

Interim Condensed Consolidated Financial Statements

easyhome Ltd.

(Unaudited)

June 30, 2014

easyhome Ltd.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Unaudited)

(expressed in thousands of Canadian dollars)

	As at June 30, 2014	As at December 31, 2013
ASSETS		
Cash	294	2,329
Amounts receivable	8,000	7,206
Prepaid expenses	1,642	1,699
Consumer loans receivable (note 4)	136,750	103,936
Lease assets	62,623	68,453
Property and equipment (note 5)	16,415	15,793
Deferred tax assets (note 9)	7,790	3,997
Intangible assets	10,751	9,524
Goodwill	19,963	19,963
Total assets	264,228	232,900
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Bank revolving credit facility (note 6)	26,000	23,496
Accounts payable and accrued liabilities	28,126	24,322
Income taxes payable	10,521	3,929
Dividends payable (note 7)	1,133	1,130
Deferred lease inducements	2,590	2,749
Unearned revenue	4,031	3,763
Term loan (note 6)	48,038	37,878
Total liabilities	120,439	97,267
Contingencies (note 13)		
Shareholders' Equity		
Share capital (note 7)	80,338	79,923
Contributed surplus	4,976	4,169
Accumulated other comprehensive income	339	307
Retained earnings	58,136	51,234
Total shareholders' equity	143,789	135,633
Total liabilities and shareholders' equity	264,228	232,900

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		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
REVENUE				
Lease revenue	38,082	38,727	76,582	77,646
Interest income	14,726	8,695	27,515	16,562
Other	10,438	6,341	19,483	11,944
	63,246	53,763	123,580	106,152
EXPENSES BEFORE DEPRECIATION AND AMORTIZATION				
Salaries and benefits	19,483	16,926	37,742	32,816
Stock based compensation (note 8)	1,721	655	3,268	1,559
Advertising and promotion	1,707	2,108	3,336	3,883
Bad debts	6,048	3,231	10,255	6,377
Occupancy	6,986	6,343	13,909	13,063
Other	5,565	5,583	11,593	11,181
	41,510	34,846	80,103	68,879
DEPRECIATION AND AMORTIZATION				
Depreciation of lease assets	12,301	12,019	24,361	23,952
Depreciation of property and equipment	1,199	1,110	2,345	2,218
Amortization of intangible assets	506	313	986	607
Impairment, net (note 5)	60	50	142	(12)
	14,066	13,492	27,834	26,765
Total operating expenses	55,576	48,338	107,937	95,644
Operating income	7,670	5,425	15,643	10,508
Finance costs (note 6)	1,800	1,354	3,358	2,538
Income before income taxes	5,870	4,071	12,285	7,970
Income tax expense (recovery) (note 9)				
Current	3,714	850	6,913	2,402
Deferred	(2,380)	104	(3,794)	(461)
	1,334	954	3,119	1,941
Net income	4,536	3,117	9,166	6,029
Basic earnings per share (note 10)	0.34	0.26	0.68	0.50
Diluted earnings per share (note 10)	0.33	0.26	0.66	0.50

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		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income	4,536	3,117	9,166	6,029
Other comprehensive income (loss)				
Change in foreign currency translation reserve	(274)	227	32	362
Comprehensive income	4,262	3,344	9,198	6,391

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, 2013	79,923	4,169	84,092	51,234	307	135,633
Common shares issued	415	(68)	347	-	-	347
Stock-based compensation (note 8)	-	875	875	-	-	875
Comprehensive income	-	-	-	9,166	32	9,198
Dividends (note 7)	-	-	-	(2,264)	-	(2,264)
Balance, June 30, 2014	80,338	4,976	85,314	58,136	339	143,789
Balance, December 31, 2012	60,885	3,035	63,920	41,230	(137)	105,013
Common shares issued	8	-	8	-	-	8
Stock-based compensation (note 8)	-	405	405	-	-	405
Comprehensive income	-	-	-	6,029	362	6,391
Dividends (note 7)	-	-	-	(2,033)	-	(2,033)
Balance, June 30, 2013	60,893	3,440	64,333	45,226	225	109,784

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		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
OPERATING ACTIVITIES				
Net income	4,536	3,117	9,166	6,029
Add (deduct) items not affecting cash				
Depreciation of lease assets	12,301	12,019	24,361	23,952
Depreciation of property and equipment	1,199	1,110	2,345	2,218
Impairment, net (note 5)	60	50	142	(12)
Amortization of intangible assets	506	313	986	607
Stock-based compensation (note 8)	482	322	875	405
Bad debts expense	6,048	3,231	10,255	6,377
Deferred income tax recovery	(2,380)	104	(3,794)	(461)
Gain on sale of property and equipment	(899)	(146)	(1,018)	(161)
	21,853	20,120	43,318	38,954
Net change in other operating assets and liabilities (note 11)	8,697	672	9,771	(9,369)
Net issuance of consumer loans receivable	(26,634)	(11,946)	(43,069)	(18,546)
Cash provided by operating activities	3,916	8,846	10,020	11,039
INVESTING ACTIVITIES				
Purchase of lease assets	(10,852)	(8,664)	(19,635)	(19,284)
Purchase of property and equipment	(1,484)	(1,619)	(3,170)	(2,991)
Purchase of intangible assets	(1,261)	(1,333)	(2,206)	(1,769)
Proceeds on sale of property and equipment	1,600	575	2,191	575
Cash used in investing activities	(11,997)	(11,041)	(22,820)	(23,469)
FINANCING ACTIVITIES				
Advances (repayments) of bank revolving credit facility	3,871	(5,469)	2,504	2,469
Advances of term loan	128	7,080	10,160	12,084
Payment of common share dividends (note 7)	(1,123)	(1,018)	(2,246)	(2,033)
Issuance of common shares	170	4	347	8
Cash provided by financing activities	3,046	597	10,765	12,528
Net (decrease) increase in cash during the period	(5,035)	(1,598)	(2,035)	98
Cash, beginning of period	5,329	6,327	2,329	4,631
Cash, end of period	294	4,729	294	4,729

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

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 June 30, 2014, the Company operated 238 easyhome Leasing stores (including 60 franchises and 9 consolidated franchises) and 139 easyfinancial locations (December 31, 2013 – 237 easyhome Leasing stores including 55 franchises and 9 consolidated franchises, and 119 easyfinancial locations).

2. BASIS OF PREPARATION

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.
- easyfinancial mortgages Inc.
- easyfranchise LLC

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 30, 2014.

Statement of Compliance with IFRS

The unaudited interim condensed consolidated financial statements for the three month period ended June 30, 2014 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. 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 Financial Instruments

The Company will be required to adopt IFRS 9, *Financial Instruments*, which is the IASB's project to replace IAS 39. IFRS 9 is required to be applied for years beginning on or after January 1, 2018 with early adoption permitted, and will provide new requirements for the classification and measurement of financial assets and liabilities, impairment and hedge accounting. The Company has not yet assessed the impact of this standard.

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)	June 30, 2014	December 31, 2013
Consumer loans receivable	145,386	110,704
Allowance for loan losses	(8,636)	(6,768)
	136,750	103,936
Current	67,834	55,444
Non-current	68,916	48,492
	136,750	103,936

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

(\$ in 000's except percentages)	June 30, 2014		December 31, 2013	
	\$	% of total loans	\$	% of total loans
1 - 30 days	5,194	3.6%	5,445	4.9%
31 - 44 days	1,026	0.7%	811	0.7%
45 - 60 days	1,126	0.8%	855	0.8%
61 - 90 days	1,179	0.8%	1,005	0.9%
	8,525	5.9%	8,116	7.3%

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

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

(\$ in 000's)	Six months ended June 30, 2014	Year ended December 31, 2013
Balance, beginning of year	6,768	4,074
Net amounts written off against allowance	(8,387)	(12,106)
Increase due to lending and collection activities	10,255	14,800
Balance, end of year	8,636	6,768

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 six month periods ended June 30, 2014, the Company recorded impairment charges of \$87 and \$286, respectively, offset by impairment recoveries of \$27 and \$144, respectively. The net impairment expense for the three and six month periods ended June 30, 2014 was \$60 and \$142, respectively. For the three and six month periods ended June 30, 2013, the Company recorded impairment charges of \$67 and \$80, respectively, offset by impairment recoveries of \$17 and \$92, respectively. The net impairment expense (recovery) for the three and six month periods ended June 30, 2013 was \$50 and (\$12), respectively. All impairment charges and recoveries relate solely to the easyhome Leasing segment.

6. BANK REVOLVING CREDIT FACILITY AND TERM LOAN

Bank Revolving Credit Facility

(\$ in 000's)	June 30, 2014	December 31, 2013
Bank revolving credit facility	26,446	24,063
Unamortized deferred financing costs	(446)	(567)
Bank revolving credit facility	26,000	23,496

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

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 credit facility matures on October 4, 2015. The Company's interest rate under the facility as at June 30, 2014 was 4.50%.

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

Financial Covenant	Requirements	June 30, 2014
Total debt to EBITDA ratio	< 2.75	1.97
Total debt to tangible net worth ratio	< 1.00	0.63
Total active leased assets to total leased assets ratio	> 0.65	0.79
Adjusted EBITDA for preceding 12 months (excluding easyfinancial) (\$ in 000's)	> 16,000; minimum levels are established by fiscal quarter	17,263

Term Loan

(\$ in 000's)	June 30, 2014	December 31, 2013
Borrowing under term loan facility	50,000	40,000
Unamortized deferred financing costs	(1,962)	(2,122)
	48,038	37,878

All borrowings under the term loan facility bore 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 June 30, 2014 was 9.97%.

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

Financial Covenant	Requirements	June 30, 2014
Total debt to EBITDA ratio (consolidated)	< 2.50	1.74
Total debt to EBITDA ratio (easyfinancial only)	< 2.75	1.97
Total debt to tangible net worth ratio (consolidated)	< 1.00	0.63
Total debt to tangible net worth ratio (easyfinancial only)	< 0.85	0.58
Adjusted EBITDA for preceding 12 months (easyfinancial only) (\$ in 000's)	> 18,000; minimum levels are established by fiscal quarter	28,148

As at June 30, 2014, the Company was in compliance with all of its financial covenants under its lending agreements.

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

Finance Costs

Included in finance costs in the interim condensed 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:

(\$ in 000's)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest expense	1,578	1,159	2,926	2,147
Amortization of deferred financing charges	222	195	432	391
	1,800	1,354	3,358	2,538

Subsequent refinancing

On July 28, 2014 the Company entered into a new \$200 million credit facility which replaced the Company's then existing debt facilities. The new credit facility, which expires on October 4, 2018, is comprised of a \$180 million term loan and a \$20 million revolving operating facility. \$105 million of the term loan must be drawn at closing with the balance available in periodic advances until July 31, 2015. Borrowings under the term loan bear interest at the Canadian Bankers' Acceptance rate plus 722 bps. Borrowing under the revolving operating facility bears interest at the lender's prime rate plus 200 to 300 bps, depending on the Company's debt to EBITDA ratio. The new credit facility is secured by a first charge over substantially all assets of the Company.

7. SHARE CAPITAL

Common Shares Issued and Outstanding

The changes in common shares are summarized as follows:

(\$ in 000's except number of shares in 000's)	Six months ended June 30, 2014		Year ended December 31, 2013	
	# of shares	\$	# of shares	\$
Balance, beginning of the year	13,289	79,923	11,940	60,885
Common share equity offering	-	-	1,347	19,020
Exercise of stock options	39	401	-	-
Dividend reinvestment plan	1	14	2	18
Balance, end of the year	13,329	80,338	13,289	79,923

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).

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

Dividends on Common Shares

For the three and six month periods ended June 30, 2014, the Company paid dividends of \$1.1 million or \$0.085 per share and \$2.3 million or \$0.17 per share, respectively. For the three and six month periods ended June 30, 2013, the Company paid dividends of \$1.0 million or \$0.085 per share and \$2.0 or \$0.17 per share, respectively. The Company declared a dividend of \$0.085 per share on May 7, 2014 to shareholders of record on June 27, 2014, payable on July 11, 2014. The dividend paid on July 11, 2014 was \$1.1 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 six month periods ended June 30, 2014, the Company granted nil and 179,832 options, respectively (2013 – nil and 202,296 options, respectively), and recorded an expense of \$114 and \$182, respectively (2013 – expense of \$70 and \$113, respectively) in stock-based compensation expense in the interim condensed consolidated statements of income, with a corresponding adjustment to contributed surplus.

Restricted Share Unit ["RSU"] Plan

On May 8, 2014, 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 150,000 shares, from 615,000 to 765,000 shares.

During the three and six month periods ended June 30, 2014, the Company granted nil RSUs (2013 – 429,210 RSUs for both periods) to employees of the Company under its RSU Plan. RSUs are granted at fair market value at the grant date and generally vest evenly over a three-year period based on long-term targets. For the three and six month periods ended June 30, 2014, \$325 and \$609, respectively (2013 – \$212 for both periods) was recorded as an expense in stock-based compensation expense in the interim condensed consolidated statements of income. Additionally, for the three and six month periods ended June 30, 2014, an additional 1,535 and 3,088 RSUs, respectively, (2013 – 329 and 669 RSUs, respectively) were granted as a result of dividends payable.

Performance Share Unit ["PSU"] Plan

During the three and six month periods ended June 30, 2014, the Company granted nil and 174,134 PSUs (2013 – nil and 295,486) to senior executives of the Company under its PSU Plan. 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 three and six month periods ended June 30, 2014, \$1,239 and \$2,393, respectively, (2013 – \$333 and \$1,154, respectively) was recorded as an expense in stock-based compensation expense in the interim condensed consolidated statements of income. Additionally, for the three and six month periods ended June 30, 2014, an additional 4,249 and 7,675 PSUs, respectively, (2013 – 10,399 and 18,415) were granted as a result of dividends payable.

The PSU liability as at June 30, 2014 was \$5,358 (December 31, 2013 - \$2,841).

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the periods ended June 30, 2014 and June 30, 2013

Deferred Share Unit ["DSU"] Plan

During the three and six month periods ended June 30, 2014, the Company granted 1,512 and 3,270 DSUs, respectively, (2013 – 2,828 and 5,807, respectively) 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 three and six month periods ended June 30, 2014, \$42 and \$84, respectively, (2013 – \$39 and \$79, respectively) was recorded as stock-based compensation expense under the DSU Plan in stock-based compensation expense in the interim condensed consolidated statements of income. Additionally, for the three and six month periods ended June 30, 2014, an additional 623 and 1,244 DSUs, respectively, (2013 – 1,007 and 1,977, respectively) were granted as a result of dividends payable.

Stock Based Compensation Expense

(\$ in 000's)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Equity-settled stock based compensation	482	322	875	405
Cash-settled stock based compensation	1,239	332	2,393	1,153
	1,721	654	3,268	1,558

9. INCOME TAXES

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

(\$ in 000's except percentages)	Six months ended	
	June 30, 2014	June 30, 2013
Combined basic federal and provincial income tax rates	27.1%	26.9%
Expected income tax expense	3,342	2,148
Non-deductible expenses	134	65
U.S. and SPE results not tax affected	(138)	11
Other	(219)	(283)
	3,119	1,941

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the periods ended June 30, 2014 and June 30, 2013

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

(\$ in 000's)	June 30, 2014	December 31, 2013
Tax cost of lease assets and property and equipment in excess of net book value	3,070	(177)
Amounts receivable and provisions	2,528	2,054
Deferred salary arrangements	1,839	1,043
Lease inducements	102	659
Unearned revenue	222	232
Financing fees	269	382
Other	(240)	(196)
	7,790	3,997

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 and DSUs outstanding. DSUs were included in the calculation of the weighted average number of ordinary shares outstanding as these units vest upon grant.

(\$ in 000's except number of shares and earnings per share)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income	4,536	3,117	9,166	6,029
Weighted average number of ordinary shares outstanding (in 000's)	13,449	12,060	13,435	12,058
Basic earnings per ordinary share	0.34	0.26	0.68	0.50

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 was 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, were 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 was included in the calculation of diluted earnings per share.

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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the periods ended June 30, 2014 and June 30, 2013

(\$ in 000's except number of shares and earnings per share)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income	4,536	3,117	9,166	6,029
Weighted average number of ordinary shares outstanding (in 000's)	13,449	12,060	13,435	12,058
Dilutive effect of stock-based compensation (in 000's)	412	25	392	28
Weighted average number of diluted shares outstanding	13,861	12,085	13,827	12,086
Dilutive earnings per ordinary share	0.33	0.26	0.66	0.50

For the three and six month periods ended June 30, 2014, 179,832 stock options to acquire common shares (2013 – 413,546 and 412,946 stock options, respectively), 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.

11. NET CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES

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

(\$ in 000's)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Amounts receivable	(726)	(1,160)	(794)	(1,102)
Prepaid expenses	417	24	57	(343)
Accounts payable and accrued liabilities	5,480	1,228	3,804	(10,438)
Dividends payable	2	(4)	3	(1)
Income taxes payable	3,444	702	6,592	2,103
Deferred lease inducements	(7)	(132)	(159)	(24)
Unearned revenue	87	14	268	436
	8,697	672	9,771	(9,369)

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

(\$ in 000's)	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Income taxes paid	268	163	319	313
Income taxes refunded	-	-	-	-
Interest paid	1,588	1,167	2,942	2,148
Interest received	14,548	8,744	26,949	16,530

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

12. FINANCIAL INSTRUMENTS

Recognition and Measurement of Financial Instruments

The Company has classified its financial instruments as follows:

(\$ in 000's)		June 30, 2014	December 31, 2013
Financial Instruments	Measurement		
Cash	Fair value	294	2,329
Amounts receivable	Amortized cost	8,000	7,206
Consumer loans receivable	Amortized cost	136,750	103,936
Accounts payable and accrued liabilities	Amortized cost	28,126	24,301
Bank revolving credit facility	Amortized cost	26,000	23,496
Term loan	Amortized cost	48,038	37,878

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

Fair Value Measurement

All assets and liabilities for which fair value was measured or disclosed in the consolidated financial statements were categorized within the fair value hierarchy, described as follows, based on the lowest level input that was 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 required 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 June 30, 2014:

(\$ in 000's)	Total	Level 1	Level 2	Level 3
Amounts receivable	8,000	-	-	8,000
Consumer loans receivable	136,750	-	-	136,750
Accounts payable and accrued liabilities	28,126	-	-	28,126
Bank revolving credit facility	26,000	-	-	26,000
Term loan	48,038	-	-	48,038

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

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

13. CONTINGENCIES

The Company was involved in various legal matters arising in the ordinary course of business. The resolution of these matters was 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.

14. SEGMENTED REPORTING

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

Accounting policies for each of these business segments are the same as those disclosed in the consolidated financial statements for the year ended December 31, 2013. 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 three and six month periods ended June 30, 2014 and 2013:

Three months ended June 30, 2014 (\$ in 000's)	easyhome Leasing	easyfinancial	Corporate	Total
Revenue	39,936	23,310	-	63,246
Total operating expenses before depreciation and amortization	20,300	15,351	5,859	41,510
Depreciation and amortization	13,129	781	156	14,066
Segment operating income (loss)	6,507	7,178	(6,015)	7,670
Finance costs	-	-	1,800	1,800
Income (loss) before income taxes	6,507	7,178	(7,815)	5,870

Three months ended June 30, 2013 (\$ in 000's)	easyhome Leasing	easyfinancial	Corporate	Total
Revenue	40,428	13,335	-	53,763
Total operating expenses before depreciation and amortization	20,976	9,183	4,687	34,846
Depreciation and amortization	12,918	430	144	13,492
Segment operating income (loss)	6,534	3,722	(4,831)	5,425
Finance costs	-	-	1,354	1,354
Income (loss) before income taxes	6,534	3,722	(6,185)	4,071

easyhome Ltd.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended June 30, 2014 and June 30, 2013

Six months ended June 30, 2014 (\$ in 000's)	easyhome Leasing	easyfinancial	Corporate	Total
Revenue	80,236	43,344	-	123,580
Total operating expenses before depreciation and amortization	40,299	27,513	12,291	80,103
Depreciation and amortization	26,036	1,490	308	27,834
Segment operating income (loss)	13,901	14,341	(12,599)	15,643
Finance costs	-	-	3,358	3,358
Income (loss) before income taxes	13,901	14,341	(15,957)	12,285

Six months ended June 30, 2013 (\$ in 000's)	easyhome Leasing	easyfinancial	Corporate	Total
Revenue	80,984	25,168	-	106,152
Total operating expenses before depreciation and amortization	42,110	17,325	9,444	68,879
Depreciation and amortization	25,676	805	284	26,765
Segment operating income (loss)	13,198	7,038	(9,728)	10,508
Finance costs	-	-	2,538	2,538
Income (loss) before income taxes	13,198	7,038	(12,266)	7,970

As at June 30, 2014, the Company's goodwill of \$20.0 million (2013 - \$20.0 million) related entirely to its easyhome Leasing segment.

The Company's easyhome Leasing business consisted of four major product categories: furniture, electronics, computers and appliances. Lease revenue generated by these product categories as a percentage of total lease revenue for the six month period ended June 30, 2014 and 2013 was as follows:

percentage)	Six months ended	
	June 30, 2014 (%)	June 30, 2013 (%)
Furniture	37	38
Electronics	33	32
Computers	18	18
Appliances	12	12
	100	100

The Company operates across Canada and in certain U.S. states. During the six month period ended June 30, 2014, 97% or \$119.5 million of revenue was generated in Canada and 3% or \$4.1 million of revenue was generated in the U.S. (2013 – 96% or \$102.3 million of revenue was generated in Canada and 4% or \$3.9 million of revenue was generated in the U.S.). Additionally, as at June 30, 2014, \$256.4 million of the Company's assets were located in Canada and \$7.8 million were located in the U.S. (2013 - \$192.7 million in Canada and \$8.6 million in the U.S.).