Interim Condensed Consolidated Financial Statements

easyhome Ltd.

(Unaudited)

March 31, 2013

easyhome Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)
(expressed in thousands of Canadian dollars)

	As at March 31, 2013	As at December 31, 2012
ASSETS		
Current assets		
Cash	**6,327**	4,631
Amounts receivable	**4,735**	4,536
Consumer loans receivable (note 4)	**40,722**	34,425
Prepaid expenses	**1,331**	964
Total current assets	**53,115**	44,556
Amounts receivable	**743**	1,000
Consumer loans receivable (note 4)	**29,316**	32,159
Lease assets	**66,805**	68,075
Property and equipment (note 5)	**14,244**	13,729
Deferred tax assets (note 9)	**4,797**	4,232
Intangible assets	**6,269**	6,213
Goodwill	**19,963**	19,963
TOTAL ASSETS	**195,252**	189,927
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank revolving credit facility (note 6)	**29,219**	21,281
Accounts payable and accrued liabilities	**20,241**	31,696
Income taxes payable	**5,617**	4,216
Dividends payable (note 7)	**1,015**	1,012
Deferred lease inducements	**644**	564
Unearned revenue	**4,344**	3,922
Provisions	**301**	379
Total current liabilities	**61,381**	63,070
Accounts payable and accrued liabilities	**1,392**	1,459
Deferred lease inducements	**1,926**	1,898
Term loan (note 6)	**23,334**	18,330
Provisions	**91**	157
Total liabilities	**88,124**	84,914
Contingencies (note 12)		
Shareholders' equity		
Share capital (note 7)	**60,889**	60,885
Contributed surplus	**3,118**	3,035
Accumulated other comprehensive loss	**(2)**	(137)
Retained earnings	**43,123**	41,230
Total shareholders' equity	**107,128**	105,013
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**195,252**	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 March 31, 2013	Three months ended March 31, 2012
REVENUE		
Lease revenue	**38,919**	40,239
Interest income	**7,867**	5,240
Other	**5,603**	4,308
	52,389	49,787
EXPENSES BEFORE DEPRECIATION AND AMORTIZATION		
Salaries and benefits	**15,890**	16,168
Stock-based compensation (note 8)	**904**	297
Advertising and promotion	**1,775**	1,853
Bad debts	**3,146**	2,001
Occupancy	**6,720**	6,663
Distribution and travel	**1,726**	1,781
Other	**3,872**	3,537
	34,033	32,300
DEPRECIATION AND AMORTIZATION		
Depreciation of lease assets	**11,933**	12,076
Depreciation of property and equipment	**1,108**	975
Amortization of intangible assets	**294**	114
Impairment, net (note 5)	**(62)**	116
	13,273	13,281
Total operating expenses	**47,306**	45,581
Operating income	**5,083**	4,206
Finance costs	**1,184**	484
Income before income taxes	**3,899**	3,722
Income tax expense (recovery) (note 9)		
Current	**1,552**	917
Deferred	**(565)**	182
	987	1,099
Net income	**2,912**	2,623
Basic earnings per share (note 10)	**0.24**	0.22
Diluted earnings per share (note 10)	**0.24**	0.22

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 March 31, 2013	Three months ended March 31, 2012
Net income	**2,912**	2,623
Other comprehensive income (loss)		
Change in foreign currency translation reserve	**135**	(236)
Comprehensive income	**3,047**	2,387

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	**4**	**-**	**4**	**-**	**-**	**4**
Stock-based compensation	**-**	**83**	**83**	**-**	**-**	**83**
Comprehensive income (loss)	-	-	**-**	**2,912**	**135**	**3,047**
Dividends (note 7)	-	-	**-**	**(1,019)**	-	**(1,019)**
Balance, March 31, 2013	**60,889**	**3,118**	**64,007**	**43,123**	**(2)**	**107,128**
Balance, December 31, 2011	60,207	3,171	63,378	34,216	(52)	97,542
Common shares issued	245	(323)	(78)	-	-	(78)
Stock-based compensation	-	36	36	-	-	36
Comprehensive income (loss)	-	-	-	2,623	(236)	2,387
Dividends (note 7)	-	-	-	(1,009)	-	(1,009)
Balance, March 31, 2012	60,452	2,884	63,336	35,830	(288)	98,878

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	
	March 31, 2013	**March 31, 2012**
OPERATING ACTIVITIES		
Net income	**2,912**	2,623
Add (deduct) items not affecting cash		
Depreciation of lease assets	**11,933**	12,076
Depreciation of property and equipment	**1,108**	975
Impairment, net (note 5)	**(62)**	116
Amortization of intangible assets	**294**	114
Stock-based compensation (note 8)	**83**	36
Bad debt expense	**3,146**	2,001
Deferred income tax (recovery) expense	**(565)**	182
(Gain) loss on sale of property and equipment	**(15)**	27
	18,834	18,150
Net change in other operating assets and liabilities (note 11)	**(10,041)**	(2,595)
Net issuance of consumer loans receivable	**(6,600)**	(3,198)
Cash provided by operating activities	**2,193**	12,357
INVESTING ACTIVITIES		
Purchase of lease assets	**(10,620)**	(10,605)
Purchase of property and equipment	**(1,372)**	(668)
Purchase of intangible assets	**(436)**	(233)
Cash used in investing activities	**(12,428)**	(11,506)
FINANCING ACTIVITIES		
Advances of bank revolving credit facility	**7,938**	41
Advances of term loan	**5,004**	-
Payment of common share dividends (note 7)	**(1,015)**	(1,007)
Redemption of deferred share units	**-**	(78)
Issuance of common shares	**4**	-
Cash provided by (used in) financing activities	**11,931**	(1,044)
Net increase (decrease) in cash during the period	**1,696**	(193)
Cash, beginning of period	**4,631**	1,019
Cash, end of period	**6,327**	826

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 March 31, 2013 and March 31, 2012

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 three reportable segments: leasing, easyfinancial and franchising. As at March 31, 2013, the Company operated 191 easyhome leasing stores (including 9 consolidated SPE franchises), 100 easyfinancial locations and had 49 franchise locations (December 31, 2012 – 204 easyhome leasing stores including 9 consolidated SPE franchises, 100 easyfinancial locations and 49 franchise locations).

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 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 month period ended March 31, 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 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 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)	**March 31, 2013**	**December 31, 2012**
Consumer loans receivable	**74,653**	70,658
Allowance for loan losses	**(4,615)**	(4,074)
	70,038	66,584
Current	**40,722**	34,425
Non-current	**29,316**	32,159
	70,038	66,584

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

	March 31, 2013		**December 31, 2012**	
($ in 000's except %)	**$**	**% of total loans**	**$**	**% of total loans**
1 - 30 days	**3,232**	**4.3%**	2,822	4.0%
31 - 44 days	**650**	**0.9%**	543	0.8%
45 - 60 days	**628**	**0.8%**	589	0.8%
61 - 90 days	**823**	**1.1%**	796	1.1%
	5,333	**7.1%**	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)	**Three months ended March 31, 2013**	**Year ended December 31, 2012**
Balance, beginning of period	**4,074**	2,627
Amounts written off against allowance	**(2,605)**	(8,293)
Provision for bad debts	**3,146**	9,740
Balance, end of period	**4,615**	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 months ended March 31, 2013, the Company recorded an impairment charge of $13 (2012 - $351), offset by an impairment recovery of $75 (2012 - $235). The net impairment recovery for the three months ended March 31, 2013 was $62 (2012 – impairment charge of $116). 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)	**March 31, 2013**	**December 31, 2012**
Bank revolving credit facility	**29,219**	21,281

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.

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

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 March 31, 2013 was 5.00%. The bank revolving credit facility has a maximum limit of $35.0 million, reducing to $30.0 million on October 5, 2013, and the maturity date is October 4, 2015.

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

Financial Covenant	**Requirements**	**March 31, 2013**	**December 31, 2012**
Total debt to EBITDA ratio	< 2.75	**2.33**	1.84
Total debt to tangible net worth ratio	< 1.00	**0.65**	0.51
Total active leased assets to total leased assets ratio	> 0.65	**0.78**	0.80
Adjusted EBITDA for preceding 12 months (excluding easyfinancial) ($ in 000's)	minimum levels are established by fiscal quarter	**14,611**	13,868

Term Loan

($ in 000's)	**March 31, 2013**	**December 31, 2012**
Term loan	**23,334**	18,330

On March 21, 2013, the Company amended its term loan facility to allow for an additional term loan of U.S. $5.0 million ["Additional Term Loan"]. Borrowings under the original $20.0 million term loan ["Original Term Loan"] and under the Additional Term Loan bear interest at 10.50% and 9.75% over the Canadian Bankers' Acceptance rate, respectively. All borrowings under the term loan 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 rates under the Original Term Loan and Additional Term Loan as at March 31, 2013 were 11.70% and 10.95%, respectively.

Concurrent with amending the term loan facility, the Company entered into a three-month forward contract to purchase U.S. $5.0 million to manage its exposure to foreign exchange risk. Accumulated gains or losses on the forward contract were included in term loan in the interim condensed consolidated statements of financial position.

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

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

Financial Covenant	Requirements	March 31, 2013	December 31, 2012
Total debt to EBITDA ratio (consolidated)	< 2.75	**2.33**	1.84
Total debt to EBITDA ratio (easyfinancial only)	< 2.25, reducing to 2.00 in the quarter ending Mar. 31, 2014, reducing to 1.75 in the quarter ending Sept. 30, 2014 and reducing to 1.50 in the quarter ending Sept. 30, 2015	**1.40**	1.18
Total debt to tangible net worth ratio (consolidated)	< 1.00	**0.65**	0.51
Total debt to tangible net worth ratio (easyfinancial only)	< 0.55	**0.32**	0.26
Total active leased assets to total leased assets ratio	> 0.65	**0.78**	0.80
Adjusted EBITDA for preceding 12 months (easyfinancial only) ($ in 000's)	minimum levels are established by fiscal quarter	**13,119**	12,350

As at March 31, 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:

	Three months ended March 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 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	**1**	**4**	66	433
Balance, end of the period	**11,941**	**60,889**	11,940	60,885

Dividends on common shares

For the three months ended March 31, 2013, the Company paid dividends of $1.0 million (2012 - $1.0 million), or $0.085 per share (2012 - $0.085 per share). The Company declared a dividend of $0.085 per share on March 11, 2013 to shareholders of record on April 5, 2013, payable on April 16, 2013. The dividend paid on April 16, 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 months ended March 31, 2013, the Company granted 202,296 options (2012 – nil options) and recorded an expense of $43 (2012 – $36) in stock-based compensation in the interim condensed consolidated statements of income, with a corresponding increase in contributed surplus.

Restricted Share Unit Plan

During the three months ended March 31, 2013, the Company granted no Restricted Share Units ["RSUs"] (2012 – nil) to senior executives 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. For the three months ended March 31, 2013 and 2012, no expense was recorded in relation to the RSU plan. Additionally, for the three months ended March 31, 2013, 340 RSUs (2012 – 1,523) were granted as a result of dividends payable.

Performance Share Unit Plan

During the three months ended March 31, 2013, the Company granted 295,486 Performance Share Units ["PSUs"] (2012 – 401,552) to senior executives of the Company under its PSU Plan. PSUs are granted at fair market value at the grant date and vest based on earnings per share targets. For the three months ended March 31, 2013, $821 (2012 – $261) was recorded as an expense under the PSU Plan in stock-based compensation expense in the interim condensed consolidated statements of income. Additionally, for the three months ended March 31, 2013, 8,016 PSUs (2012 – 8,810) were granted as a result of dividends payable.

The PSU liability as at March 31, 2013 was $3,189 (2012 - $947).

Deferred Share Unit Plan

During the three months ended March 31, 2013, the Company granted 2,979 Deferred Share Units ["DSUs"] (2012 – nil) 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 months ended March 31, 2013, $40 (2012 - nil) was recorded as an expense under the DSU Plan in stock-based compensation expense in the interim condensed consolidated statements of income, with a corresponding increase in contributed surplus. Additionally, for the three months ended March 31, 2013, 970 DSUs (2012 – nil) were granted as a result of dividends payable.

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

For the three months ended March 31, 2013, $904 (2012 - $297) 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:

($ in 000's)	Three months ended March 31 2013	2012
Combined basic federal and provincial income tax rates	**26.9%**	26.3%
Expected income tax expense	**1,049**	979
Non-deductible expenses	**28**	37
U.S. and SPE results not tax affected	**(34)**	77
Other	**(56)**	6
	987	1,099

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

($ in 000's)	March 31, 2013	December 31, 2012
Tax cost of lease assets and property and equipment in excess of net book value	**1,754**	1,494
Amounts receivable and provisions	**1,414**	1,285
Deferred salary arrangements	**900**	694
Lease inducements	**599**	599
Unearned revenue	**210**	182
Financing fees	**74**	85
Other	**(154)**	(107)
	4,797	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:

	Three months ended March 31	
($ in 000's except number of shares and earnings per share)	**2013**	**2012**
Net income	**2,912**	2,623
Weighted average number of ordinary shares outstanding	**12,056**	11,979
Basic earnings per ordinary share	**0.24**	0.22

Included in the weighted average number of ordinary shares outstanding for the three months ended March 31, 2013 were 115,503 DSUs (2012 – 113,982).

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

	Three months ended March 31	
($ in 000's except number of shares and earnings per share)	**2013**	**2012**
Net income	**2,912**	2,623
Weighted average number of ordinary shares outstanding	**12,056**	11,979
Dilutive effect of stock-based compensation	**38**	-
Weighted average number of diluted shares outstanding	**12,094**	11,979
Dilutive earnings per ordinary share	**0.24**	0.22

The dilutive effect of stock-based compensation reflected 37,569 of stock options for the three months ended March 31, 2013 (2012 – nil). For the three month period ended March 31, 2013, stock options to acquire 471,576 common shares (2012 – 708,362 options) were not included in the calculation of diluted earnings per share as their exercise prices exceeded the average market share price for the period or performance conditions were not met.

(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:

($ in 000's)	Three months ended March 31 2013	2012
Amounts receivable	**58**	1,836
Prepaid expenses	**(367)**	14
Accounts payable and accrued liabilities and dividends payable	**(11,519)**	(5,361)
Income taxes payable	**1,401**	1,016
Deferred lease inducements	**108**	(53)
Unearned revenue	**422**	(52)
Provisions	**(144)**	5
	(10,041)	(2,595)

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

($ in 000's)	Three months ended March 31 2013	2012
Income taxes paid	**150**	-
Interest paid	**981**	477
Interest received	**7,786**	5,264

12. CONTINGENCIES

Class action lawsuit

The Company and certain of its current and former officers have been 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 alleges, 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 seeks $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. The settlement, which is subject to court approval, contemplates a settlement amount of $2.25 million, which, if approved, will be distributed to class counsel and members of the class. The settlement approval hearing is set for June 10, 2013. The settlement funds have been pre-funded in escrow by the Company's insurer pursuant to the Company's insurance policies. The settlement agreement reached between the Company and the class contains no admissions of liability on the part of the Company or any of its current or former officers or directors.

The settlement reflects an analysis of the facts and law applicable to the issues in this case, and takes into account the extensive burdens, complexity, risks and expense of continued 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 three reportable segments as follows:

- Leasing
- easyfinancial
- Franchising

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 pre-tax operating income.

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

The following tables summarize the relevant information for the three months ended March 31, 2013 and 2012:

Three months ended March 31, 2013 ($ in 000's)	**Leasing**	**easyfinancial**	**Franchising**	**Corporate**	**Total**
Revenue	**40,119**	**11,833**	**437**	**-**	**52,389**
Total operating expenses before depreciation and amortization	**20,986**	**8,142**	**148**	**4,757**	**34,033**
Depreciation and amortization	**12,693**	**375**	**65**	**140**	**13,273**
Segment operating income (loss)	**6,440**	**3,316**	**224**	**(4,897)**	**5,083**
Finance costs				**1,184**	**1,184**
Income (loss) before income taxes	**6,440**	**3,316**	**224**	**(6,081)**	**3,899**
Assets	**104,804**	**85,870**	**1,428**	**3,150**	**195,252**
Liabilities	**24,148**	**28,521**	**-**	**35,455**	**88,124**

Three months ended March 31, 2012 ($ in 000's)	**Leasing**	**easyfinancial**	**Franchising**	**Corporate**	**Total**
Revenue	41,188	8,193	406	-	49,787
Total operating expenses before depreciation and amortization	22,012	5,272	125	4,891	32,300
Depreciation and amortization	12,989	128	31	133	13,281
Segment operating income (loss)	6,187	2,793	250	(5,024)	4,206
Finance costs	-	-	-	484	484
Income (loss) before income taxes	6,187	2,793	250	(5,508)	3,722
Assets	97,998	52,192	2,295	2,972	155,457
Liabilities	17,394	1,544	136	37,505	56,579

The Company operated across Canada and in certain U.S. states. During the three months ended March 31, 2013, 96% or $50.5 million of revenue was generated in Canada and 4% or $1.9 million of revenue was generated in the U.S. (2012 – 92% or $45.8 million of revenue was generated in Canada and 8% or $4.0 million of revenue was generated in the U.S.). Additionally, as at March 31, 2013, $186.8 million of the Company's assets were located in Canada and $8.5 million were located in the U.S. (2012 - $142.8 million in Canada and $12.7 million in the U.S.).

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

As at March 31, 2013, the Company's goodwill of $20.0 million (2012 - $20.0 million) was related entirely to its Canadian leasing segment.

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 three months ended March 31, 2013 and 2012 are as follows:

	Three months ended March 31	
(percentage)	**2013 (%)**	**2012 (%)**
Furniture	**38**	40
Electronics	**32**	32
Computers	**18**	17
Appliances	**12**	11
	100	100