

## Interim Condensed Consolidated Financial Statements

### **easyhome Ltd.**

(Unaudited)

March 31, 2012

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

(Unaudited)

(expressed in thousands of Canadian dollars)

	As at March 31, 2012	As at December 31, 2011
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	826	1,019
Amounts receivable	4,004	5,893
Income taxes recoverable	-	600
Consumer loans receivable (note 4)	32,246	32,619
Prepaid expenses	1,302	1,316
<b>Total current assets</b>	<b>38,378</b>	<b>41,447</b>
Amounts receivable	1,418	1,365
Consumer loans receivable (note 4)	13,889	12,319
Lease assets	65,295	66,996
Property and equipment (note 5)	12,156	12,612
Deferred tax assets (note 9)	2,751	2,933
Intangible assets	4,245	4,126
Goodwill	17,325	17,325
<b>TOTAL ASSETS</b>	<b>155,457</b>	<b>159,123</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Bank revolving credit facility (note 6)	33,164	33,123
Accounts payable and accrued liabilities	13,923	19,504
Income taxes payable	416	-
Dividends payable (note 7)	1,009	1,007
Deferred lease inducements	580	598
Unearned revenue	4,510	4,562
Provisions	34	24
<b>Total current liabilities</b>	<b>53,636</b>	<b>58,818</b>
Accounts payable and accrued liabilities	947	727
Deferred lease inducements	1,924	1,959
Provisions	72	77
<b>Total liabilities</b>	<b>56,579</b>	<b>61,581</b>
<b>Contingencies (note 12)</b>		
<b>Shareholders' equity</b>		
Share capital (note 7)	60,452	60,207
Contributed surplus	2,884	3,171
Accumulated other comprehensive loss	(288)	(52)
Retained earnings	35,830	34,216
<b>Total shareholders' equity</b>	<b>98,878</b>	<b>97,542</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>155,457</b>	<b>159,123</b>

*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, 2012	March 31, 2011
<b>REVENUE</b>		
Lease revenue	40,239	40,782
Interest income	5,240	2,843
Other	4,308	2,578
	<b>49,787</b>	<b>46,203</b>
<b>EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</b>		
Salaries and benefits (note 8)	16,465	14,690
Advertising and promotion	1,853	1,594
Bad debts	2,001	1,124
Occupancy	6,663	6,457
Distribution and travel	1,781	1,881
Other	3,537	3,212
	<b>32,300</b>	<b>28,958</b>
<b>DEPRECIATION AND AMORTIZATION</b>		
Depreciation of lease assets	12,076	12,451
Depreciation of property and equipment	975	846
Amortization of intangible assets	114	106
Impairment (net) (note 5)	116	-
	<b>13,281</b>	<b>13,403</b>
Total operating expenses	45,581	42,361
Operating income	4,206	3,842
Interest expense	484	297
Income before income taxes	3,722	3,545
Income tax expense (note 9)		
Current	917	332
Deferred	182	831
	<b>1,099</b>	<b>1,163</b>
<b>Net income</b>	<b>2,623</b>	<b>2,382</b>
<b>Basic earnings per share (note 10)</b>	<b>0.22</b>	<b>0.20</b>
<b>Diluted earnings per share (note 10)</b>	<b>0.22</b>	<b>0.20</b>

*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)

	<b>Three months ended</b>	
	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Net income	<b>2,623</b>	2,382
<b>Other comprehensive loss</b>		
Foreign currency translation reserve	<b>(236)</b>	(316)
<b>Comprehensive income</b>	<b>2,387</b>	2,066

*See accompanying notes to the interim condensed consolidated financial statements*

easyhome Ltd.

**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
<b>Balance, December 31, 2011</b>	<b>60,207</b>	<b>3,171</b>	<b>63,378</b>	<b>34,216</b>	<b>(52)</b>	<b>97,542</b>
Common shares issued	245	(323)	(78)	-	-	(78)
Stock-based compensation (note 8)	-	36	36	-	-	36
Comprehensive income	-	-	-	2,623	(236)	2,387
Dividends (note 7)	-	-	-	(1,009)	-	(1,009)
<b>Balance, March 31, 2012</b>	<b>60,452</b>	<b>2,884</b>	<b>63,336</b>	<b>35,830</b>	<b>(288)</b>	<b>98,878</b>
<b>Balance, December 31, 2010</b>	<b>60,074</b>	<b>3,061</b>	<b>63,135</b>	<b>28,633</b>	<b>(257)</b>	<b>91,511</b>
Common shares issued	133	(191)	(58)	-	-	(58)
Stock-based compensation (note 8)	-	163	163	-	-	163
Comprehensive income	-	-	-	2,382	(316)	2,066
Dividends (note 7)	-	-	-	(1,007)	-	(1,007)
<b>Balance, March 31, 2011</b>	<b>60,207</b>	<b>3,033</b>	<b>63,240</b>	<b>30,008</b>	<b>(573)</b>	<b>92,675</b>

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, 2012	March 31, 2011
<b>OPERATING ACTIVITIES</b>		
Net income	2,623	2,382
Add (deduct) items not affecting cash		
Depreciation of lease assets	12,076	12,451
Depreciation of property and equipment (note 5)	975	846
Impairment (net) (note 5)	116	-
Amortization of intangible assets	114	106
Stock-based compensation (note 8)	36	163
Bad debt expense	2,001	1,124
Deferred income tax expense	182	831
Deferred financing charges	90	29
(Gain) loss on sale of property and equipment	27	(42)
	<b>18,240</b>	<b>17,890</b>
Net change in other operating assets and liabilities (note 11)	(2,595)	(6,635)
Net issuance of consumer loans receivable	(3,198)	(7,624)
<b>Cash provided by operating activities</b>	<b>12,447</b>	<b>3,631</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of lease assets	(10,605)	(10,784)
Purchase of property and equipment	(668)	(599)
Purchase of intangible assets	(233)	(20)
Proceeds on sale of property and equipment	-	269
<b>Cash used in investing activities</b>	<b>(11,506)</b>	<b>(11,134)</b>
<b>FINANCING ACTIVITIES</b>		
Advances (repayments) of bank revolving credit facility	(49)	9,658
Payments of term loan	-	(873)
Payment of common share dividends (note 7)	(1,007)	(892)
Redemption of deferred share units	(78)	(58)
<b>Cash provided by (used in) financing activities</b>	<b>(1,134)</b>	<b>7,835</b>
<b>Net increase (decrease) in cash during the period</b>	<b>(193)</b>	<b>332</b>
Cash, beginning of period	1,019	731
<b>Cash, end of period</b>	<b>826</b>	<b>1,063</b>

*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, 2012 and March 31, 2011

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#### **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 while the registered office is located in Toronto, 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.
- easyhome U.S. Ltd.
- Insta-rent Ltd.

The Company's principal operating activities includes 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 its easyfinancial Services Inc. business ["easyfinancial"].

The Company operates in three reportable segments: leasing, easyfinancial and franchising. As at March 31, 2012, the Company operated 216 easyhome leasing stores (including 5 consolidated SPE franchises), 90 easyfinancial locations and had 44 franchise locations (March 31, 2011 – 220 easyhome leasing stores, 69 easyfinancial locations and 35 franchise locations).

#### **2. BASIS OF PREPARATION**

These unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 7, 2012.

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**

These interim condensed consolidated financial statements for the three months ended March 31, 2012 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. These interim condensed

## 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, 2012 and March 31, 2011

consolidated financial statements do not include all of the disclosures included in the Company's annual consolidated financial statements. Accordingly, these should be read together with the annual consolidated financial statements.

#### 3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The accounting standards issued but not yet effective that may affect the Company's future financial statements remain as described in the Company's December 31, 2011 Notes to the Financial Statements.

#### 4. CONSUMER LOANS RECEIVABLE

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

<i>(in \$ 000's)</i>	March 31, 2012	December 31, 2011
Consumer loans receivable	48,769	47,565
Allowance for loan losses	(2,634)	(2,627)
	<b>46,135</b>	44,938
Current portion of consumer loans receivable	32,246	32,619
Long-term portion of consumer loans receivable	13,889	12,319
	<b>46,135</b>	44,938

An aging analysis of consumer loans past due as at March 31, 2012 and December 31, 2011 are as follows:

<i>(in \$ 000's except %)</i>	March 31, 2012		December 31, 2011	
	\$	% of total loans	\$	% of total loans
1 - 30 days	2,044	4.2%	2,438	5.1%
31 - 44 days	324	0.7%	400	0.8%
45 - 60 days	346	0.7%	358	0.8%
61 - 90 days	520	1.1%	519	1.1%



## easyhome Ltd.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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For the periods ended March 31, 2012 and March 31, 2011

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

<i>(in \$ 000's)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Balance, beginning of period	<b>2,627</b>	1,971
Amounts written off against allowance	<b>(2,073)</b>	(5,046)
Increase due to lending and collection activities	<b>2,080</b>	6,301
Amounts written off against allowance due to employee fraud	-	(599)
<b>Balance, end of period</b>	<b>2,634</b>	2,627

## 5. PROPERTY AND EQUIPMENT

Various impairment indicators were used to determine the need to test a cash-generating unit ["CGU"] for an impairment loss. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that this is at the individual store level. Examples of these indicators include significant declines in revenue, performance significantly below budget and expectation 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 CGUs value-in-use. When determining the CGUs value-in-use, the Company developed a discounted cash flow model for the individual CGU. Sales and cost forecasts were based on actual operating results, five year operating budgets consistent with strategic plans presented to the Company's Board of Directors and a 3% long term growth rate. The forecasted cash flow was discounted using a 22% before tax discount rate. Where the carrying value of the CGUs assets exceeded the recoverable amounts, as represented by the CGU's value-in-use, the stores property and equipment assets were written down. It was concluded that due to the portability of leased assets held within the CGU and the cash flows generated by individual lease assets that no impairment write down of the leased assets was required. As such, the CGUs impairment charge was limited to the property and equipment held by the impaired CGU.

For the three months ended March 31, 2012, the Company recorded an impairment charge of \$351 offset by an impairment recovery of \$235, the net impairment charge for the period was \$116. For the three months ended March 31, 2011, the Company did not record any impairment charge.

All impairment charges relate solely to the leasing segment.

## 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, 2012 and March 31, 2011

#### 6. BANK REVOLVING CREDIT FACILITY

##### Revolving credit facility

On July 21, 2011, the Company entered into new credit facilities with a syndicate of banks which provides for a \$40 million revolving credit facility and also included related term and letter of credit facilities for \$0.9 million and \$0.5 million, respectively. The revolving facility reduces to \$35 million on July 21, 2012 and matures on July 21, 2013. Borrowings under previous facilities were rolled into the new facilities.

<i>( in \$ 000's)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Revolving credit facility	<b>33,164</b>	33,123

Canadian dollar loans under the facilities bear interest at the lender's prime plus 125 bps or plus 175 bps if the Company's total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio equals or exceeds 2 times. The Company also has the option to convert the loans to US Base, Bankers' Acceptance or LIBOR rates. Currently, the Company's effective interest rate under the facilities is 4.25%.

The credit facilities are fully secured over substantially all assets of the Company and its subsidiaries, contain certain positive and negative covenants and other usual and customary terms and conditions. The financial covenants of the credit facilities are as follows:

<b>Financial Covenant</b>	<b>Requirements</b>	<b>As at March 31, 2012</b>	<b>As at December 31, 2011</b>
Total debt to EBITDA ratio	< 2.0	<b>1.69</b>	1.75
Fixed coverage ratio	> 1.15	<b>1.26</b>	1.18
Total debt to effective tangible net worth ratio	< 0.55	<b>0.44</b>	0.44
Total debt to lease assets	< 0.75	<b>0.52</b>	0.49

As at March 31, 2012, the Company was in compliance with all of its financial covenants under its lending agreement.

## 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, 2012 and March 31, 2011

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#### 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 preference shares. The common shares are listed for trading on the TSX.

##### Common shares issued and outstanding

The changes in common shares are summarized as follows:

<i>(in \$ 000's except number of shares in 000's)</i>	Three months ended March 31, 2012		Year ended December 31, 2011	
	# of shares	\$	# of shares	\$
<b>Balance, beginning of period</b>	<b>11,849</b>	<b>60,207</b>	11,842	60,074
Issued for cash for redemption of Deferred Share Units	25	245	7	133
<b>Balance, end of period</b>	<b>11,874</b>	<b>60,452</b>	11,849	60,207

##### Dividends on common shares

The Company paid dividends of \$1.0 million, or \$0.085 per share during the three months ended March 31, 2012 (2011 - \$892, \$0.085 per share)

The Company declared a dividend of \$0.085 per share on March 5, 2012 to shareholders of record on April 5, 2012, payable on April 16, 2012 (2011 - \$0.085 per share to shareholders on record on April 6, 2011, payable on April 13, 2011). The dividend paid on April 16, 2012 was \$1.0 million (2011 - \$1.0 million).

#### 8. STOCK-BASED COMPENSATION

##### Share option plan

The Company uses the fair value method of accounting for stock options granted to employees and directors. During the three months ended March 31, 2012, the Company granted nil options (2011 – nil options). For the three months ended March 31, 2012, \$36 (2011 – \$65) was recorded as stock-based compensation expense with respect to stock options in salaries and benefits expense in the interim consolidated statements of income, with corresponding increase in contributed surplus.

##### Restricted share unit plan

During the three months ended March 31, 2012, the Company granted no Restricted Share Units [“RSUs”] (2011 – nil) to senior executives of the Company under its Restricted Share Unit Plan. For the three months ended March 31, 2012, \$nil (2011 – \$1) was recorded as a stock-based compensation expense under the Restricted Share Unit Plan in salaries and

## easyhome Ltd.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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benefits expense in the interim consolidated statements of income. Additionally, for the three months ended March 31, 2012, an additional 1,523 RSUs (2011 – 1,210) were granted as a result of dividends payable.

#### Performance share unit plan

During the three months ended March 31, 2012, the Company granted 401,552 Performance Share Units [“PSUs”] (2011-nil) to senior executives of the Company under its Performance Share Unit Plan. For the three months ended March 31, 2012, \$261 (2011 – \$128) was recorded as stock-based compensation expense under the Performance Share Unit Plan in salaries and benefits expense in the interim consolidated statements of income. Additionally, for the three months ended March 31, 2012, an additional 8,810 PSUs (2011 – 2,054) were granted as a result of dividends payable.

#### Deferred share unit plan

During the three months ended March 31, 2012, the Company granted no Deferred Share Units [“DSUs”] (2011 – 10,440) to Directors under its Deferred Share Unit Plan. For the three months ended March 31, 2012, \$nil (2011 - \$96) was recorded as stock-based compensation expense under the Deferred Share Unit Plan in salaries and benefits expense in the interim consolidated statements of income. Additionally, for the three months ended March 31, 2012, no DSUs (2011 – 720) were granted as a result of dividends payable.

For the three months ended March 31, 2012, \$297 (2011 - \$291) was recorded as stock-based compensation expense under all stock-based compensation plans. The liability relating to stock-based compensation for the three months ended March 31, 2012 was \$947 (2011 - \$579).

## 9. INCOME TAXES

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

<i>( in \$ 000's )</i>	Three months ended	
	March 31	
	2012	2011
Combined basic federal and provincial income tax rates	26.3%	28.0%
Expected income tax expense	979	991
Impact of tax rate changes on deferred tax assets	5	65
Non-deductible expense	37	52
U.S losses not tax benefited	77	44
Other	1	11
	<b>1,099</b>	1,163

## easyhome Ltd.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

<i>(\$ in 000's)</i>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Loss carryforwards	5	256
Tax cost of lease assets and property and equipment in excess of net book value	947	929
Amounts receivable and provisions	883	882
Lease inducements	609	621
Unearned revenue	182	165
Financing fees	111	122
Other	14	(42)
	<b>2,751</b>	<b>2,933</b>

## 10. EARNINGS PER SHARE

### Basic earnings per share

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

<i>(in \$ 000's except number of shares in 000's and earnings per share)</i>	<b>Three months ended March 31</b>	
	<b>2012</b>	<b>2011</b>
Net income for the period	2,623	2,382
Weighted average number of common shares outstanding	11,865	11,849
<b>Basic earnings per share</b>	<b>0.22</b>	<b>0.20</b>

### Diluted earnings per share

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

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### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

For the periods ended March 31, 2012 and March 31, 2011

<i>(in \$000's except number of share in 000's and earnings per share)</i>	Three months ended March 31	
	2012	2011
Net income for the period	2,623	2,382
Weighted average number of common shares outstanding	11,865	11,849
Dilutive effect of share based rewards	114	13
Weighted average number of diluted shares outstanding	11,979	11,862
<b>Dilutive earnings per share</b>	<b>0.22</b>	<b>0.20</b>

The dilutive effect of share options reflects 114,171 options for the three months ended March 31, 2012 (three month ended March 31, 2011 – 69,906)

For the three months ended March 31, 2012, stock options to acquire 708,362 common shares (three months ended March 31, 2011 – 629,432 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.

### 11. NET CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES

The net change in non-cash working capital balances related to operating activities is as follows:

<i>(in \$ 000's)</i>	Three months ended March 31	
	2012	2011
Amounts receivable	1,836	87
Prepaid expenses	14	318
Accounts payable and accrued liabilities	(5,361)	(5,619)
Income taxes recoverable	1,016	(106)
Deferred lease inducement	(53)	(14)
Unearned revenue	(52)	(1,115)
Provisions	5	(186)
	<b>(2,595)</b>	<b>(6,635)</b>

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

<i>(\$ in 000's)</i>	Three months ended March 31	
	2012	2011
Income taxes paid	-	439
Interest paid	477	297
Interest received	5,264	2,843

## **easyhome Ltd.**

### **NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

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

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## **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 plaintiff alleges, among other things, that the Company and certain of its former and current officers made misrepresentations about the Company's financial statements being prepared in accordance with Canadian generally accepted accounting principles. The claim seeks \$10 million in damages. As a result of recent amendments to the statement of claim, the claim for punitive damages was withdrawn. On March 26, 2012, the lawsuit was certified as a class proceeding. On April 8, 2011, the same plaintiff commenced a second action against certain current and former directors of the Company. This second action has since been dismissed on consent of the parties.

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 as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

### **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, results of operations 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. RELATED PARTY TRANSACTIONS**

The Company, through its wholly-owned subsidiary easyhome U.S. Ltd., signed a License/Master Franchise Agreement [the "License Agreement"] with an entity controlled by Walter "Bud" Gates ["easygates LLC"] on March 2, 2007. Mr. Gates was elected to the Company's Board of Directors in April 2010 and was a director until December 21, 2011. Mr. Gates did not participate or vote in any Board of Director discussions relating to the Licence Agreement. The License Agreement has an initial six-year term and allows easygates LLC to set up easyhome franchises in the U.S., excluding the 14 U.S. states that border Canada. The License Agreement provides that, for each franchise store that is opened, easygates LLC and easyhome will split both the initial franchise fee and the ongoing royalty fees. As at March 31, 2012, 32 franchise locations were opened and operated under the License Agreement.

## easyhome Ltd.

### NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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#### 14. SEGMENTED REPORTING

For management purposes, the Company has three reportable segments as follows:

- Leasing
- easyfinancial
- Franchising

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, 2011. Except for easyfinancial, revenue is allocated to each business segment based on the location of the easyhome store where the transaction originates. easyfinancial's revenue includes all revenue earned from the Company's consumer lending business. 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 in the Corporate amounts. Management assesses the performance based on pre-tax operating income.

The following tables summarize the relevant information for the dates disclosed:

##### 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 and other items	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
Interest expense	-	-	-	484	484
<b>Income (loss) before income taxes</b>	<b>6,187</b>	<b>2,793</b>	<b>250</b>	<b>(5,508)</b>	<b>3,722</b>
<b>Assets</b>	<b>97,998</b>	<b>52,192</b>	<b>2,295</b>	<b>2,972</b>	<b>155,457</b>
<b>Liabilities</b>	<b>17,394</b>	<b>1,544</b>	<b>136</b>	<b>37,505</b>	<b>56,579</b>



**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, 2012 and March 31, 2011

**Three months ended**

**March 31, 2011**

(\$ in 000's)

	<b>Leasing</b>	<b>easyfinancial</b>	<b>Franchising</b>	<b>Corporate</b>	<b>Total</b>
Revenue	41,275	4,552	376	-	46,203
Total operating expenses before depreciation and amortization and other items	21,131	3,550	81	4,196	28,958
Depreciation and amortization	13,192	77	23	111	13,403
Segment operating income (loss)	6,952	925	272	(4,307)	3,842
Interest expense	-	-	-	297	297
<b>Income (loss) before income taxes</b>	<b>6,952</b>	<b>925</b>	<b>272</b>	<b>(4,604)</b>	<b>3,545</b>
<b>Assets</b>	<b>102,352</b>	<b>32,132</b>	<b>2,396</b>	<b>5,302</b>	<b>142,182</b>
<b>Liabilities</b>	<b>17,192</b>	<b>946</b>	<b>6</b>	<b>31,363</b>	<b>49,507</b>

The Company operates across Canada and in certain U.S. states. During the three months ended March 31, 2012, 92% or \$45.8 million of revenue was generated in Canada and 8% or \$4 million of revenue was generated in the U.S. (March 31, 2011 - 93% or \$42.9 million of revenue was generated in Canada and 7% or \$3.3 million of revenue was generated in the U.S). Additionally, as at March 31, 2012, \$142.8 million of the Company's assets were located in Canada and \$12.7 million were located in the U.S. (December 31, 2011 - \$145.4 million in Canada and \$13.7 million in the U.S.).

As at March 31, 2012, the Company's goodwill of \$17.3 million (December 31, 2011 - \$17.3 million) is 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 generated by major product category as a percentage of total lease revenue for the three months ended March 31, 2012 and 2011 are as follows:

<i>(percentage)</i>	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012 (%)</b>	<b>2011 (%)</b>
Furniture	<b>40</b>	36
Electronics	<b>32</b>	35
Computers	<b>17</b>	18
Appliances	<b>11</b>	11
	<b>100</b>	100

**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, 2012 and March 31, 2011

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**15. SUBSEQUENT EVENTS**

Subsequent to March 31, 2012 the Company decided to close 13 underperforming easyhome leasing locations that were nearing the end of their lease terms. As a result of these closures, the Company expects to take an after tax charge of approximately \$0.6 million in the second quarter of 2012.