Interim Condensed Consolidated Financial Statements

goeasy Ltd.

(Unaudited)
March 31, 2018

goeasy Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)
(expressed in thousands of Canadian dollars)

	As At March 31, 2018	As At December 31, 2017
ASSETS		
Cash (note 5)	**57,292**	109,370
Amounts receivable	**15,065**	14,422
Prepaid expenses	**5,954**	3,545
Consumer loans receivable (note 6)	**565,407**	513,425
Lease assets	**51,663**	54,318
Property and equipment	**15,525**	15,941
Deferred tax assets (note 14)	**8,833**	2,121
Intangible assets	**14,304**	15,163
Goodwill	**21,310**	21,310
TOTAL ASSETS	**755,353**	749,615
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	**39,098**	43,071
Income taxes payable	**14,369**	9,445
Dividends payable (note 10)	**3,058**	2,426
Deferred lease inducements	**1,098**	1,294
Unearned revenue	**5,676**	4,819
Convertible debentures (note 8)	**47,025**	47,985
Notes payable (note 9)	**420,649**	401,193
Derivative financial instruments (note 9)	**4,281**	11,138
TOTAL LIABILITIES	**535,254**	521,371
Shareholders' equity		
Share capital (note 10)	**88,021**	85,874
Contributed surplus	**12,276**	15,305
Accumulated other comprehensive (loss) income	**(2,480)**	141
Retained earnings	**122,282**	126,924
TOTAL SHAREHOLDERS' EQUITY	**220,099**	228,244
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**755,353**	749,615

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

David Ingram
Director

Donald K. Johnson
Director

goeasy Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended	
	March 31, 2018	**March 31, 2017**
REVENUE		
Interest income	**53,791**	38,134
Lease revenue	**30,669**	31,910
Commissions earned	**26,939**	20,973
Charges and fees	**3,378**	3,228
	114,777	94,245
EXPENSES BEFORE DEPRECIATION AND AMORTIZATION		
Salaries and benefits	**28,475**	23,822
Stock-based compensation (note 11)	**1,619**	1,066
Advertising and promotion	**3,929**	3,432
Bad debts	**24,378**	14,117
Occupancy	**8,562**	8,312
Other expenses (note 12)	**9,503**	9,835
	76,466	60,584
DEPRECIATION AND AMORTIZATION		
Depreciation of lease assets	**10,002**	10,722
Depreciation of property and equipment	**1,618**	1,324
Amortization of intangible assets	**1,767**	1,202
	13,387	13,248
Total operating expenses	**89,853**	73,832
Operating income	**24,924**	20,413
Finance costs (note 13)	**9,670**	5,825
Income before income taxes	**15,254**	14,588
Income tax expense (recovery) (note 14)		
Current	**4,922**	5,447
Deferred	**(742)**	(1,129)
	4,180	4,318
Net income	**11,074**	10,270
Basic earnings per share (note 15)	**0.81**	0.76
Diluted earnings per share (note 15)	**0.77**	0.73

See accompanying notes to the interim condensed consolidated financial statements.

goeasy Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(expressed in thousands of Canadian dollars)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income	**11,074**	10,270
Other comprehensive (loss) income		
Change in foreign currency translation reserve	**(5)**	(14)
Change in fair value of cash flow hedge, net of taxes	**(2,616)**	-
Comprehensive income	**8,453**	10,256

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, 2017	**85,874**	**15,305**	**101,179**	**126,924**	**141**	**228,244**
International Financial Reporting Standards 9 adjustment (note 3)	**-**	**-**	**-**	**(12,659)**	**-**	**(12,659)**
Adjusted Balance, January 1, 2018	**85,874**	**15,305**	**101,179**	**114,265**	**141**	**215,585**
Common shares issued	**2,147**	**(1,614)**	**533**	**-**	**-**	**533**
Stock-based compensation (note 11)	**-**	**1,619**	**1,619**	**-**	**-**	**1,619**
Shares withheld related to net share settlement	**-**	**(3,034)**	**(3,034)**	**-**	**-**	**(3,034)**
Comprehensive income (loss)	**-**	**-**	**-**	**11,074**	**(2,621)**	**8,453**
Dividends (note 10)	**-**	**-**	**-**	**(3,057)**	**-**	**(3,057)**
Balance, March 31, 2018	**88,021**	**12,276**	**100,297**	**122,282**	**(2,480)**	**220,099**
Balance, December 31, 2016	82,598	9,943	92,541	102,610	880	196,031
Common shares issued	1,644	(1,365)	279	-	-	279
Stock-based compensation (note 11)	-	1,066	1,066	-	-	1,066
Shares withheld related to net share settlement	-	(1,653)	(1,653)	-	-	(1,653)
Comprehensive income	-	-	-	10,270	(14)	10,256
Dividends (note 10)	-	-	-	(2,414)	-	(2,414)
Balance, March 31, 2017	84,242	7,991	92,233	110,466	866	203,565

See accompanying notes to the interim condensed consolidated financial statements.

goeasy Ltd.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(expressed in thousands of Canadian dollars)

	Three Months Ended	
	March 31, 2018	**March 31, 2017**
OPERATING ACTIVITIES		
Net income	**11,074**	10,270
Add (deduct) items not affecting cash		
Depreciation of lease assets	**10,002**	10,722
Depreciation of property and equipment	**1,618**	1,324
Amortization of intangible assets	**1,767**	1,202
Amortization of deferred financing charges	**944**	-
Stock-based compensation (note 11)	**1,619**	1,066
Bad debts expense	**24,378**	14,117
Deferred income tax (recovery) (note 14)	**(742)**	(1,129)
(Gain) loss on sale or disposal of assets	**(584)**	67
	50,076	37,639
Net change in other operating assets and liabilities (note 16)	**5,422**	(3,971)
Net issuance of consumer loans receivable	**(93,768)**	(31,280)
Cash (used in) provided by operating activities	**(38,270)**	2,388
INVESTING ACTIVITIES		
Purchase of lease assets	**(7,848)**	(10,282)
Purchase of property and equipment	**(1,340)**	(1,026)
Purchase of intangible assets	**(908)**	(1,765)
Proceeds on sale of assets	**1,215**	-
Cash used in investing activities	**(8,881)**	(13,073)
FINANCING ACTIVITIES		
Advances of term loan	**-**	12,990
Payment of common share dividends	**(2,426)**	(1,666)
Issuance of common shares	**533**	279
Shares withheld related to net share settlement	**(3,034)**	(1,653)
Cash (used in) provided by financing activities	**(4,927)**	9,950
Net decrease in cash during the period	**(52,078)**	(735)
Cash, beginning of period	**109,370**	24,928
Cash, end of period	**57,292**	24,193

See accompanying notes to the consolidated financial statements.

1. CORPORATE INFORMATION

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

The Parent Company and all of the companies that it controls [collectively referred to as "goeasy" or the "Company"] are a leading full-service provider of goods and alternative financial services that provides everyday Canadians with a chance for a better tomorrow, today. The principal operating activities of the Company include: i) providing loans and other financial services to consumers; and ii) leasing household products to consumers.

The Company operates in two reportable segments: easyfinancial and easyhome. As at March 31, 2018, the Company operated 233 easyfinancial locations (including 41 kiosks within easyhome stores) and 165 easyhome stores (including 31 franchises and one consolidated franchise location). As at December 31, 2017, the Company operated 228 easyfinancial locations (including 42 kiosks within easyhome stores) and 171 easyhome stores (including 30 franchises and one consolidated franchise location).

2. BASIS OF PREPARATION

The unaudited interim condensed consolidated financial statements include the financial statements of the Parent Company and all of the companies that it controls. goeasy Ltd. controls an entity: i) when it has the power to direct the activities of the entity that have the most significant impact on the entity's risks and/or returns; ii) where it is exposed to significant risks and/or returns arising from the entity; and iii) where it is able to use its power to affect the risks and/or returns to which it is exposed. This includes all wholly-owned subsidiaries and certain special purpose entities ["SPEs"] where goeasy Ltd. has control, but does not have ownership of a majority of voting rights.

As at March 31, 2018, the Parent Company's principal subsidiaries were:

- RTO Asset Management Inc.
- easyfinancial Services Inc.
- easyhome U.S. Ltd.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2018.

Statement of Compliance with International Financial Reporting Standards ["IFRS"]

The unaudited interim condensed consolidated financial statements for the three-month period ended March 31, 2018 were prepared in accordance with International Accounting Standards ["IAS"] 34, *Interim Financial Reporting*, using the same accounting policies as those used in the Company's most recent audited annual consolidated financial statements, except for the new accounting policies adopted and described in note 3. These unaudited interim condensed consolidated financial statements do not include all of the disclosures included in the Company's audited annual consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read together with the audited annual consolidated financial statements.

3. ADOPTION OF ACCOUNTING STANDARD

IFRS 9, *Financial Instruments*
Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments [“IFRS 9”]. IFRS 9 introduces a new expected loss impairment model which replaces the existing incurred loss impairment model under IAS 39, Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 does not require restatement of comparative period financial statements except in limited circumstances related to aspects of hedge accounting. Entities are permitted to restate comparatives provided hindsight is not applied. The Company made the decision not to restate comparative period financial information and has recognized any measurement differences between the previous carrying amounts and the new carrying amounts on January 1, 2018, through an adjustment to opening retained earnings. Refer to the Company’s 2017 Annual Consolidated Financial Statements and the accompanying Notes for accounting policies under IAS 39 applied during those periods.

Under IAS39, a collective allowance for loan loss is recorded on those loans, or groups of loans, where a loss event had occurred but had not been reported, as at, or prior to, the balance sheet date. An incurred but not reported loss event provided objective evidence to establish an allowance for loan loss against such loans. IAS39 prohibited recognizing any allowance for loan losses expected in the future if a loss event has not occurred.

<u>Classification and measurement</u>

Under IFRS 9, financial instruments are measured under the following classifications:

All financial assets must be classified at initial recognition at fair value through: i) profit or loss (“FVTPL”), ii) amortized cost, iii) debt financial instruments measured at fair value through other comprehensive income (“FVOCI”), iv) equity financial instruments designated at FVOCI, or v) financial instruments designated at FVTPL, based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed. All financial assets and derivatives are required to be measured at fair value with the exception of financial assets measured at amortized cost. Financial assets are required to be reclassified when and only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a “solely payment of principal and interest” (“SPPI”) test, including those that contain embedded derivatives, be classified at initial recognition as FVTPL. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a “held for trading” or “fair value” basis are classified as FVTPL. Debt instruments that are managed on a “hold to collect and for sale” basis are classified as FVOCI for debt. Debt instruments that are managed on a “hold to collect” basis are classified as amortized cost.

Consistent with IAS 39, all financial assets held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost with the exception of derivative financial instruments. Derivatives continue to be measured at FVTPL under IFRS 9, except to the extent that they are designated in a hedging relationship, in which case the IAS 39 hedge accounting requirements continue to apply. There were no material changes to the carrying values of financial instruments as a result of the transition to the classification and measurement requirements of IFRS 9.

The classification and measurement of financial liabilities remain essentially unchanged from the IAS 39 requirements, except that changes in the fair value of liabilities designated at FVTPL using the fair value option (FVO) which are attributable to changes in own credit risk are presented in OCI, rather than profit and loss.

Under IFRS 9, the Company is required to apply an expected credit loss (ECL) model, where credit losses that are expected to transpire in future years irrespective of whether a loss event has occurred or not as at the balance sheet date, are provided for. Under IFRS 9, the Company is required to assess and segment its loan portfolio into performing (Stage 1), under-performing (Stage 2) and non-performing (Stage 3) categories as at each date of the statement of financial position. Loans are categorized as under-performing if there has been a significant increase in credit risk. Loans are categorized as non-performing if there is objective evidence that such loans will likely charge off in the future which we have determined to be when loans are delinquent for greater than 30 days. For performing loans, the Company is required to record an allowance for loan losses equal to the expected losses on that group of loans over the ensuing twelve months. For under-performing and non-performing loans, the Company is required to record an allowance for loan losses equal to the expected losses on those groups of loans over their remaining life. The Company utilizes internal risk rating changes, delinquency and other identifiable risk factors to determine when there has been a significant increase or decrease in the credit risk of a loan.

The key inputs in the measurement of ECL allowances are as follows:
• The probability of default is an estimate of the likelihood of default over a given time horizon;
• The loss given default is an estimate of the loss arising in the case where a default occurs at a given time; and
• The exposure at default is an estimate of the exposure at a future default date.
• Forward looking indicators (“FLIs”)

Ultimately, the expected credit loss is calculated based on the probability weighted expected cash collected shortfall against the carrying value of the loan and considers reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that may impact the credit profile of the loans. Forward-looking information is considered when determining significant increase in credit risk and measuring expected credit losses. Forward-looking macroeconomic factors are incorporated in the risk parameters as relevant. From an analysis of historical data, management has identified and reflected in our ECL allowance those relevant FLIs variables that contribute to credit risk and losses within our loan portfolio. Within our loan portfolio, the most highly correlated variables are unemployment rates, inflation, and oil prices.

It is important to note that the adoption of IFRS 9 does not directly impact the net charge-off rate of the Company’s consumer loans receivable portfolio which is driven by borrowers’ credit profile and behaviour. The Company will continue to write off unsecured customer balances that are delinquent greater than 90 days and secured customer balances that are delinquent greater than 180 days. Likewise, the cash flows used in and generated by the Company’s consumer loans receivable portfolio are not impacted by the adoption of IFRS 9 as the periodic increase in the allowance for loan losses as a result of growth in the consumer loans receivable is a non-cash item.

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

The following table summarizes the Transition Adjustment required to adopt IFRS 9 as at January 1, 2018.

	IAS 39 carrying amount as at December 31, 2017	**Transition Adjustment**	**IFRS 9 carrying amount as at January 1, 2018**
Consumer loans receivable	**513,425**	**(17,406)**	**496,019**
Income taxes payable	**9,445**	**(4,749)**	**4,696**
Retained earnings	**126,924**	**(12,659)**	**114,265**

The reconciliation of the company's closing allowances for credit losses in accordance with IAS 39, as at December 31, 2017 and the opening allowance for credit losses in accordance with IFRS 9, as at January 1, 2018 is as shown in the following table:

	As reported under IAS39 as at December 31, 2017	**Transition Adjustments**	**As reported under IFRS9 as at January 1, 2018**
Allowance for credit losses	**31,706**	**17,406**	**49,112**
Stage 1 (Performing)			24,384
Stage 2 (Under-Performing)			16,193
Stage 3 (Non-Performing)			8,535
Total			**49,112**

IFRS 15, *Revenue from Contracts with Customers*

On January 1, 2018, the Company adopted and applied IFRS 15, Revenue from Contracts with Customers ["IFRS 15"], which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The new standard did not result in any financial adjustments to the Company's interim condensed consolidated financial statements, nor any material changes to the Company's revenue recognition policies. Additional required disclosures and revenue segmentation is as provided in note 19 Segmented Reporting.

4. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 16, *Leases*

The Company will be required to adopt IFRS 16, Leases ["IFRS 16"], which is the International Accounting Standards Board's ["IASB"] replacement of IAS 17, Leases. IFRS 16 will require lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" for most lease contracts. IFRS 16 is required to be applied for fiscal years beginning on or after January 1, 2019, with early adoption permitted, but only in conjunction with the adoption of IFRS 15. The Company is in the process of assessing the impact of this standard.

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

5. CASH

Certain cash on deposit at banks earns interest at floating rates based on daily bank deposit rates. The Company has pledged part of its cash to fulfil collateral requirements under its derivative financial instruments contract. As at March 31, 2018, the fair value of the cash pledged was $7,720 (December 31, 2017 – $16,240).

6. CONSUMER LOANS RECEIVABLE

Consumer loans receivable represented amounts advanced to customers and includes both unsecured and secured loans. Unsecured loan terms generally ranged from 9 to 60 months while secured loan terms generally ranged from 6 to 10 years.

	March 31, 2018	**December 31, 2017**
Gross consumer loans receivable	**601,724**	526,546
Interest receivable from consumer loans	**6,998**	6,530
Unamortized deferred acquisition costs	**12,149**	12,055
Allowance for credit losses	**(55,464)**	(31,706)
	565,407	513,425
Current	**228,665**	222,621
Non-current	**336,742**	290,804
	565,407	513,425

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

	March 31, 2018		**December 31, 2017**	
	$	**% of total Loans**	**$**	**% of total Loans**
1 - 30 days	**15,486**	**2.6%**	17,275	3.3%
31 - 44 days	**3,879**	**0.6%**	3,601	0.7%
45 - 60 days	**3,030**	**0.5%**	3,330	0.6%
61 - 90 days	**4,895**	**0.8%**	4,349	0.8%
91 – 180 days	**-**	**0.0%**	-	0.0%
	27,290	**4.5%**	28,555	5.4%

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

The following table provides the gross consumer loans receivable split by the Company's risk ratings and further segregated by Stage 1, Stage 2, and Stage 3.

	As at March 31, 2018			
	Stage 1 (Performing)	Stage 2 (Under-performing)	Stage 3 (Non-Performing)	Total
Low Risk	**228,898**	**1,078**	**2**	**229,978**
Normal Risk	**235,692**	**6,707**	**-**	**242,399**
High Risk	**49,814**	**68,104**	**11,429**	**129,347**
Total	**514,404**	**75,889**	**11,431**	**601,724**

An analysis of the changes in the classification of gross consumer loans receivable is as follows:

	Gross Consumer Loans Receivable			
	Stage 1 (Performing)	Stage 2 (Under-Performing)	Stage 3 (Non-Performing)	Total
Balance as at January 1, 2018	**446,920**	**68,440**	**11,186**	**526,546**
Gross loan originated	**202,366**	**-**	**-**	**202,366**
Principal payments and other adjustments	**(110,309)**	**3,713**	**(776)**	**(107,372)**
Transfers to (from)				
Stage 1 (Performing)	**(42,487)**	**46,543**	**(4,056)**	**-**
Stage 2 (Under-Performing)	**(4,500)**	**(14,849)**	**19,349**	**-**
Stage 3 (Non-Performing)	**25,736**	**(25,306)**	**(430)**	**-**
Gross charge-offs	**(3,322)**	**(2,652)**	**(13,842)**	**(19,816)**
Balance as at March 31, 2018	**514,404**	**75,889**	**11,431**	**601,724**

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

	Three Months Ended March 31, 2018	Year-Ended December 31, 2017
Balance, beginning of period	**49,112**	23,456
Net amounts written off against allowance	**(18,026)**	(59,576)
Increase due to lending and collection activities	**24,378**	67,826
Balance, end of period	**55,464**	31,706

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

An analysis of the changes in the classification of the allowance for credit losses is as follows:

	Allowance for Credit Losses			
	Stage 1 (Performing)	**Stage 2 (Under-Performing)**	**Stage 3 (Non-Performing)**	**Total**
Balance as at January 1, 2018	**24,384**	**16,193**	**8,535**	**49,112**
Gross loans originated	**12,470**	**-**	**-**	**12,470**
Principal payments and other adjustments	**(6,391)**	**1,619**	**(1,290)**	**(6,062)**
Transfers to (from) including remeasurement				
Stage 1 (Performing)	**(3,754)**	**12,449**	**(3,121)**	**5,574**
Stage 2 (Under-Performing)	**(946)**	**(4,450)**	**17,907**	**12,511**
Stage 3 (Non-Performing)	**4,919**	**(4,714)**	**(320)**	**(115)**
Net amounts written off against allowance	**(3,163)**	**(2,527)**	**(12,336)**	**(18,026)**
Balance as at March 31, 2018	**27,519**	**18,570**	**9,375**	**55,464**

7. REVOLVING CREDIT FACILITY

The Company's revolving credit facility consisted of a $110.0 million Senior Secured revolving credit facility maturing on November 1, 2020.

The revolving credit facility was provided by a syndicate of banks. Interest on advances is payable at either the Canadian Bankers' Acceptance rate plus 450 bps or the lender's prime rate plus 350, at the option of the Company. As of March 31, 2018, nil was drawn on this facility.

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

Financial covenant	**Requirements**	**March 31, 2018**
Minimum consolidated tangible net worth	>145,000, plus 50% of consolidated net income	**171,030**
Maximum consolidated leverage ratio	< 2.50	**2.42**
Minimum consolidated fixed charge coverage ratio	> 1.75	**2.05**
Maximum net charge off ratio	< 17.0%	**13.2%**
Minimum collateral performance index	> 90.0%	**99.6%**

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

As at March 31, 2018, the Company was in compliance with all of its financial covenants under its credit agreements. Additionally, the revolving credit facility includes the ability to determine new covenant requirements in the event of a material change in accounting standards, including IFRS 9. The Company is working with its lenders to determine restated covenant requirements.

8. CONVERTIBLE DEBENTURES

In June 2017, the Company issued $53.0 million of 5.75% convertible unsecured subordinated debentures, with interest payable semi-annually on January 31 and July 31 each year and commencing on January 31, 2018 [the "Debentures"]. The Debentures mature on July 31, 2022, and are convertible at the holder's option into common shares of the Company at a conversion price of $44.00 per share.

On and after July 31, 2020, and prior to July 31, 2021, the Debentures may be redeemed in whole or in part from time to time and with proper notice by the Company, provided that the volume-weighted average trading price of the common shares on the TSX for the 20 consecutive trading days prior to the 5th trading day before redemption notification date was not less than 125% of the conversion price. On or after July 31, 2021, the Company may redeem with proper notice the convertible debentures for the principal amount plus accrued and unpaid interest.

The following table summarizes the details of the convertible debentures:

	March 31, 2018	**December 31, 2017**
Convertible debentures	**53,000**	53,000
Unamortized deferred financing costs	**(2,440)**	(2,554)
Equity component	**(4,658)**	(4,658)
Accretion expense on equity component	**616**	427
Accrued interest	**507**	1,770
Convertible Debentures	**47,025**	47,985

9. NOTES PAYABLE

On November 1, 2017, the Company issued USD$325.0 million of 7.875% senior unsecured notes payable with interest payable semi-annually on May 1 and November 1 of each year and commencing on May 1, 2018 [the "Notes Payable"]. The Notes Payable mature on November 1, 2022.

On and after November 1, 2019, the Notes Payable may be redeemed in whole or in part from time to time with proper notice by the Company.

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

The following table summarizes the details of the Notes Payable:

	March 31, 2018	December 31, 2017
Notes Payable in C$ at issuance	**418,925**	418,925
Change in fair value of Notes Payable since issuance date due to changes in foreign exchange rate	**325**	(10,367)
	419,250	408,558
Accrued interest on credit facilities	**13,633**	5,508
Unamortized deferred financing costs	**(12,234)**	(12,873)
Notes Payable	**420,649**	401,193

Concurrent with the issuance of the Notes Payable, the Company entered into the derivative financial instruments to fix the foreign currency exchange rate for the proceeds from the offering and for all required payments of principal and interest under the Notes and established a fixed exchange rate of US$1.00 = C$1.2890, effectively hedging the obligation under the Notes to C$418.9 million at a Canadian dollar interest rate of 7.84%. The term of the derivative financial instruments is concurrent with the Notes Payable with the same maturity date of November 1, 2022. The cash flows for the derivative financial instrument match the cash flows for the Notes Payable.

The Company has elected to use hedge accounting for the Notes Payable and the Derivative Financial Instruments. Changes in the fair value of the Notes Payable and of the Derivative Financial Instruments related to changes in the C$ to US$ foreign exchange rate are recorded in Other Comprehensive Income. The fair value of the Derivative Financial Instruments is as follows:

	March 31, 2018	December 31, 2017
Derivative Financial Instruments	**4,281**	11,138

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

10. SHARE CAPITAL

Common Shares Issued and Outstanding

The changes in common shares issued and outstanding are summarized as follows:

	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	# of shares (in 000's)	**$**	**# of shares (in 000's)**	**$**
Balance, beginning of the period	**13,476**	**85,874**	13,325	82,598
Exercise of stock options	**46**	**562**	174	2,377
Exercise of RSUs	**69**	**1,502**	58	1,315
Shares purchased for cancellation	**-**	**-**	(85)	(536)
Dividend reinvestment plan	**2**	**83**	4	120
Balance, end of the period	**13,593**	**88,021**	13,476	85,874

Dividends on Common Shares

For the three-month period ended March 31, 2018, the Company paid dividends of $2.4 million (2017 - $1.7 million) or $0.18 per share (2017 - $0.125 per share). On February 20, 2018, the Company increased the dividend rate by 25% from $0.18 per share to $0.225 per share to shareholders of record on March 29, 2018, payable on April 13, 2018. The dividend paid on April 13, 2018 was $3.1 million.

11. STOCK-BASED COMPENSATION

Share Option Plan

Under the Company's share option plan, options to purchase common shares may be granted by the Board of Directors to directors, officers and employees. During the three-month period ended March 31, 2018, the Company granted 185,784 options (2017 – nil). For the three-month period ended March 31, 2018, the Company recorded an expense of $191 (2017 – $157) in stock-based compensation expense in the unaudited interim condensed consolidated statements of income, with a corresponding adjustment to contributed surplus.

Restricted Share Unit ["RSU"] Plan

During the three-month period ended March 31, 2018, the Company granted 93,716 RSUs (2017 – nil) to employees of the Company under its RSU Plan. RSUs are granted at fair market value at the grant date and generally vest at the end of a three-year period based on long-term targets. For the three-month period ended March 31, 2018, $1,263 (2017 – $783) was recorded as an expense in stock-based compensation expense in the unaudited interim condensed consolidated statements of income. Additionally, for the three-month period ended March 31, 2018, an additional 2,479 RSUs (2017 – 2,450 RSUs) were granted as a result of dividends payable.

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

Deferred Share Unit [“DSU”] Plan

During the three-month period ended March 31, 2018, the Company granted 3,512 DSUs (2017 – 3,662 DSUs) to directors under its DSU Plan. DSUs are granted at fair market value at the grant date and vest immediately upon grant. For the three-month period ended March 31, 2017, $165 (2017 – $126) was recorded as stock-based compensation expense under the DSU Plan in the unaudited interim condensed consolidated statements of income. Additionally, for the three-month period ended March 31, 2018, an additional 766 DSUs (2017 – 725 DSUs) were granted as a result of dividends payable.

Stock-Based Compensation Expense

Stock-based compensation for the three-month period ended March 31, 2018 was $1,619 (2017 – $1,066). All stock-based compensation in the current and prior period was equity settled.

12. OTHER EXPENSES

In the normal course of its operations, the Company periodically sells select lease portfolios and other assets. For the three-month period ended March 31, 2018, other expenses included net gains realized on the sale of lease portfolios and other assets of $699 (2017 – nil).

13. FINANCE COSTS

Included in finance costs in the unaudited condensed consolidated statements of income was interest expense, amortization of deferred financing costs and accretion expense on both the credit facilities and the convertible debentures as follows:

	Three Months Ended	
	March 31, 2018	**March 31, 2017**
Interest expense	**8,711**	5,284
Amortization of deferred financing costs and accretion expense	**959**	541
	9,670	5,825

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

14. INCOME TAXES

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

	Three Months Ended	
	March 31, 2018	**March 31, 2017**
Combined basic federal and provincial income tax rates	**27.4%**	27.4%
Expected income tax expense	**4,177**	3,997
Non-deductible expenses	**121**	92
U.S. and SPE results not tax effected	**(21)**	355
Effect of capital gains on sale of assets and investments	**(97)**	-
Other	**-**	(126)
	4,180	4,318

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

	March 31, 2018	**December 31, 2017**
Tax cost of lease assets and property and equipment in excess of net book value	**(288)**	(1,620)
Amounts receivable and provisions	**6,612**	1,676
Deferred salary arrangements	**1,327**	1,848
Unearned revenue	**345**	462
Financing fees	**(384)**	(245)
Revaluation of notes payable and derivative financial instrument	**1,221**	-
	8,833	2,121

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

15. 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.

	Three Months Ended	
	March 31, 2018	**March 31, 2017**
Net income	**11,074**	10,270
Weighted average number of ordinary shares outstanding (in 000's)	**13,674**	13,488
Basic earnings per ordinary share	**0.81**	0.76

For the three-month period ended March 31, 2018, 167,088 DSUs (2017 – 146,642) were included in the weighted average number of ordinary shares outstanding.

Diluted Earnings Per Share

Diluted earnings per share reflect the potential dilutive effect that could occur if additional common shares were assumed to be issued under securities or instruments that may entitle their holders to obtain common shares in the future. Dilution could occur through the exercise of stock options, the exercise of RSUs, or the exercise of the conversion option of the convertible debentures. The number of additional shares for inclusion in the diluted earnings per share calculation was determined using the treasury stock method. For the three-month period ended March 31, 2018, the convertible debentures were dilutive. Therefore, diluted earnings per share is calculated based on a fully diluted net income (adjusted for the after tax financing cost associated with the convertible debentures) and including the shares to which those debentures could be converted.

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	**11,074**	10,270
After tax impact of convertible debentures	**781**	-
Fully diluted net income	**11,855**	10,270
Weighted average number of ordinary shares outstanding (in 000's)	**13,674**	13,488
Dilutive effect of stock-based compensation (in 000's)	**608**	616
Dilutive effect of convertible debentures (in 000's)	**1,205**	-
Weighted average number of diluted shares outstanding (in 000's)	**15,487**	14,104
Dilutive earnings per ordinary share	**0.77**	0.73

For the year ended March 31, 2018, 423,872 stock options to acquire common shares (2017 – nil), were considered anti-dilutive using the treasury stock method and therefore excluded from the calculation of diluted earnings per share.

16. NET CHANGE IN OTHER OPERATING ASSETS AND LIABILITIES

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Amounts receivable	**(643)**	(3,973)
Prepaid expenses	**(2,409)**	(2,125)
Accounts payable and accrued liabilities	**(3,973)**	(422)
Income taxes payable	**4,924**	3,286
Deferred lease inducements	**(196)**	(133)
Unearned revenue	**857**	(604)
Accrued interest	**6,862**	-
	5,422	(3,971)

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

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

	Three Months Ended	
	March 31, 2018	**March 31, 2017**
Income taxes paid	**-**	2,161
Income taxes refunded	**-**	-
Interest paid	**2,133**	5,196
Interest received	**53,590**	39,038

17. CONTINGENCIES

The Company was 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.

18. FINANCIAL INSTRUMENTS

Recognition and Measurement of Financial Instruments

The Company classified its financial instruments as follows:

Financial Instruments	**Measurement**	**March 31, 2018**	**December 31, 2017**
Cash	Fair value	**57,292**	109,370
Amounts receivable	Amortized cost	**15,065**	14,422
Consumer loans receivable	Amortized cost	**565,407**	513,425
Accounts payable and accrued liabilities	Amortized cost	**39,098**	43,071
Derivative financial instruments	Fair value	**4,281**	11,138
Convertible debentures	Amortized cost	**47,025**	47,985
Notes payable	Amortized cost	**420,649**	401,193

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

Fair Value Measurement

All assets and liabilities for which fair value was measured or disclosed in the unaudited interim condensed 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 as at March 31, 2018:

	Total	**Level 1**	**Level 2**	**Level 3**
Cash	**57,292**	57,292	-	-
Amounts receivable	**15,065**	-	-	15,065
Consumer loans receivable	**565,407**	-	-	565,407
Accounts payable and accrued liabilities	**39,098**	-	-	39,098
Derivative financial instruments	**4,281**	-	4,281	-
Convertible debentures	**47,025**	-	-	47,025
Notes payable	**420,649**	-	-	420,649

There were no transfers between Level 1, Level 2, or Level 3 during the current or prior year.

19. SEGMENTED REPORTING

For management purposes, the Company had two reportable segments: easyfinancial and easyhome. The Company's business units generate revenue in four main categories: i) interest generated on the Company's gross consumer loans receivable portfolio; ii) lease payments generated by easyhome lease agreements; iii) commissions and other revenues generated by the sale of various ancillary products; and iv) charges and fees.

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

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 as part of Corporate. Management assessed the performance based on segment operating income (loss). The following tables summarize the relevant information for three-month periods ended March 31, 2018 and 2017:

Three Months Ended March 31, 2018	**easyfinancial**	**easyhome**	**Corporate**	**Total**
Revenue				
Interest	**53,086**	**705**	**-**	**53,791**
Lease revenue	**-**	**30,669**	**-**	**30,669**
Commissions earned	**25,500**	**1,439**	**-**	**26,939**
Charges and fees	**1,780**	**1,598**	**-**	**3,378**
	80,366	**34,411**	**-**	**114,777**
Total operating expenses before depreciation and amortization	**48,537**	**18,431**	**9,498**	**76,466**
Depreciation and amortization	**2,368**	**10,566**	**453**	**13,387**
Segment operating income (loss)	**29,461**	**5,414**	**(9,951)**	**24,924**
Finance costs	**-**	**-**	**9,670**	**9,670**
Income (loss) before income taxes	**29,461**	**5,414**	**(19,621)**	**15,254**

Three Months Ended March 31, 2017	**easyfinancial**	**easyhome**	**Corporate**	**Total**
Revenue				
Interest	38,134	-	-	38,134
Lease revenue	-	31,910	-	31,910
Commissions earned	19,940	1,033	-	20,973
Charges and fees	1,479	1,749	-	3,228
	59,553	34,692	-	94,245
Total operating expenses before depreciation and amortization	33,322	18,199	9,063	60,584
Depreciation and amortization	1,688	11,325	235	13,248
Segment operating income (loss)	24,543	5,168	(9,298)	20,413
Finance costs	-	-	5,825	5,825
Income (loss) before income taxes	24,543	5,168	(15,123)	14,588

As at March 31, 2018, the Company's goodwill of $21.3 million (December 31, 2017 – $21.3 million) related entirely to its easyhome segment.

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

The Company's easyhome 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 years ended March 31, 2018 and 2017 were as follows:

	Three Months Ended	
	March 31, 2018 (%)	**March 31, 2017 (%)**
Furniture	**44**	42
Electronics	**32**	33
Computers	**12**	13
Appliances	**12**	12
	100	100

20. COMPARATIVE FIGURES

Certain of the prior period comparative figures have been reclassified to conform to the current year's financial statement presentation.