growth rate consistent with industry practice. The pre-tax discount rate used on the forecasted cash flows was 17%. Where the carrying value of the CGU's assets exceeded the recoverable amounts, as represented by the CGU's value in use, the store's property and equipment assets were written down. It was concluded that, due to the portability of lease assets held within the CGU and the cash flows generated by individual lease assets, no impairment write-down of the lease assets was required. As such, the CGU impairment charge was limited to the property and equipment held by the impaired CGU.

For the year ended December 31, 2013, the Company recorded an impairment charge of $135 (2012 – $934) offset by an impairment recovery of $199 (2012 – recovery of $1,187). The net impairment recovery for 2013 was $64 (2012 – recovery of $253). All impairment charges and recoveries relate solely to the *easyhome* Leasing segment.

11. Intangible Assets And Goodwill

	Intangible Assets			
(in $000's)	Trademarks	Customer Lists	Software	Total
Cost				
As at December 31, 2011	1,722	235	3,686	5,643
Additions	–	–	2,519	2,519
Acquisitions (note 12)	–	327	–	327
Disposals	–	(224)	(132)	(356)
Foreign exchange differences	(13)	(11)	–	(24)
As at December 31, 2012	1,709	327	6,073	8,109
Additions	–	–	4,540	4,540
Disposals	–	–	(902)	(902)
Foreign exchange differences	118	–	–	118
As at December 31, 2013	**1,827**	**327**	**9,711**	**11,865**
Accumulated Amortization and Provision for Impairment				
As at December 31, 2011	–	(105)	(1,412)	(1,517)
Amortization for the year	–	(45)	(576)	(621)
Disposals	–	151	92	243
Foreign exchange differences	–	(1)	–	(1)
As at December 31, 2012	–	–	(1,896)	(1,896)
Amortization for the year	–	(60)	(1,249)	(1,309)
Disposals	–	–	864	864
Foreign exchange differences	–	–	–	–
As at December 31, 2013	**–**	**(60)**	**(2,281)**	**(2,341)**
Net Book Value				
As at December 31, 2012	1,709	327	4,177	6,213
As at December 31, 2013	**1,827**	**267**	**7,430**	**9,524**

Trademarks are considered indefinite life intangible assets as there is no foreseeable limit to the period over which the assets are expected to generate net cash flows. Trademarks were purchased and were not internally generated.

Included in software additions for the year ended December 31, 2013 are $4.4 million (2012 – $2.3 million) of internally developed software application and website costs.

Goodwill was $20.0 million as at December 31, 2013 (2012 – $20.0 million). There were no disposals or impairments applied to goodwill during the years ended December 31, 2013 and 2012.

Goodwill and indefinite life intangible assets are allocated to the appropriate group of CGUs to which they relate. The carrying value of goodwill is fully allocated to the Canadian leasing CGUs, and the carrying value of indefinite life intangible assets, or trademarks, are fully allocated to the U.S. franchising CGUs. Impairment testing is performed annually and was performed as at December 31, 2013 and December 31, 2012. The impairment test consisted of comparing the carrying value of assets within the aforementioned grouping of CGUs to the recoverable amount of that grouping as measured by discounting the expected future cash flows, or its value in use. The discounted cash flow model was based on historical operating results, detailed sales and cost forecasts over a five-year period, a 3% long-term growth rate consistent with industry averages, and a pre-tax discount rate used on the forecasted cash flows of 17%, all of which were consistent with the strategic plans presented to the Company's Board of Directors.

Based on the analysis performed by management, no impairment charge was required on goodwill or the intangible assets.

12. Business Combination

On December 31, 2012, the Company entered into an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by the Company in the United States and the purchase of the assets and operations of 15 leasing stores in Canada. The acquisition of the 15 leasing stores in Canada met the definition of a business combination as defined by IFRS 3 and the fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date were as follows:

(in $000's)	December 31, 2012
Assets	
Amounts receivable	29
Property, plant and equipment	713
Lease assets, net	3,559
Intangible assets	327
Liabilities	
Unearned revenue	216
Accrued liabilities	23
Total identifiable net assets at fair value	4,389
Goodwill arising on acquisition	2,639
Cash consideration	**7,028**

13. Bank Revolving Credit Facility And Term Loan

Bank Revolving Credit Facility

(in $000's)	December 31, 2013	December 31, 2012
Bank revolving credit facility	**24,063**	22,029
Unamortized deferred financing costs	**(567)**	(748)
Bank revolving credit facility	**23,496**	21,281

Canadian dollar loans under the bank revolving credit facility bore interest at the lead lenders prime rate plus 150 to 250 bps, depending on the Company's total debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] ratio. The bank revolving credit facility was fully secured by a first charge on substantially all of the assets of the Company and its subsidiaries, excluding *easyfinancial*, and a second charge on the assets of *easyfinancial*. The Company's interest rate under the facility as at December 31, 2013 was 5.00%. On October 3, 2013, the Company amended the terms of this facility to eliminate a scheduled reduction in the maximum limit, extending the maximum limit of $35.0 million through to the maturity date of October 4, 2015.

The financial covenants of the revolving bank revolving credit facility were as follows:

Financial Covenant	Requirements	December 31, 2013
Total debt to EBITDA ratio	< 2.75	**1.95**
Total debt to tangible net worth ratio	< 1.00	**0.56**
Total active leased assets to total leased assets ratio	> 0.65	**0.78**
Adjusted EBITDA for preceding 12 months (excluding *easyfinancial*) ($ in 000's)	> 16,000; minimum levels are established by fiscal quarter	**17,029**

Term Loan

(in $000's)	December 31, 2013	December 31, 2012
Borrowing under term loan facility	**40,000**	20,000
Unamortized deferred financing costs	**(2,122)**	(1,670)
	37,878	18,330

On October 4, 2012, the Company entered into a $20.0 million term loan to support the growth of *easyfinancial*.

On June 18, 2013, the Company amended the term loan facility which increased the total maximum credit limit available under the term loan facility to $50.0 million. All previous borrowings under the term loan facility were rolled into the amended $50.0 million facility. All borrowings under the amended term loan facility bear interest at 8.7% over the Canadian Bankers' Acceptance rate and were secured by a first charge on the assets of *easyfinancial* and a second charge on substantially all of the other assets of the Company and its subsidiaries. The term loan facility matures on October 4, 2017. The Company's interest rate under the term loan facility as at December 31, 2013 was 9.98%.

The financial covenants of the term loan facility were as follows:

Financial Covenant	Requirements	December 31, 2013
Total debt to EBITDA ratio (consolidated)	< 2.75	**1.95**
Total debt to EBITDA ratio (*easyfinancial* only)	< 2.75	**1.79**
Total debt to tangible net worth ratio (consolidated)	< 1.00	**0.56**
Total debt to tangible net worth ratio (*easyfinancial* only)	< 0.75	**0.52**
Adjusted EBITDA for preceding 12 months (*easyfinancial* only) ($ in 000's)	> 14,750; minimum levels are established by fiscal quarter	**20,082**

As at December 31, 2013, the Company was in compliance with all of its financial covenants under its lending agreements.

Finance Costs

Included in finance costs on the consolidated statements of income is interest expense on the bank revolving credit facility and the term loan and amortization of deferred financing charges as follows:

	Year Ended	
(in $000's)	December 31, 2013	December 31, 2012
Interest expense	**4,965**	2,212
Amortization of deferred financing charges	**673**	431
	5,638	2,643

14. Provisions

(in $000's)	Onerous Leases Due to Impairment	Other Onerous Leases	Total
As at December 31, 2011	96	5	101
Incurred during the year	84	935	1,019
Utilized during the year	(10)	(313)	(323)
Unused amounts reversed	(102)	(159)	(261)
As at December 31, 2012	68	468	536
Incurred during the year	–	35	35
Utilized during the year	(31)	(348)	(379)
Unused amounts reversed	(25)	(146)	(171)
As at December 31, 2013	**12**	**9**	**21**

(in $000's)	December 31, 2013	December 31, 2012
Current	**21**	379
Non-current	**–**	157
	21	536

15. Share Capital

Authorized Capital

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

Each common share represents a shareholder's proportionate undivided interest in the Company. Each common share confers to its holder the right to one vote at any meeting of shareholders and to participate equally and rateably in any dividends of the Company. The common shares are listed for trading on the Toronto Stock Exchange.

Common Shares Issued and Outstanding

The changes in common shares are summarized as follows:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
($ in 000's except number of shares in 000's)	# of shares	$	# of shares	$
Balance, beginning of the year	**11,940**	**60,885**	11,849	60,207
Common share equity offering	**1,347**	**19,020**		
Redemption of deferred share units for cash	**–**	**–**	25	245
Dividend reinvestment plan	**2**	**18**	66	433
Balance, end of the year	**13,289**	**79,923**	11,940	60,885

Common Share Equity Offering

On November 12, 2013, the Company and a syndicate of underwriters completed a common share equity offering for 1,346,900 common shares of the Company at a price of $14.85 per common share. The Company received gross proceeds of $20.0 million and net proceeds of $19.0 million (including cash proceeds of $18.7 million and a deferred tax benefit of $0.3 million).

Dividends on Common Shares

For the year ended December 31, 2013, the Company paid dividends of $4.1 million (2012 – $4.0 million), or $0.34 per share (2012 – $0.34 per share). The Company declared a dividend of $0.085 per share on November 6, 2013 to shareholders of record on December 27, 2013, payable on January 10, 2014. The dividend paid on January 10, 2014 was $1.1 million.

16. Stock-Based Compensation

Share Option Plan

Under the Company's stock option plan, options to purchase common shares may be granted by the Board of Directors to directors, officers and employees. Options are generally granted at exercise prices equal to the fair market value at the grant date, vest evenly over a three-year period based on earnings per share targets, and have exercise lives of five years. The aggregate number of common shares reserved for issuance and which may be purchased upon the exercise of options granted pursuant to the plan shall not exceed 2.3 million common shares.

	Year Ended December 31, 2013		Year Ended December 31, 2012	
(number of options in 000's)	Options #	Weighted Average Exercise Price $	Options #	Weighted Average Exercise Price $
Outstanding balance, beginning of year	**518**	**13.05**	715	13.80
Options granted	**202**	**9.61**	–	–
Options forfeited or expired	**(182)**	**18.81**	(197)	15.79
Outstanding balance, end of year	**538**	**9.81**	518	13.05
Exercisable balance, end of year	**238**	**10.44**	95	14.50

Outstanding options to directors, officers and employees as at December 31, 2013 are as follows:

	Outstanding			Exercisable	
Range of Exercise Prices $	Options # (in 000's)	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price $	Options # (in 000's)	Weighted Average Exercise Price $
8.00 – 10.99	492	2.74	9.07	192	8.68
11.00 – 14.99	2	0.86	11.00	2	11.00
15.00 – 19.99	44	0.35	18.08	44	18.08
8.00 – 19.99	538	2.54	9.81	238	10.44

The Company uses the fair value method of accounting for stock options granted to employees and directors. During the year ended December 31, 2013, the Company granted 202,296 options (2012 – nil options). For the year ended December 31, 2013, an expense of $208 (2012 – $126) was recorded in stock-based compensation expense in the consolidated statements of income, with a corresponding adjustment to contributed surplus.

Options granted during 2013 were determined using the Black-Scholes option pricing model with the following assumptions, resulting in a weighted average fair value of $2.38 per option.

	2013	2012
Risk-free interest rate (% per annum)	**1.25**	n/a
Expected hold period to exercise (years)	**5.00**	n/a
Volatility in the price of the Company's shares (%)	**38.31**	n/a
Dividend yield (%)	**3.54**	n/a

Restricted Share Unit ["RSU"] Plan

On May 7, 2013, the Company's shareholders approved a resolution to amend the RSU Plan, increasing the maximum number of Common Shares reserved for issuance from treasury under the RSU Plan by 250,000 shares, from 365,000 shares to 615,000 shares.

During the year ended December 31, 2013, the Company granted 414,610 RSUs (2012 – nil) to employees of the Company under its RSU Plan. RSUs are granted at fair market value at the grant date and vest evenly over a three-year period based on long-term targets. For the year ended December 31, 2013, $765 (2012 – expense recovery of $51) was recorded as an expense in stock-based compensation expense in the consolidated statements of income. Additionally, for the year ended December 31, 2013, an additional 5,229 RSUs (2012 – 4,765) were granted as a result of dividends payable.

Performance Share Unit ["PSU"] Plan

During the year ended December 31, 2013, the Company granted 295,486 PSUs (2012 – 411,522) to senior executives of the Company under its PSU Plan. On May 7, 2013, the PSUs granted in 2013 were cancelled and an equivalent number of RSUs were granted to senior executives of the Company (see section "Restricted Share Unit Plan" above).

PSUs are granted at fair market value at the grant date and vest evenly over a three-year period based on long-term targets. For the year ended December 31, 2013, $2,669 (2012 – $1,847) was recorded as an expense in stock-based compensation expense in the consolidated statements of income. Additionally, for the year ended December 31, 2013, an additional 28,225 PSUs (2012 – 44,464) were granted as a result of dividends payable.

The PSU liability as at December 31, 2013 was $2,841 (2012 – $2,409).

Deferred Share Unit ["DSU"] Plan

During the year ended December 31, 2013, the Company granted 9,710 DSUs (2012 – 12,674) to directors under its DSU Plan. DSUs are granted at fair market value at the grant date and vest immediately upon the grant date. For the year ended December 31, 2013, $160 (2012 – $113) was recorded as stock-based compensation expense under the DSU Plan in stock-based compensation expense in the consolidated statements of income. Additionally, for the year ended December 31, 2013, an additional 3,678 DSUs (2012 – 2,655) were granted as a result of dividends payable.

Stock Based Compensation Expense

	Year Ended	
(in $000's)	December 31, 2013	December 31, 2012
Equity-settled stock based compensation	**1,134**	188
Cash-settled stock based compensation	**2,669**	1,847
	3,803	2,035

Contributed Surplus

The following is a continuity of the activity in the contributed surplus account:

($ in 000's)	Year Ended December 31, 2013	Year Ended December 31, 2012
Contributed surplus, beginning of year	**3,035**	3,171
Equity settled stock-based compensation expense		
Stock options	**208**	126
Restricted share units	**766**	(51)
Deferred share units	**160**	113
	1,134	188
Reduction due to redemption of deferred share units	**–**	(324)
Contributed surplus, end of year	**4,169**	3,035

17. Restructuring And Other Items

($ in 000's)	Year Ended December 31, 2013	Year Ended December 31, 2012
Restructuring charges	**–**	1,379
Insurance reimbursement	**–**	(943)
Gain on disposal of U.S. leasing stores	**–**	(814)
	–	(378)

Restructuring Charges

During the second quarter of 2012, the Company restructured the management and operating procedures of its leasing segment and closed 13 underperforming locations. For the year ended December 31, 2012, $1.4 million was recorded as restructuring and other charges within operating income. These charges consisted of the cost of remaining lease terms for closed locations, lease asset write offs, severance and other charges. No further related charges are expected in future periods.

Insurance Recovery

During the fourth quarter of 2010, the Company incurred $2.4 million in costs related to the forensic investigation of an employee fraud. During the second quarter of 2012, the Company received a reimbursement of a portion of the costs from its insurers. The insurance reimbursement of $0.9 million is net of professional fees related to obtaining this reimbursement.

Gain on Disposal of U.S. Leasing Stores

On December 31, 2012, the Company entered into an exchange of stores with a large U.S. based rent-to-own company. Total cash proceeds on the sale of the 15 corporately owned stores were $6.9 million resulting in a gain of $814. See note 12 for further details.

18. Income Taxes

The Company's income tax provision is determined as follows:

(in $000's except percentages)	Year Ended December 31, 2013	Year Ended December 31, 2012
Combined basic federal and provincial income tax rates	**27.2%**	26.9%
Expected income tax expense	**5,249**	4,053
Non-deductible expenses	**241**	76
U.S. and SPE results not tax affected	**(64)**	(130)
Other	**(281)**	10
	5,145	4,009

The significant components of the Company's income tax expense are as follows:

(in $000's)	Year Ended December 31, 2013	Year Ended December 31, 2012
Current income tax:		
Current income tax charge	**3,704**	3,993
Adjustments related to intercompany management fees and other	**850**	1,316
Deferred income tax:		
Relating to origination and reversal of temporary differences	**591**	(1,300)
	5,145	4,009

The significant components of the Company's deferred tax assets are as follows:

(in $000's)	December 31, 2013	December 31, 2012
Tax cost of lease assets and property and equipment in excess of net book value	**(177)**	1,494
Amounts receivable and provisions	**2,054**	1,285
Deferred salary arrangements	**1,043**	694
Lease inducements	**659**	599
Unearned revenue	**232**	182
Financing fees	**382**	85
Other	**(196)**	(107)
	3,997	4,232

All changes to the deferred tax assets were recorded as an expense in deferred tax expense in the consolidated statements of income except for the recognition of the deferred tax asset related to the commons share equity offering completed on November 12, 2013 which was recorded as a credit to share capital on the consolidated statements of financial position (see note 15).

The Company and its subsidiaries have the following tax loss carry-forwards that may be used to reduce taxable income in the future:

(in $000's, except years)	Tax Loss Carryforwards	Benefit of Tax Loss Carryforwards	Year of Expiry
U.S. Operations			
Year ended December 31, 2008	904	362	2027
Year ended December 31, 2009	925	370	2028
Year ended December 31, 2010	1,529	612	2029
Year ended December 31, 2011	1,328	531	2030
	4,686	**1,875**	

At December 31, 2013, the benefit of the U.S. tax loss carry-forwards has not been recognized due to the uncertainty of the realization of the benefit of the U.S. operational losses in the foreseeable future.

At December 31, 2013, there was no recognized deferred tax liabilities (2012 – nil) for taxes that would be payable on the undistributed earnings of the Company's subsidiaries. The Company has determined that undistributed earnings of its subsidiaries would not be distributed in the foreseeable future.

19. Earnings Per Share

Basic Earnings Per Share

Basic earnings per share amounts are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year as follows:

	Year Ended	
(in $000's except number of shares and earnings per share)	December 31, 2013	December 31, 2012
Net income	**14,182**	11,057
Weighted average number of ordinary shares outstanding	**12,243**	11,999
Basic earnings per ordinary share	**1.16**	0.92

For the year ended December 31, 2013, 121,111 DSUs (2012 – 102,754 DSUs) were included in the weighted average number of ordinary shares outstanding.

Diluted Earnings Per Share

Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share is determined using the treasury stock method, whereby stock options and warrants, whose exercise price is less than the average market price of the Company's common shares, are assumed to be exercised and the proceeds are used to purchase common shares at the average market price for the period. The incremental number of common shares issued under stock options and warrants is included in the calculation of diluted earnings per share.

(in $000's except number of shares and earnings per share)	Year Ended December 31, 2013	Year Ended December 31, 2012
Net income	**14,182**	11,057
Weighted average number of ordinary shares outstanding	**12,243**	11,999
Dilutive effect of stock-based compensation	**66**	–
Weighted average number of diluted shares outstanding	**12,309**	11,999
Diluted earnings per ordinary share	**1.15**	0.92

For the year ended December 31, 2013, 237,367 stock options to acquire common shares (2012 – 518,002 options) were excluded in the calculation of diluted earnings per share as their exercise prices exceeded the average market share price for the year or performance conditions were not met.

20. Net Change In Other Operating Assets And Liabilities

The net change in other operating assets and liabilities is as follows:

(in $000's)	Year Ended December 31, 2013	Year Ended December 31, 2012
Amounts receivable	**(1,670)**	1,722
Prepaid expenses	**(735)**	352
Accounts payable and accrued liabilities	**(8,854)**	12,924
Dividends payable	**118**	5
Income taxes payable	**(287)**	4,816
Deferred lease inducements	**287**	(95)
Unearned revenue	**(159)**	(640)
Provisions	**(515)**	435
	(11,815)	19,519

Supplemental disclosures in respect of the consolidated statements of cash flows comprise the following:

(in $000's)	Year Ended December 31, 2013	Year Ended December 31, 2012
Income taxes paid	**5,438**	2,135
Income taxes refunded	**331**	1,642
Interest paid	**4,978**	2,645
Interest received	**36,639**	24,116

21. Commitments And Guarantees

The Company is committed to software maintenance service agreements and operating leases for premises, equipment, vehicles and signage. The minimum annual lease payments plus estimated operating costs required for the next five years and thereafter are as follows:

(in $000's)	Within 1 Year	After 1 Year but not more than 5 Years	More than 5 Years
Premises	21,346	45,427	4,144
Other operating lease obligations	1,238	2,172	–
Other	1,344	1,871	–
Total contractual obligations	**23,928**	**49,470**	**4,144**

During the year ended December 31, 2013, $22.9 million (2012 – $22.4 million) was recognized as an expense in the consolidated statements of income in respect of operating leases.

The Company maintains an irrevocable standby letter of credit, issued from its credit facilities in the amount of $0.3 million, for its corporate office lease.

22. Contingencies

Class Action Lawsuit

The Company and certain of its current and former officers were named as defendants in a lawsuit filed in the Ontario Superior Court of Justice on October 25, 2010. This lawsuit was commenced by Andrew Sorensen, on behalf of shareholders who acquired the Company's common shares between April 8, 2008 and October 15, 2010. The claim was brought under section 138 of the Ontario Securities Act. The plaintiff alleged, among other things, that, arising out of an employee fraud discovered in 2010, the Company and certain of its former and current officers made misrepresentations about the Company's consolidated financial statements being prepared in accordance with Canadian generally accepted accounting principles. The claim sought $10 million in general damages. On March 26, 2012, the lawsuit was certified as a class proceeding on consent.

During the first quarter of 2013, the Company reached an agreement to settle with the class action plaintiffs for $2.25 million, all inclusive, to be distributed to members of the class in accordance with procedures set out in the settlement agreement. On June 10, 2013, the court approved the settlement agreement. The settlement amount was paid by the Company's insurer pursuant to the Company's insurance policies and held in escrow by an administrator who distributes the funds to class members. The settlement agreement denies any admissions of liability on the part of the Company or any of its current or former officers or directors.

The settlement reflects an agreement between all parties to resolve the action and avoid increasing costs and time commitments necessarily involved in litigation. The Company has not recorded any liability related to these matters.

Other Legal Actions

The Company is involved in various legal matters arising in the ordinary course of business. The resolution of these matters is not expected to have a material adverse effect on the Company's financial position, financial performance or cash flows.

The Company has agreed to indemnify its directors and officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

23. Capital Risk Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide adequate returns to shareholders by way of share appreciation and dividends. The capital structure of the Company consists of bank debt, term debt and shareholders' equity, which comprises issued share capital, contributed surplus and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, share repurchases, the payment of dividends, increasing or decreasing bank debt and term debt or by undertaking other activities as deemed appropriate under specific circumstances. The Company's strategy, objectives, measures, definitions and targets have not changed significantly in the past year.

The Company has externally imposed capital requirements as governed through its financing facilities. These requirements are to ensure the Company continues to operate in the normal course of business and to ensure the Company manages its debt relative to net worth. The capital requirements are congruent with the Company's management of capital.

The Company monitors capital on the basis of its bank and term loan covenants as described in note 13.

For the years ended December 31, 2013 and 2012, the Company was in compliance with all of its externally imposed financial covenants.

24. Financial Risk Management

Overview

The Company's activities are exposed to a variety of financial risks: credit risk, liquidity risk, interest rate risk and currency risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance.

Credit Risk

The maximum exposure to credit risk is represented by the carrying amount of the amounts receivable, consumer loans receivable and lease assets with customers under merchandise lease agreements. The Company leases products and makes consumer loans to thousands of customers pursuant to policies and procedures that are intended to ensure that there is no concentration of credit risk with any particular individual, company or other entity, although the Company is subject to a higher level of credit risk due to the credit constrained nature of many of the Company's customers and in circumstances where its policies and procedures are not complied with.

The credit risk related to lease assets with customer's results from the possibility of customer default with respect to agreed upon payments. The Company has a standard collection process in place in the event of payment default, which includes the recovery of the lease asset if satisfactory payment terms cannot be worked out with the customer, as the Company maintains ownership of the lease assets until payment options are exercised. Lease asset losses for the year ended December 31, 2013 represented 3.2% (2012 – 2.9%) of total revenue for the *easyhome* Leasing segment.

The credit risk on the Company's consumer loans receivable made in accordance with policies and procedures is impacted by both the Company's credit policies and the lending practices which are overseen by the Company's senior management. Credit quality of the customer is assessed based on a credit rating scorecard and individual credit limits are defined in accordance with this assessment. The consumer loans receivable are unsecured. The Company evaluates the concentration of risk with respect to customer loans receivable as low, as its customers are located in several jurisdictions and operate independently. As at December 31, 2013, the Company's gross loan portfolio was $110.7 million (2012 – $70.7 million).

The credit risk related to other amounts receivable are managed in accordance with policies and procedures resulting from the possibility of default on rebate payments, amounts due from licensee and franchisees and other amounts receivable. The Company deals with credible companies, performs ongoing credit evaluations of creditors and consumers and allows for uncollectible amounts when determined to be appropriate.

Liquidity Risk

The Company addresses liquidity risk management by maintaining sufficient availability of funding through its committed bank revolving credit facility and its term loan. The Company manages its cash resources based on financial forecasts and anticipated cash flows, which are periodically reviewed with the Company's Board of Directors.

The Company believes that the cash flow provided by operations will be sufficient in the near term to meet operational requirements, purchase lease assets, meet capital spending requirements and pay dividends. In addition, the incremental financing obtained through the term debt and equity issuance will allow the Company to grow its consumer loans receivable portfolio in 2014. In order for the Company to achieve the full growth opportunities available, however, additional sources of financing over and above the currently available credit facility and term loan are required. There is no certainty that these long-term sources of capital will be available or at terms favourable to the Company.

Substantially all liabilities are due within 12 months with the exception of the bank revolving credit facility and term loan, which are due as disclosed in note 13, and non-current PSU liabilities that are payable in 2015.

Interest Rate Risk

Interest rate risk measures the Company's risk of financial loss due to adverse movements in interest rates. The Company is subject to interest rate risk as the bank revolving credit facility bears interest at the lead lenders prime rate plus 150 to 250 bps, depending on the Company's total debt to EBITDA ratio and the term loan bears interest at 8.7% over the Canadian Bankers' Acceptance rate. As at December 31, 2013, the interest rate on the bank revolving credit facility was 5.00% per annum (2012 – 4.50% per annum) and the interest rate on the term loan was 9.98% per annum (2012 – 11.69%).

The Company does not hedge interest rates. Accordingly, future changes in interest rates will affect the amount of interest expense payable by the Company.

As at December 31, 2013, all of the Company's borrowings were subject to movements in floating interest rates. A 1% movement in the prime interest rate and bankers' acceptance rate would have increased or decreased net income for the year by approximately $598.

Currency Risk

Currency risk measures the Company's risk of financial loss due to adverse movements in currency exchange rates.

The Company sources a portion of the assets it leases in Canada from U.S. suppliers. As a result, the Company has foreign exchange transaction exposure. These purchases are funded using regular spot rate purchases. Pricing to customers can be adjusted to reflect changes in the Canadian dollar landed cost of imported goods and, as such, there is not a material foreign currency transaction exposure.

During 2013, the Company had foreign currency transaction exposure through its SPEs and franchise locations in the United States.

The earnings of the Company's U.S. subsidiary and SPEs are translated into Canadian dollars each period. A 5% movement in the Canadian and U.S. dollar exchange rate would have increased or decreased net income for the year by approximately $32.

25. Financial Instruments

Recognition and Measurement of Financial Instruments

The Company has classified its financial instruments as follows:

(in 000's) Financial Instruments	Measurement	December 31, 2013	December 31, 2012
Cash	Fair value	**2,329**	4,631
Amounts receivable	Amortized cost	**7,206**	5,536
Consumer loans receivable	Amortized cost	**103,936**	66,584
Accounts payable and accrued liabilities	Amortized cost	**24,301**	33,155
Bank revolving credit facility	Amortized cost	**23,496**	21,281
Term loan	Amortized cost	**37,878**	18,330

The carrying values of these financial instruments approximate their fair values.

Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The hierarchy requires the use of observable market data when available. The following table provides the fair value measurement hierarchy of the Company's financial assets and liabilities measured at amortized cost as at December 31, 2013:

(in 000's)	Total	Level 1	Level 2	Level 3
Amounts receivable	7,206	–	–	7,206
Consumer loans receivable	103,936	–	–	103,936
Accounts payable and accrued liabilities	24,301	–	–	24,301
Bank revolving credit facility	23,496	–	–	23,496
Term loan	37,878	–	–	37,878

There have been no transfers between Level 1, Level 2, or Level 3 during the period.

26. Related Party Transactions

The following summarizes the expense related to key management personnel during the reporting periods.

	Year Ended	
(in $000's)	December 31, 2013	December 31, 2012
Short-term employee benefits including salaries	2,864	2,844
Share-based payment transactions	2,381	1,504
	5,245	4,348

27. Segmented Reporting

For management purposes, the Company had two reportable segments: *easyhome* Leasing and *easyfinancial*.

During 2013, management reviewed the Company's reporting segments and determined that, due to the relatively small size of its franchising business and the Company's future growth strategies, it was appropriate to include the franchising business with the Company's *easyhome* Leasing segment. All comparative information has been restated to reflect the change.

Accounting policies for each of these business segments are the same as those disclosed in note 3. General and administrative expenses directly related to the Company's business segments are included as operating expenses for those segments. All other general and administrative expenses are reported separately. Management assesses the performance based on segment operating income (loss).

The following tables summarize the relevant information for the years ended December 31, 2013 and 2012:

Year ended December 31, 2013 (in $000's)	*easyhome* Leasing	*easyfinancial*	Corporate	Total
Revenue	160,296	58,518	–	218,814
Total operating expenses before depreciation and amortization	82,778	38,435	18,924	140,137
Depreciation and amortization	51,210	1,918	584	53,712
Segment operating income (loss)	26,308	18,165	(19,508)	24,965
Finance costs	–	–	5,638	5,638
Income (loss) before income taxes	26,308	18,165	(25,146)	19,327

Year ended December 31, 2012 (in $000's)	*easyhome* Leasing	*easyfinancial*	Corporate	Total
Revenue	161,907	37,766	–	199,673
Total operating expenses before depreciation and amortization and restructuring and other items	87,087	25,421	17,068	129,576
Restructuring and other items	1,296	–	(1,674)	(378)
Depreciation and amortization	51,470	751	545	52,766
Segment operating income (loss)	22,054	11,594	(15,939)	17,709
Finance costs	–	–	2,643	2,643
Income (loss) before income taxes	22,054	11,594	(18,582)	15,066

The Company's goodwill of $20.0 million (2012 – $20.0 million) is related entirely to its *easyhome* Leasing segment.

The Company's *easyhome* Leasing business consists of four major product categories: furniture, electronics, computers and appliances. Lease revenue as a percentage of total lease revenue for the years ended December 31, 2013 and December 31, 2012 are as follows:

	Year Ended	
	December 31, 2013 (%)	December 31, 2012 (%)
Furniture	**38**	38
Electronics	**32**	33
Computers	**18**	16
Appliances	**12**	13
	100	100

The Company operates across Canada and in certain U.S. states. During the year ended December 31, 2013, 97.0% or $212.1 million of revenue was generated in Canada and 3.0% or $6.7 million of revenue was generated in the U.S. (2012 – 92% or $184.1 million of revenue was generated in Canada and 8% or $15.6 million of revenue was generated in the U.S). Additionally, as at December 31, 2013, $224.3 million of the Company's assets were located in Canada and $8.6 million were located in the U.S. (2012 – $181.5 million in Canada and $8.4 million in the U.S.).

28. Comparative Figures

Certain items within the comparative audited consolidated financial statements have been reclassified to conform with the presentation of the current year in accordance with IFRS.

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Chairman of the Board

David Ingram
President & Chief Executive Officer, *easyhome* Ltd.

David A. Lewis
Corporate Director

David Appel
Corporate Director

Sean Morrison
Managing Director, Maxim Capital Corp.

David J. Thomson
Corporate Director

Corporate Officers

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President & Chief Executive Officer

Steve Goertz
Senior Vice President & Chief Financial Officer

Rick Atkinson
Senior Vice President, Development

Dave Maries
Senior Vice President, Marketing & Merchandising

Jason Mullins
Senior Vice President Operations, *easyfinancial* Services

Jay Guyatt
Vice President and General Counsel

“Our strategy is unchanged and we will continue to focus on the same three strategic imperatives: namely, to **evolve, expand and execute**.”

David Ingram
President and Chief Executive Officer

easyhome® Ltd.
making life easier

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