Interim Condensed Consolidated Financial Statements

easyhome Ltd.

(Unaudited)
September 30, 2013

easyhome Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)
(expressed in thousands of Canadian dollars)

	As at September 30, 2013	As at December 31, 2012
ASSETS		
Current assets		
Cash	**1,803**	4,631
Amounts receivable	**5,689**	4,536
Consumer loans receivable (note 4)	**48,667**	34,425
Prepaid expenses	**2,043**	964
Total current assets	**58,202**	44,556
Amounts receivable	**1,342**	1,000
Consumer loans receivable (note 4)	**38,389**	32,159
Lease assets	**62,149**	68,075
Property and equipment (note 5)	**15,021**	13,729
Deferred tax assets (note 9)	**4,466**	4,232
Intangible assets	**8,106**	6,213
Goodwill	**19,963**	19,963
TOTAL ASSETS	**207,638**	189,927
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank revolving credit facility (note 6)	**28,166**	21,281
Accounts payable and accrued liabilities	**20,269**	31,696
Income taxes payable	**6,924**	4,216
Dividends payable (note 7)	**1,015**	1,012
Deferred lease inducements	**635**	564
Unearned revenue	**3,580**	3,922
Provisions	**107**	379
Total current liabilities	**60,696**	63,070
Accounts payable and accrued liabilities	**1,906**	1,459
Deferred lease inducements	**1,757**	1,898
Term loan (note 6)	**30,481**	18,330
Provisions	**-**	157
Total liabilities	**94,840**	84,914
Contingencies (note 12)		
Shareholders' equity		
Share capital (note 7)	**60,898**	60,885
Contributed surplus	**3,791**	3,035
Accumulated other comprehensive income (loss)	**82**	(137)
Retained earnings	**48,027**	41,230
Total shareholders' equity	**112,798**	105,013
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**207,638**	189,927

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(expressed in thousands of Canadian dollars except earnings per share)

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
REVENUE				
Lease revenue	**37,913**	38,014	**115,559**	116,925
Interest income	**9,844**	6,503	**26,406**	17,533
Other	**7,109**	4,772	**19,053**	13,521
	54,866	49,289	**161,018**	147,979
EXPENSES BEFORE DEPRECIATION AND AMORTIZATION				
Salaries and benefits	**16,152**	15,874	**48,968**	47,405
Stock based compensation (note 8)	**895**	504	**2,454**	998
Advertising and promotion	**1,655**	1,702	**5,538**	5,858
Bad debts	**3,974**	2,434	**10,351**	6,760
Occupancy	**6,495**	6,320	**19,558**	19,367
Distribution and travel	**1,720**	1,821	**5,185**	5,535
Other	**3,659**	3,376	**11,375**	10,055
Restructuring and other items	**-**	-	**-**	436
	34,550	32,031	**103,429**	96,414
DEPRECIATION AND AMORTIZATION				
Depreciation of lease assets	**11,968**	11,847	**35,920**	36,045
Depreciation of property and equipment	**1,096**	1,007	**3,314**	2,978
Amortization of intangible assets	**318**	119	**925**	348
Impairment, net (note 5)	**(14)**	(7)	**(26)**	275
	13,368	12,966	**40,133**	39,646
Total operating expenses	**47,918**	44,997	**143,562**	136,060
Operating income	**6,948**	4,292	**17,456**	11,919
Finance costs	**1,686**	481	**4,224**	1,428
Income before income taxes	**5,262**	3,811	**13,232**	10,491
Income tax expense (recovery) (note 9)				
Current	**1,217**	1,394	**3,619**	5,845
Deferred	**228**	(221)	**(233)**	(2,645)
	1,445	1,173	**3,386**	3,200
Net income	**3,817**	2,638	**9,846**	7,291
Basic earnings per share (note 10)	**0.32**	0.22	**0.82**	0.61
Diluted earnings per share (note 10)	**0.31**	0.22	**0.81**	0.61

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
Net income	**3,817**	2,638	**9,846**	7,291
Other comprehensive income (loss)				
Change in foreign currency translation reserve	**(143)**	(384)	**219**	(389)
Comprehensive income	**3,674**	2,254	**10,065**	6,902

See accompanying notes to the interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)
(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	**13**	**-**	**13**	**-**	**-**	**13**
Stock-based compensation	**-**	**756**	**756**	**-**	**-**	**756**
Comprehensive income (loss)	**-**	**-**	**-**	**9,846**	**219**	**10,065**
Dividends (note 7)	**-**	**-**	**-**	**(3,049)**	**-**	**(3,049)**
Balance, September 30, 2013	**60,898**	**3,791**	**64,689**	**48,027**	**82**	**112,798**
Balance, December 31, 2011	60,207	3,171	63,378	34,216	(52)	97,542
Common shares issued	460	(323)	137	-	-	137
Stock-based compensation	-	166	166	-	-	166
Comprehensive income (loss)	-	-	-	7,291	(389)	6,902
Dividends (note 7)	-	-	-	(3,028)	-	(3,028)
Balance, September 30, 2012	60,667	3,014	63,681	38,479	(441)	101,719

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(expressed in thousands of Canadian dollars)

	Three months ended		Nine months ended	
	September 30, 2013	**September 30, 2012**	**September 30, 2013**	**September 30, 2012**
OPERATING ACTIVITIES				
Net income	**3,817**	2,638	**9,846**	7,291
Add (deduct) items not affecting cash				
Depreciation of lease assets	**11,968**	11,847	**35,920**	36,045
Depreciation of property and equipment	**1,096**	1,007	**3,314**	2,978
Impairment, net (note 5)	**(14)**	(7)	**(26)**	275
Amortization of intangible assets	**318**	119	**925**	348
Stock-based compensation (note 8)	**351**	72	**756**	166
Bad debts expense	**3,974**	2,434	**10,351**	6,760
Deferred income tax expense (recovery)	**228**	(221)	**(233)**	(2,645)
Gain on sale of property and equipment	**(295)**	63	**(456)**	(37)
	21,443	17,952	**60,397**	51,181
Net change in other operating assets and liabilities (note 11)	**(2,315)**	4,154	**(11,684)**	9,256
Net issuance of consumer loans receivable	**(12,277)**	(5,794)	**(30,823)**	(17,930)
Cash provided by operating activities	**6,851**	16,312	**17,890**	42,507
INVESTING ACTIVITIES				
Purchase of lease assets	**(11,235)**	(12,311)	**(30,519)**	(33,140)
Purchase of property and equipment	**(1,965)**	(1,943)	**(4,956)**	(3,936)
Purchase of intangible assets	**(1,049)**	(711)	**(2,818)**	(1,789)
Proceeds on sale of property and equipment	**1,000**	-	**1,575**	180
Cash used in investing activities	**(13,249)**	(14,965)	**(36,718)**	(38,685)
FINANCING ACTIVITIES				
Advances (repayments) of bank revolving credit facility	**4,416**	(709)	**6,885**	(911)
Advances of term loan	**67**	-	**12,151**	-
Payment of common share dividends (note 7)	**(1,016)**	(1,009)	**(3,049)**	(3,026)
Redemption of deferred share units	**-**	-	**-**	(78)
Issuance of common shares	**5**	215	**13**	215
Cash provided by (used in) financing activities	**3,472**	(1,503)	**16,000**	(3,800)
Net (decrease) increase in cash during the period	**(2,926)**	(156)	**(2,828)**	22
Cash, beginning of period	**4,729**	1,197	**4,631**	1,019
Cash, end of period	**1,803**	1,041	**1,803**	1,041

See accompanying notes to the interim condensed 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 unaudited interim condensed 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”]. The Parent Company’s principal subsidiaries are:

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

The Company's principal operating activities include merchandise leasing of household furnishings, appliances and home electronic products to consumers under weekly or monthly leasing agreements. In addition, the Company offers a variety of financial services, including consumer loans and prepaid cards through easyfinancial.

The Company operates in two reportable segments: leasing and easyfinancial. As at September 30, 2013, the Company operated 235 easyhome leasing stores (including 52 franchises and 8 consolidated SPE franchises), and 112 easyfinancial locations (December 31, 2012 – 253 easyhome leasing stores including 49 franchises and 9 consolidated SPE franchises, and 100 easyfinancial locations).

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 6, 2013.

These unaudited interim condensed consolidated financial statements were prepared on a going concern basis under the historical cost convention.

Statement of Compliance with International Financial Reporting Standards [“IFRS”]

These unaudited interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2013 were prepared in accordance with International Accounting Standards [“IAS”] 34, *Interim Financial Reporting* using the same accounting policies as those used in the Company’s most recent audited annual consolidated financial statements, except for the adoption of new accounting standards described below that were effective January 1, 2013. These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Company’s audited annual consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read together with the audited annual consolidated financial statements.

3. 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 financial statements.

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

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

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment to IAS 34 clarifies 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. These disclosures are already provided by the Company as total segment assets and liabilities and therefore, this amendment did not have an impact on the Company.

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

The amendment requires an entity to disclose information about rights to set off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would 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 establishes a single control model that applies to all entities including SPEs. IFRS 10 replaces 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 changes 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. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Company has not made such disclosures.

(Expressed in thousands of Canadian dollars except where otherwise indicated)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not impacted the fair value measurements carried out by the Company. IFRS 13 also requires specific disclosures on fair values, some of which replace 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, financial performance or note disclosures.

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

4. 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)	**September 30, 2013**	**December 31, 2012**
Consumer loans receivable	**92,792**	70,658
Allowance for loan losses	**(5,736)**	(4,074)
	87,056	66,584
Current	**48,667**	34,425
Non-current	**38,389**	32,159
	87,056	66,584

An aging analysis of consumer loans past due as at September 30, 2013 and December 31, 2012 is as follows:

	September 30, 2013		**December 31, 2012**	
($ in 000's except %)	**$**	**% of total loans**	**$**	**% of total loans**
1 - 30 days	**3,606**	**3.8%**	2,822	4.0%
31 - 44 days	**812**	**0.9%**	543	0.8%
45 - 60 days	**891**	**1.0%**	589	0.8%
61 - 90 days	**905**	**1.0%**	796	1.1%
	6,214	**6.7%**	4,750	6.7%

(Expressed in thousands of Canadian dollars except where otherwise indicated)

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

($ in 000's)	**Nine months ended September 30, 2013**	**Year ended December 31, 2012**
Balance, beginning of period	**4,074**	2,627
Amounts written off against allowance	**(8,689)**	(8,293)
Provision for bad debts	**10,351**	9,740
Balance, end of period	**5,736**	4,074

5. PROPERTY AND EQUIPMENT

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 three and nine month periods ended September 30, 2013, the Company recorded impairment charges of $71 and $151, respectively, offset by impairment recoveries of $85 and $177, respectively. The net impairment recovery for the three and nine month periods ended September 30, 2013 was $14 and $26, respectively. For the three and nine month periods ended September 30, 2012, the Company recorded impairment charges of $252 and $769, respectively, offset by impairment recoveries of $259 and $494, respectively. The net impairment (recovery) charge for the three and nine month periods ended September 30, 2012 was ($7) and $275, respectively. All impairment charges and recoveries related solely to the leasing segment.

6. BANK REVOLVING CREDIT FACILITY AND TERM LOAN

Bank Revolving Credit Facility

($ in 000's)	**September 30, 2013**	**December 31, 2012**
Bank revolving credit facility	**28,166**	21,281

(Expressed in thousands of Canadian dollars except where otherwise indicated)

Canadian dollar loans under the bank revolving credit facility bear 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 September 30, 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 bank revolving credit facility were as follows:

Financial Covenant	**Requirements**	**September 30, 2013**	**December 31, 2012**
Total debt to EBITDA ratio	< 2.75	**2.15**	1.84
Total debt to tangible net worth ratio	< 1.00	**0.70**	0.51
Total active leased assets to total leased assets ratio	> 0.65	**0.80**	0.80
Adjusted EBITDA for preceding 12 months (excluding easyfinancial) ($ in 000's)	> 16,000; minimum levels are established by fiscal quarter	**17,755**	13,868

Term Loan

($ in 000's)	**September 30, 2013**	**December 31, 2012**
Term loan	**30,481**	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.

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 mature on October 4, 2017. The Company's interest rate under the term loan facility as at September 30, 2013 was 9.98%.

(Expressed in thousands of Canadian dollars except where otherwise indicated)

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

Financial Covenant	Requirements	September 30, 2013	December 31, 2012
Total debt to EBITDA ratio (consolidated)	< 2.75	**2.15**	1.84
Total debt to EBITDA ratio (easyfinancial only)	< 2.25	**1.74**	1.18
Total debt to tangible net worth ratio (consolidated)	< 1.00	**0.70**	0.51
Total debt to tangible net worth ratio (easyfinancial only)	< 0.55	**0.50**	0.26
Adjusted EBITDA for preceding 12 months (easyfinancial only) ($ in 000's)	> 10,000; minimum levels are established by fiscal quarter	**16,689**	12,350

As at September 30, 2013, the Company was in compliance with all of its financial covenants under its lending agreements.

7. 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 preferred 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 TSX.

Common shares issued and outstanding

The changes in common shares are summarized as follows:

	Nine months ended September 30, 2013		Year ended December 31, 2012	
($ in 000's except number of shares in 000's)	# of shares	$	# of shares	$
Balance, beginning of the period	**11,940**	**60,885**	11,849	60,207
Issued for cash for redemption of Deferred Share Units	**-**	**-**	25	245
Issued under Dividend Reinvestment Plan	**2**	**13**	66	433
Balance, end of the period	**11,942**	**60,898**	11,940	60,885

Dividends on common shares

For the three and nine month periods ended September 30, 2013, the Company paid dividends of $1.0 million or $0.085 per share and $3.0 million or $0.255 per share, respectively. For the three and nine month periods ended September 30, 2012, the Company paid dividends of $1.0 million or $0.085 per share, and $3.0 million or $0.255 per share, respectively.

The Company declared a dividend of $0.085 per share on August 8, 2013 to shareholders of record on September 27, 2013, payable on October 4, 2013. The dividend paid on October 4, 2013 was $1.0 million.

8. 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. During the three and nine month periods ended September 30, 2013, the Company granted nil and 202,296 options, respectively (2012 – nil options granted during both periods), and recorded an expense of $48 and $161, respectively (2012 – expense of $33 and $95, respectively), in stock-based compensation expense in the interim condensed consolidated statements of income, with a corresponding increase in contributed surplus.

Restricted Share Unit ["RSUs"] 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 three and nine month periods ended September 30, 2013, the Company granted nil and 414,610 RSUs (2012 – nil RSUs during both periods) to senior executives and store managers of the Company under its RSU Plan. RSUs are granted at fair market value at the grant date and vest based on earnings per share targets. For the three and nine month periods ended September 30, 2013, the Company recorded an expense of $264 and $476, respectively (2012 – nil expense during both periods, respectively), in stock-based compensation expense in the interim condensed consolidated statements of income. Additionally, for the three and nine month periods ended September 30, 2013, 2,581 and 3,250 RSUs, respectively (2012 – 1,043 and 3,759 RSUs, respectively), were granted as a result of dividends payable.

Performance Share Unit ["PSUs"] Plan

During the three and nine month periods ended September 30, 2013, the Company granted nil and 295,486 PSUs, respectively (2012 – 10,000 and 411,552 PSUs, respectively), 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 "Restricted Share Unit Plan").

PSUs are granted at fair market value at the grant date and vest based on earnings per share targets. For the three and nine month periods ended September 30, 2013, $544 and $1,697, respectively (2012 – $433 and $831, respectively), was recorded as an expense in stock-based compensation expense in the interim condensed consolidated statements of income. Additionally, for the three and nine month periods ended September 30, 2013, 5,519 and 23,934 PSUs, respectively (2012 – 12,387 and 32,627 PSUs, respectively), were granted as a result of dividends payable. During the second quarter of 2013, 238,207 PSUs granted in 2010 were vested and settled.

(Expressed in thousands of Canadian dollars except where otherwise indicated)

The PSU liability as at September 30, 2013 was $2,078 (December 31, 2012 – $2,409).

Deferred Share Unit [“DSUs”] Plan

During the three and nine month periods ended September 30, 2013, the Company granted 2,052 and 7,859 DSUs, respectively (2012 – 4,431 and 9,355 DSU’s, respectively), to directors under its DSU Plan. DSUs are granted at fair market value at the grant date and vest immediately. For the three and nine month periods ended September 30, 2013, $39 and $118, respectively (2012 – $39 and $71, respectively), was recorded as an expense in stock-based compensation expense in the interim condensed consolidated statements of income, with a corresponding increase in contributed surplus. Additionally, for the three and nine month periods ended September 30, 2013, 948 and 2,925 DSUs, respectively (2012 – 1,328 DSUs during both periods) were granted as a result of dividends payable.

For the three and nine month periods ended September 30, 2013, $895 and $2,454, respectively (2012 - $504 and $998, respectively), was recorded as stock-based compensation expense under all stock-based compensation plans.

9. INCOME TAXES

The Company’s income tax expense was determined as follows:

	Nine months ended September 30	
($ in 000’s)	**2013**	**2012**
Combined basic federal and provincial income tax rates	**27.1%**	26.0%
Expected income tax expense	**3,591**	2,733
Non-deductible expenses	**95**	120
U.S. and SPE results not tax affected	**(12)**	376
Other	**(288)**	(29)
	3,386	3,200

The significant components of the Company’s deferred tax assets were as follows:

($ in 000’s)	**September 30, 2013**	**December 31, 2012**
Tax cost of lease assets and property and equipment in excess of net book value	**1,419**	1,494
Amounts receivable and provisions	**1,730**	1,285
Deferred salary arrangements	**753**	694
Lease inducements	**560**	599
Unearned revenue	**190**	182
Financing fees	**74**	85
Other	**(260)**	(107)
	4,466	4,232

(Expressed in thousands of Canadian dollars except where otherwise indicated)

10. EARNINGS PER SHARE

Basic earnings per share

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

($ in 000's except number of shares and earnings per share)	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Net income	**3,817**	2,638	**9,846**	7,291
Weighted average number of ordinary shares outstanding	**12,065**	12,011	**12,061**	11,995
Basic earnings per ordinary share	**0.32**	0.22	**0.82**	0.61

Included in the weighted average number of ordinary shares outstanding for the three and nine month periods ended September 30, 2013 were 123,300 and 119,432 DSUs (2012 – 105,933 and 104,509), respectively.

Diluted earnings per share

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

($ in 000's except number of shares and earnings per share)	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Net income	**3,817**	2,638	**9,846**	7,291
Weighted average number of ordinary shares outstanding	**12,065**	12,011	**12,061**	11,995
Dilutive effect of stock-based compensation	**199**	-	**47**	-
Weighted average number of diluted shares outstanding	**12,264**	12,011	**12,108**	11,995
Diluted earnings per ordinary share	**0.31**	0.22	**0.81**	0.61

(Expressed in thousands of Canadian dollars except where otherwise indicated)

11. NET CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES

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

	Three months ended September 30		Nine months ended September 30	
($ in 000's)	**2013**	**2012**	**2013**	**2012**
Amounts receivable	**(393)**	727	**(1,495)**	2,727
Prepaid expenses	**(736)**	(32)	**(1,079)**	157
Accounts payable and accrued liabilities and dividends payable	**(876)**	1,590	**(10,977)**	(195)
Income taxes payable	**605**	2,549	**2,708**	7,083
Deferred lease inducements	**(46)**	(96)	**(70)**	(334)
Unearned revenue	**(778)**	(378)	**(342)**	(652)
Provisions	**(91)**	(206)	**(429)**	470
	(2,315)	4,154	**(11,684)**	9,256

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

	Three months ended September 30		Nine months ended September 30	
($ in 000's)	**2013**	**2012**	**2013**	**2012**
Income taxes paid	**1,181**	13	**1,493**	29
Interest paid	**1,262**	496	**3,410**	1,440
Interest received	**9,539**	6,336	**26,069**	17,294

12. 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. The agreement contemplates a settlement amount of $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 is held in escrow by an administrator who will distribute 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. The Company's directors' and officers' insurance policies provide for reimbursement of certain costs and expenses incurred in connection with these lawsuits, including legal and professional fees.

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.

13. SEGMENTED REPORTING

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

During the third quarter of 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 leasing segment. All comparative information has been restated to reflect the change.

Accounting policies for each of these business segments were the same as those disclosed in the consolidated financial statements for the year ended December 31, 2012. General and administrative expenses directly related to the Company's business segments were included as operating expenses for those segments. All other general and administrative expenses were reported separately. Management assessed the performance based on the segment operating income (loss).

(Expressed in thousands of Canadian dollars except where otherwise indicated)

The following tables summarize the relevant information for the three and nine month periods ended September 30, 2013 and 2012:

Three months ended September 30, 2013 ($ in 000's)	**Leasing**	**easyfinancial**	**Corporate**	**Total**
Revenue	**39,570**	**15,296**	**-**	**54,866**
Total operating expenses before depreciation & amortization	**20,284**	**9,820**	**4,446**	**34,550**
Depreciation and amortization	**12,712**	**507**	**149**	**13,368**
Segment operating income (loss)	**6,574**	**4,969**	**(4,595)**	**6,948**
Finance costs	**-**	**-**	**1,686**	**1,686**
Income (loss) before income taxes	**6,574**	**4,969**	**(6,281)**	**5,262**
Assets	**101,951**	**102,554**	**3,133**	**207,638**
Liabilities	**22,239**	**38,200**	**34,401**	**94,840**

Three months ended September 30, 2012 ($ in 000's)	**Leasing**	**easyfinancial**	**Corporate**	**Total**
Revenue	39,482	9,807	-	49,289
Total operating expenses before depreciation & amortization	21,060	6,340	4,631	32,031
Depreciation and amortization	12,671	156	139	12,966
Segment operating income (loss)	5,751	3,311	(4,770)	4,292
Finance costs	-	-	481	481
Income (loss) before income taxes	5,751	3,311	(5,251)	3,811
Assets	100,457	64,576	3,133	168,166
Liabilities	24,811	3,989	37,647	66,447

(Expressed in thousands of Canadian dollars except where otherwise indicated)

Nine months ended September 30, 2013 ($ in 000's)	**Leasing**	**easyfinancial**	**Corporate**	**Total**
Revenue	**120,554**	**40,464**	**-**	**161,018**
Total operating expenses before depreciation & amortization	**62,394**	**27,145**	**13,890**	**103,429**
Depreciation and amortization	**38,388**	**1,312**	**433**	**40,133**
Segment operating income (loss)	**19,772**	**12,007**	**(14,323)**	**17,456**
Finance costs	**-**	**-**	**4,224**	**4,224**
Income (loss) before income taxes	**19,772**	**12,007**	**(18,547)**	**13,232**
Assets	**101,951**	**102,554**	**3,133**	**207,638**
Liabilities	**22,239**	**38,200**	**34,401**	**94,840**

Nine months ended September 30, 2012 ($ in 000's)	**Leasing**	**easyfinancial**	**Corporate**	**Total**
Revenue	121,162	26,817	-	147,979
Total operating expenses before depreciation, amortization and restructuring and other items	65,340	17,787	12,851	95,978
Restructuring and other items	1,296	-	(860)	436
Depreciation and amortization	38,820	420	406	39,646
Segment operating income (loss)	15,706	8,610	(12,397)	11,919
Finance costs	-	-	1,428	1,428
Income (loss) before income taxes	15,706	8,610	(13,825)	10,491
Assets	100,457	64,576	3,133	168,166
Liabilities	24,811	3,989	37,647	66,447

The Company operated across Canada and in certain U.S. states. During the nine month period ended September 30, 2013, 97% or $156.2 million of revenue was generated in Canada and 3% or $4.8 million of revenue was generated in the U.S. (2012 – 92% or $136.5 million of revenue was generated in Canada and 8% or $11.5 million of revenue was generated in the U.S.). Additionally, as at September 30, 2013, $200.1 million of the Company's assets were located in Canada and $7.5 million were located in the U.S. (2012 - $155.7 million in Canada and $12.5 million in the U.S.).

As at September 30, 2013, the Company's goodwill of $20.0 million (2012 - $20.0 million) was related entirely to its Canadian leasing segment.

(Expressed in thousands of Canadian dollars except where otherwise indicated)

The Company's leasing business consists of four major product categories: furniture, electronics, computers and appliances. Lease revenue as a percentage of total lease revenue for the nine months ended September 30, 2013 and 2012 are as follows:

	Nine months ended September 30	
(percentage)	**2013**	**2012**
Furniture	**38**	38
Electronics	**32**	33
Computers	**18**	17
Appliances	**12**	12
	100	100

14. SUBSEQUENT EVENT

On October 21, 2013, the Company entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to buy and sell to the public 1,346,900 common shares of the Company at a price of $14.85 per common share, for gross proceeds to the Company of $20,001. The underwriters have an option, exercisable in whole or in part at any time up to 30 days after the closing of the offering, to purchase up to an additional 202,035 common shares of the Company. In the event that the option is exercised in its entirety, the aggregate gross proceeds of the offering will be $23,002. Closing of the offering is expected to occur on or about November 12, 2013 and is subject to regulatory approval including that of the TSX Exchange.

The common shares to be issued under the offering will be offered by way of a short form prospectus in all provinces in Canada, except Quebec, and certain other jurisdictions.

The net proceeds of the offering will be used to fund growth initiatives in its easyfinancial services business and for general corporate and working capital purposes.