Interim Condensed Consolidated Financial Statements

easyhome Ltd.

(Unaudited)
June 30, 2011

easyhome Ltd.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited)
(expressed in thousands of Canadian dollars)

	As at June 30, 2011	As at December 31, 2010
ASSETS		
Current assets		
Cash	**778**	731
Amounts receivable	**4,815**	4,809
Income taxes recoverable	**1,240**	-
Consumer loans receivable (note 4)	**27,332**	18,162
Prepaid expenses	**1,011**	1,296
Total current assets	**35,176**	24,998
Amounts receivable	**1,066**	1,062
Consumer loans receivable (note 4)	**6,165**	3,667
Lease assets	**66,041**	68,622
Property and equipment (note 5)	**12,180**	12,953
Deferred tax assets (note 9)	**5,605**	8,047
Intangible assets	**3,040**	3,093
Goodwill	**17,325**	17,325
TOTAL ASSETS	**146,598**	139,767
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank revolving credit facility (note 6)	**25,808**	15,649
Accounts payable and accrued liabilities	**15,653**	19,322
Income taxes payable	**-**	65
Dividends payable	**1,007**	892
Deferred lease inducements	**558**	578
Unearned revenue	**4,590**	5,310
Term loan (note 6)	**867**	2,602
Provisions	**143**	421
Total current liabilities	**48,626**	44,839
Accounts payable and accrued liabilities	**753**	450
Deferred lease inducements	**1,766**	1,881
Provisions	**380**	407
Total liabilities	**51,525**	47,577
Shareholders' equity		
Share capital (note 7)	**60,207**	60,074
Contributed surplus	**3,077**	3,061
Accumulated comprehensive loss	**(604)**	(257)
Retained earnings	**32,393**	29,312
Total shareholders' equity	**95,073**	92,190
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**146,598**	139,767

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONSOLIDATED STATEMENTS OF INCOME

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

	Three months ended		Six months ended	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
REVENUE				
Lease revenue	**39,376**	39,659	**80,158**	80,366
Interest income	**3,469**	1,314	**6,312**	2,193
Other	**3,419**	1,878	**5,997**	3,330
	46,264	42,851	**92,467**	85,889
EXPENSES				
Salaries and benefits (note 8)	**15,135**	13,613	**29,825**	26,550
Advertising and promotion	**1,872**	1,606	**3,466**	2,753
Bad debts	**1,390**	696	**2,514**	1,110
Occupancy	**6,217**	6,084	**12,674**	12,145
Distribution and travel	**2,058**	1,608	**3,939**	3,263
Other	**3,376**	2,865	**6,588**	5,542
Restructuring items	**-**	328	**-**	641
	30,048	26,800	**59,006**	52,004
DEPRECIATION AND AMORTIZATION				
Depreciation of lease assets	**11,361**	11,602	**23,812**	24,277
Depreciation of property and equipment (note 5)	**778**	951	**1,624**	1,923
Amortization of intangible assets	**171**	93	**277**	187
Impairment (net) (note 5)	**29**	311	**29**	863
	12,339	12,957	**25,742**	27,250
Operating income	**3,877**	3,094	**7,719**	6,635
Interest expense (note 11)	**336**	266	**633**	549
Income before income taxes	**3,541**	2,828	**7,086**	6,086
Income tax expense (note 9)				
Current	**(781)**	(336)	**(449)**	456
Deferred	**1,608**	1,168	**2,439**	1,639
	827	832	**1,990**	2,095
Net income	**2,714**	1,996	**5,096**	3,991
Basic earnings per share (note 10)	**0.23**	0.19	**0.43**	0.38
Diluted earnings per share (note 10)	**0.23**	0.19	**0.43**	0.38

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(expressed in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Net income	**2,714**	1,996	**5,096**	3,991
Other comprehensive income (loss) for the period				
Foreign currency translation reserve	**(31)**	407	**(347)**	148
Comprehensive income	**2,683**	2,403	**4,749**	4,139

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)
(expressed in thousands of Canadian dollars)

	Issued Capital	Contributed Surplus	Total Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, January 1, 2011	60,074	3,061	63,135	29,312	(257)	92,190
Shares issued	133	(191)	(58)	-	-	(58)
Stock-based compensation (note 8)	-	207	207	-	-	207
Comprehensive income, net of tax	-	-	-	5,096	(347)	4,749
Dividends paid (note 7)	-	-	-	(2,015)	-	(2,015)
Balance, June 30, 2011	**60,207**	**3,077**	**63,284**	**32,393**	**(604)**	**95,073**
Balance, January 1, 2010	48,880	3,142	52,022	26,801	-	78,823
Shares issued	269	-	269	-	-	269
Stock-based compensation (note 8)	-	195	195	-	-	195
Comprehensive income, net of tax	-	-	-	3,991	148	4,139
Dividends paid (note 7)	-	-	-	(1,775)	-	(1,775)
Balance, June 30, 2010	**49,149**	**3,337**	**52,486**	**29,017**	**148**	**81,651**

See accompanying notes to the interim condensed consolidated financial statements

easyhome Ltd.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended		Six months ended	
	June 30, 2011	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
OPERATING ACTIVITIES				
Net income	**2,714**	1,996	**5,096**	3,991
Add (deduct) items not affecting cash				
Depreciation of lease assets	**11,361**	11,602	**23,812**	24,277
Depreciation of property and equipment (note 5)	**778**	951	**1,624**	1,923
Impairment (net) (note 5)	**29**	311	**29**	863
Amortization of intangible assets	**171**	93	**277**	187
Stock-based compensation (note 8)	**43**	172	**206**	325
Bad debt expense	**1,390**	696	**2,514**	1,110
Deferred tax expense	**1,608**	1,168	**2,439**	1,639
Gain on sale of property and equipment	**(385)**	(405)	**(427)**	(405)
	17,709	16,584	**35,570**	33,910
Net change in non-cash working capital balances related to operations (note 11)	**1,079**	4,666	**(5,556)**	3,970
Net issuance of consumer loans receivable	**(6,558)**	(6,170)	**(14,182)**	(8,865)
Cash provided by operating activities	**12,230**	**15,080**	**15,832**	29,015
INVESTING ACTIVITIES				
Net purchase of lease assets	**(10,595)**	(10,207)	**(21,379)**	(20,189)
Purchase of property and equipment	**(826)**	(2,875)	**(1,425)**	(4,139)
Purchase of intangible assets	**(202)**	(46)	**(222)**	(147)
Proceeds on sale of property and equipment	**505**	224	**774**	224
Cash used in investing activities	**(11,118)**	**(12,904)**	**(22,252)**	(24,251)
FINANCING ACTIVITIES				
Advances (payments) of bank revolving credit facility	**472**	(595)	**10,159**	(1,552)
Payments of term loan (note 6)	**(862)**	(878)	**(1,735)**	(1,755)
Payment of common share dividends	**(1,007)**	(893)	**(1,899)**	(1,777)
Redemption of deferred share units	**-**	-	**(58)**	-
Issuance of common shares on exercise of options	-	139	-	139
Cash provided by (used in) financing activities	**(1,397)**	(2,227)	**6,467**	(4,945)
Net increase (decrease) in cash during the period	**(285)**	(51)	**47**	(181)
Cash, beginning of period	**1,063**	161	**731**	291
Cash, end of period	**778**	110	**778**	110

See accompanying notes to the interim condensed consolidated financial statements

1. CORPORATE INFORMATION

easyhome Ltd. ["Parent company"] was incorporated under the laws of Alberta, Canada by Certificate and Articles of Incorporation dated December 14, 1990 and was continued as a corporation in Ontario pursuant to Articles of Continuance dated July 22, 1993. The Parent company has common shares listed on the Toronto Stock Exchange ["TSX"]. The Parent company's head office is located in Mississauga, Ontario, Canada 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, prepaid cards and cheque cashing through its easyfinancial Services Inc. business ["easyfinancial"].

The Company operates in three reportable segments; leasing, easyfinancial and franchising. As at June 30, 2011, the Company operated 217 easyhome stores, 74 easyfinancial kiosks and had 41 franchise locations (June 30, 2010 – 217 easyhome stores, 54 easyfinancial kiosks and 27 franchise locations).

2. BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements were authorized for issue in accordance with a directors' resolution on August 3, 2011.

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 and six month periods ended June 30, 2011 were prepared in accordance with International Accounting Standards ["IAS"] 34, *Interim Financial Reporting*. The same accounting policies and methods of computation were followed in the preparation of these interim condensed financial statements as were followed in the preparation of the interim condensed consolidated financial statements for the three month period ended March 31, 2011. In addition, the interim condensed consolidated financial statements for the three month period ended March 31, 2011 contain certain incremental annual International Financial Reporting Standards [“IFRS”] disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian Generally Accepted Accounting Principles [“CGAAP”].

Accordingly, these interim condensed consolidated financial statements for the three and six month periods ended June 30, 2011 should be read together with the annual consolidated financial statements for the year ended December 31, 2010 prepared in accordance with previous CGAAP as well as the interim condensed consolidated financial statements for the three month period ended March 31, 2011.

Early Adoption of IFRS 9, Financial Instruments

The Company has early adopted IFRS 9, *Financial Instruments*, as amended in October 2010 ["IFRS 9 (2010)”] with a date of initial application of January 1, 2010. IFRS 9 (2010) requires that an entity classifies its financial assets as subsequently measured at either amortized cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 (2010) requires that an entity classifies its financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except in some circumstances including for financial liabilities at fair value through comprehensive income and financial guarantee contracts. These changes in accounting policy are applied on a retrospective basis from January 1, 2010. IFRS 9 (2010) was not applied to financial assets or financial liabilities that have been derecognized at the date of initial application.

In accordance with the transitional provisions of IFRS 9 (2010), the Company classified financial assets held at the date of initial application based on the facts and circumstances of the business model in which the financial assets were held at that date. This classification resulted in the Company continuing to account for financial assets at amortized cost. The Company's financial liabilities under IFRS 9 (2010) are classified as financial liabilities as subsequently measured at amortized cost using the effective interest rate method. The classifications of the financial assets and financial liabilities of the Company under IFRS 9 (2010) did not require reclassification on the date of initial application.

The adoption of IFRS 9 (2010) had no impact on shareholders’ equity as at January 1, 2010, comprehensive income for the year ended December 31, 2010, and comprehensive income for the three and six months ended June 30, 2011 since the measurement basis for financial assets remained the same.

3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company’s financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Company’s disclosures.

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

IFRS 10 Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ["IFRS 10"] is effective for annual periods beginning on or after January 1, 2013 and will replace portions of IAS 27 *Consolidated and Separate Financial Statements* ["IAS 27"] and interpretation SIC-12 *Consolidation — Special Purpose Entities*. Under IFRS 10, consolidated financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries; however IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Early adoption of this standard is permitted. The Company has not fully assessed the impact of adopting IFRS 10; however, it anticipates that its impact will be limited.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ["IFRS 12"] includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not fully assessed the impact of adopting IFRS 12; however, it anticipates that its impact will be limited.

IFRS 13 Fair Value Measurement

IFRS 13, *Fair Value Measurement* ["IFRS 13"] provides guidance on how to measure fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective January 1, 2013 and will be adopted prospectively. The Company does not expect any impact on its financial position or performance.

4. CONSUMER LOANS RECEIVABLE

Consumer loans receivable represent amounts advanced to customers of easyfinancial. Loan terms generally range from six to 18 months.

($ in 000's)	**June 30, 2011**	**December 31, 2010**
Consumer loans receivable	**35,320**	23,800
Allowance for loan losses	**(1,823)**	(1,971)
	33,497	21,829
Current portion of consumer loans receivable	**27,332**	18,162
Long-term portion of consumer loans receivable	**6,165**	3,667
	33,497	21,829

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

An aging analysis of consumer loans past due as at June 30, 2011, and December 31, 2010

	June 30, 2011		December 31, 2010	
($ in 000's except %)	**$**	**% of total loans**	**$**	**% of total loans**
1 - 30 days	1,431	4.1%	1,238	5.2%
31 - 44 days	208	0.6%	238	1.0%
45 - 60 days	207	0.6%	405	1.7%
61 - 90 days	406	1.1%	690	2.9%

The changes in the consumer loans receivable provision are summarized below:

($ in 000's)	**June 30, 2011**	**December 31, 2010**
Balance, beginning of period	**1,971**	310
Amounts written off against provision	**(2,746)**	(1,897)
Increase due to normal lending and collection activities	**2,598**	2,093
Increase due to refinement of estimating the provision	**-**	866
Amounts written off against provision due to employee fraud	**-**	(303)
Increase due to employee fraud	**-**	902
Balance, end of year	**1,823**	1,971

5. PROPERTY AND EQUIPMENT

The amount of property and equipment classified as under construction or development and not being amortized was $1.0 million as at June 30, 2011 (December 31, 2010 - $0.7 million).

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 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 and a 3% long term growth rate consistent with industry practice. 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 lease assets was required. As such, the CGU impairment charge was limited to the property and equipment held by the impaired CGU.

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

For the six months ended June 30, 2011, the Company recorded an impairment charge of $47 offset by an impairment recovery of $18. The net impairment charge for the period was $29.

For the six months ended June 30, 2010, the net impairment charge for the period was $863.

All impairment charges relate solely to the leasing segment.

6. BANK REVOLVING CREDIT FACILITY AND TERM LOAN

Revolving credit facility

The Company's revolving credit facility relates to a revolving, renewable credit facility. During the three months ended June 30, 2011, the Company's credit facility limit was $30 million. *($ in 000's)*	**June 30, 2011**	**December 31, 2010**
Revolving credit facility	25,808	15,649

Term loan

The Company's term loan relates to a $10.0 million three-year term loan which the Company arranged during the third quarter of 2008 to fund the acquisition of Insta-Rent Inc. As at June 30, 2011, $0.9 million was outstanding on the term loan. Repayment of the term loan commenced on March 31, 2009 and requires the Company to make quarterly principal repayments of $0.9 million. The Company's term loan is due to be repaid in the third quarter of 2011.

($ in 000's)	**June 30, 2011**	**December 31, 2010**
Current portion of term loan	867	2,602

Amounts borrowed under the revolving credit facility and term loan as at June 30, 2011 bear interest at the bank's prime rate plus 0.75% per annum or banker's acceptance rate plus 2.00% per annum. The revolving credit facility and term loan are collateralized by substantially all of easyhome's amounts receivable, lease assets, and property and equipment.

Covenants and conditions for the revolving credit facility and term loan include a fixed charge coverage covenant, a funded debt to earnings before interest, taxes, depreciation and amortization ["EBITDA"] covenant and a capital expenditure covenant, all as defined under the lending agreement.

As at June 30, 2011, the Company was in compliance with all of its financial covenants under its lending agreement.

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

As a result of the previously disclosed employee fraud and the understatement of unearned revenue, the Company was required to restate certain of the prior periods' financial statements. As a result, the Company was not in compliance with certain representations and warranties as set out in its lending agreement for the quarterly periods beginning January 1, 2009 and ending June 30, 2010. The Company's lender agreed to not demand repayment of the bank revolving credit facility and the term loan and to waive the compliance with such representations and warranties for such periods.

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 includes 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.

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 EBITDA ratio equals or exceed 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 covenants of the new credit facilities are as follows:

	Requirements:
Total debt to EBITDA ratio	< 2.5, reducing to < 2.0 in the quarter ending Dec. 31, 2011
Fixed coverage ratio	> 1.0, increasing to > 1.15 in the quarter ending Dec. 31, 2011 and increasing to > 1.25 in the quarter ending Dec. 31, 2012
Total debt to effective tangible net worth ratio	< 0.45
Total debt to lease assets	< 0.75

See note 13 for a discussion of the Company's capital risk management.

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

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:

	Six months ended June 30, 2011		**Year ended December 31, 2010**	
($ in 000's except number of shares in 000's)	**# of shares**	**$**	**# of shares**	**$**
Balance, beginning of period	**11,842**	**60,074**	**10,419**	**48,880**
Issued for cash for exercised options	**7**	**133**	**70**	**286**
Issued for cash on private placement of common shares, net of share issuance costs	**-**	**-**	**1,353**	**10,908**
Balance, end of period	**11,849**	**60,207**	**11,842**	**60,074**

The TSX had previously accepted a notice of intention filed by the Company to make a normal course issuer bid ("NCIB"). During the period that commenced on July 8, 2009 and ended on July 7, 2010, the Company was permitted to purchase on the TSX a maximum of 200,000 common shares being approximately 3.0% of the public float (as defined by the rules and guidelines of the TSX) as of June 30, 2010. The price for any such shares was the prevailing market price at the time of purchase. As of July 7, 2010, the Company had repurchased 86,700 shares at a cost of $766,000 under this notice. All of these share repurchases occurred during 2009. This notice expired without renewal on July 7, 2010.

On December 23, 2010, the Company completed a private placement of 1,352,940 common shares at a price of $8.50 per share for aggregate gross proceeds of $11.5 million. This included 176,470 shares issued pursuant to an over-allotment option granted to the underwriters. The shares were offered pursuant to prospectus and registration exemptions in each of the provinces and territories of Canada. The $10.9 million increase to share capital was offset by net proceeds of $10.7 million and a deferred tax asset of $0.2 million. The Company used the net proceeds from the financing to fund growth initiatives at its existing easyfinancial kiosks and for general corporate purposes, including debt repayment.

Dividends on common shares

The Company declared a dividend of $0.085 per share to shareholders of record on June 27, 2011, payable on July 5, 2011 (2010 - $0.085 per share to shareholders of record on June 24, 2010, payable on July 5, 2010). The dividend paid on July 5, 2011 was $1.0 million (2010 - $891).

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. Options are granted at exercise prices equal to or greater than fair market value at the grant date, generally vest evenly over a five-year period, and have exercise lives ranging from five to 10 years. The aggregate number of common shares reserved for issuance and which may be purchased upon the exercise of options granted pursuant to the plan shall not exceed 2.3 million common shares.

The Company uses the fair value method of accounting for stock options granted to employees and directors. During the three months and six months ended June 30, 2011, the Company granted 95,530 options (2010 – 164,982 options). For the three months and six months ended June 30, 2011, ($72) and ($5), respectively (2010 - $72 and $155, respectively) were recorded as stock-based compensation expenses with respect to stock options in salaries and benefits expense in the interim consolidated statements of income and comprehensive income, with corresponding impact in contributed surplus.

Restricted share unit plan

During the three and six months ended June 30, 2011, the Company granted no Restricted Share Units ["RSUs"] (2010 – nil) to senior executives of the Company under its Restricted Share Unit Plan. For the three and six months ended June 30, 2011, $13 and $14, respectively (2010 - $60 and $118 respectively) were recorded as a stock-based compensation expense under the Restricted Share Unit Plan in salaries and benefits expense in the interim consolidated statements of income and comprehensive income. Additionally, for the three and six months ended June 30, 2011, an additional 937 and 2,147 RSUs, respectively (2010 – 1,422 and 2,742, respectively) were granted for dividends as a result of dividends payable.

Performance share unit plan

During the three and six months ended June 30, 2011, the Company granted 309,356 Performance Share Units ["PSUs"] (2010 – 245,116) to senior executives of the Company under its Performance Share Unit Plan. For the three and six months ended June 30, 2011, $175 and $304, respectively, (2010 – $87) were recorded as stock-based compensation expense under the Performance Share Unit Plan in salaries and benefits expense in the interim consolidated statements of income and comprehensive income. Additionally, for the three and six months ended June 30, 2011, an additional 2,317 and 4,371 PSUs, respectively, (2010 – nil) were granted as a result of dividends payable.

Deferred share unit plan

During the three and six months ended June 30, 2011, the Company granted 12,534 and 22,974 Deferred Share Units ["DSUs"] (2010 – 4,529 and 10,737 DSUs, respectively) to directors under its Deferred Share Unit Plan. For the three and six months ended June 30, 2011, $101 and $197, respectively (2010 - $43 and $54, respectively) were recorded as stock-based compensation expense under the Deferred Share Unit Plan in salaries and benefits expense in the interim consolidated statements of income and comprehensive income. Additionally, for the three and six months ended June 30, 2011, an additional 897 and 1,617 DSUs, respectively (2010 – 701 and 1276 DSUs, respectively) were granted as a result of dividends payable.

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

9. INCOME TAXES

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

	Six months ended June 30	
($ in 000's)	**2011**	**2010**
Combined basic federal and provincial income tax rates	**28.0%**	30.4%
Expected income tax expense	**1,986**	1,850
Impact of tax rate changes on deferred tax assets	**(4)**	89
Non-deductible expense	**89**	150
U.S. losses not tax benefitted	**167**	342
Finalization of prior tax amounts	**(202)**	(406)
Other	**(46)**	70
	1,990	2,095

The significant components of the Company's income tax expense are:

	Six months ended June 30	
($ in 000's)	**2011**	**2010**
Current income tax:		
Current income tax charge	**993**	3,210
Adjustment in respect of current income tax of previous years	**(1,442)**	(2,754)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**1,199**	(710)
Adjustment in respect of deferred income tax of previous years	**1,240**	2,349
	1,990	2,095

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

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

($ in 000's)	**June 30, 2011**	**December 31, 2010**
Loss carryforwards	1,184	2,473
Tax cost of lease assets and property and equipment in excess of net book value	2,635	3,438
Amounts receivable and provisions	734	772
Lease inducements	608	650
Unearned revenue	223	250
Financing fees	144	166
Other	77	298
	5,605	8,047

The deferred tax asset credited directly to equity relating to financing fees for the six months ended June 30, 2011 was $22 (2010 - nil).

The Company, its subsidiaries and its SPEs have the following tax loss carryforwards that may be used to reduce taxable income in the future:

($ in 000's, except years)	**Tax Loss Carryforward**	**Benefit of Tax Loss Carryforward**	**Year of Expiry**
Canadian Operations			
Year ended December 31, 2009	4,181	1,184	2029
U.S. Operations			
Year ended December 31, 2007	850	338	2026
Year ended December 31, 2008	1,869	746	2027
Year ended December 31, 2009	518	207	2028
Year ended December 31, 2010	439	175	2029
	3,676	1,466	
Special Purpose Entities			
Year ended December 31, 2010	599	238	2029
	8,456	2,888	

As at June 30, 2011, the benefit of the U.S. tax loss carryforwards in the amount of $1.7 million and the U.S. deferred tax asset resulting from differences between the financial reporting and tax bases of assets and liabilities have not been recognized due to the uncertainty of the realization of the benefit of the U.S. operational losses and the reversal of the differences between the financial reporting and tax bases of the assets and liabilities in the foreseeable future. If the Company were to recognize all unrecognized deferred tax assets at June 30, 2011, profits would increase by $3.0 million (December 31, 2010 - $2.9 million).

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

As June 30, 2011, there was no recognized deferred tax liability (December 31, 2010 - nil) for taxes that would be payable on the undistributed earnings of the Company's subsidiaries. The Company has determined that undistributed income of its subsidiaries would not be distributed in the foreseeable future.

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:

($ in 000's except number of shares and earnings per share)	**Three months ended June 30**		**Six months ended June 30**	
	2011	**2010**	**2011**	**2010**
Net income for the period	**2,714**	1,996	**5,096**	3,991
Weighted average number of common shares outstanding	**11,849**	10,445	**11,849**	10,432
Basic earnings per common share	**0.23**	0.19	**0.43**	0.38

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.

($ in 000's except number of shares and earnings per share)	**Three months ended June 30**		**Six months ended June 30**	
	2011	**2010**	**2011**	**2010**
Net income for the period	**2,714**	1,996	**5,096**	3,991
Weighted average number of common shares outstanding	**11,849**	10,445	**11,849**	10,432
Dilutive effect of share based rewards	**113**	39	**113**	44
Weighted average number of diluted shares outstanding	**11,962**	10,484	**11,962**	10,476
Dilutive earnings per common share	**0.23**	0.19	**0.43**	0.38

The dilutive effect of share options reflects 52,860 options for the three month period ended June 30, 2011 (three month period ended June 30, 2010 – 124,076) and 53,239 options for the six month period ended June 30, 2011 (six month period ended June 30, 2010 – 139,985).

For the period ended June 30, 2011, stock options to acquire 717,662 common shares (June 30, 2010 – 664,782 options) were not included in the calculation of diluted earnings per share as their exercise prices exceeded the average market share price for the year.

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

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:

	Three months ended June 30		**Six months ended June 30**	
($ in 000's)	**2011**	**2010**	**2011**	**2010**
Amounts receivable	**(97)**	(1,309)	**(10)**	(557)
Prepaid expenses	**(33)**	104	**285**	155
Accounts payable and accrued liabilities	**2,253**	6,890	**(3,366)**	5,529
Income taxes recoverable	**(1,199)**	(1,625)	**(1,305)**	(1,311)
Deferred lease inducement	**(121)**	363	**(135)**	317
Unearned revenue	**395**	331	**(720)**	(49)
Provisions	**(119)**	(88)	**(305)**	(114)
	1,079	4,666	**(5,556)**	3,970

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

	Three months ended June 30		**Six months ended June 30**	
($ in 000's)	**2011**	**2010**	**2011**	2010
Income taxes paid	**438**	677	**877**	1,193
Interest paid	**336**	266	**633**	549
Interest received	**3,469**	1,314	**6,312**	2,193

12. CONTINGENCIES

Class action lawsuit

The Company and certain of its current and former officers have been named as defendants in a potential class action 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 and claimed total damages of $15.0 million (including punitive damages of $5.0 million). On April 8, 2011, the same plaintiff commenced a second action against certain current and former directors of the Company. The allegations made in this second action are the same as those in the first action. In particular, the plaintiff alleges, among other things, that the Company and others made certain misrepresentations about the Company's financial statements being prepared in accordance with CGAAP. The first action and the second action were consolidated into a single action during the quarter.

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

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. No assurance can be given with respect to the ultimate outcome of such proceedings, and the amount of any damages awarded could be substantial.

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. CAPITAL RISK MANAGEMENT

The Company manages its capital to maintain its ability to continue as a going concern and to provide adequate returns to shareholders by way of share appreciation and growing dividends. The capital structure of the Company consists of bank debt and shareholders' equity, which comprises issued share capital, contributed surplus and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, share repurchases, the payment of dividends, increasing or decreasing bank debt or by undertaking other activities as deemed appropriate under specific circumstances. The Company's strategy, objectives, measures, definitions and targets have not changed significantly from the prior period.

The Company has externally imposed capital requirements as governed through its financing facilities. These requirements are to ensure the Company continues to operate in the normal course of business and to ensure the Company manages its debt relative to net worth. The capital requirements are congruent with the Company's management of capital.

The Company monitors capital on the basis of its bank covenants which are tabulated as follows:

Covenant*	**Requirement***	**June 30, 2011**	**December 31, 2010**	**June 30, 2010**
Funded debt to EBITDA ratio	<2.5	**1.45**	0.89	1.04
Fixed coverage ratio	>1.0	**1.25**	1.21	1.05
Total capital expenditures excluding lease assets	<$9 million	**$1.6 million**	$5.3 million	$4.1 million

* Bank covenant and requirements as at June 30, 2011.

For the six months ended June 30, 2011, the Company was in compliance with all of its externally imposed financial covenants.

14. 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. Mr. Gates does not participate or vote in any Board of Directors' 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 15 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 June 30, 2011, 26 franchise locations were opened and operated under the License Agreement.

15. SEGMENTED REPORTING

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

- Leasing
- easyfinancial
- Franchising

Prior to March 31, 2011, the Company's reportable business segments were Canadian leasing, U.S. leasing and easyfinancial. Following a review of the reporting segments that resulted from the previously announced restructuring and the Company's corresponding growth strategy, the reportable segments were adjusted to reflect the Company's organizational structure and the degree of segregation of business units upon which operating decisions are made. Accounting policies for each of these business segments are the same as those disclosed in note 3 in the interim condensed consolidated financial statements for the three month period ended March 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. Management assesses 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 dates disclosed:

Three months ended June 30, 2011 *($ in 000's)*	**Leasing**	**easyfinancial**	**Franchising**	**Corporate**	**Total**
Revenue	40,334	5,642	288	-	46,264
Total operating expenses before depreciation and amortization and other items	22,014	4,133	135	3,766	30,048
Other items	-	-	-	-	-
Depreciation and amortization	12,124	77	20	118	12,339
Segment operating income (loss)	6,196	1,432	133	(3,884)	3,877
Interest expense	-	-	-	336	336
Income before income taxes	6,196	1,432	133	(4,220)	3,541

Three months ended June 30, 2010 *($ in 000's)*	**Leasing**	**easyfinancial**	**Franchising**	**Corporate**	**Total**
Revenue	40,265	2,345	241	-	42,851
Total operating expenses before depreciation and amortization and other items	21,022	2,190	120	3,140	26,472
Other items	-	-	-	328	328
Depreciation and amortization	12,804	47	-	106	12,957
Segment operating income (loss)	6,439	108	121	(3,574)	3,094
Interest expense	-	-	-	266	266
Income before income taxes	6,439	108	121	(3,840)	2,828

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

Six months ended June 30, 2011 *($ in 000's)*	**Leasing**	**easyfinancial**	**Franchising**	**Corporate**	**Total**
Revenue	81,693	10,194	580	-	92,467
Total operating expenses before depreciation and amortization and other items	43,145	7,683	216	7,962	59,006
Other items	-	-	-	-	-
Depreciation and amortization	25,316	154	43	229	25,742
Segment operating income (loss)	13,232	2,357	321	(8,191)	7,719
Interest expense	-	-	-	633	633
Income before income taxes	13,232	2,357	321	(8,824)	7,086

Six months ended June 30, 2010 *($ in 000's)*	**Leasing**	**easyfinancial**	**Franchising**	**Corporate**	**Total**
Revenue	81,563	3,857	469	-	85,889
Total operating expenses before depreciation and amortization and other items	41,467	3,553	234	6,109	51,363
Other items	-	-	-	641	641
Depreciation and amortization	26,985	77	1	187	27,250
Segment operating income (loss)	13,111	227	234	(6,937)	6,635
Interest expense	-	-	-	549	549
Income before income taxes	13,111	227	234	(7,486)	6,086

The Company operates across Canada and in certain U.S. states. During the six months ended June 30, 2011, 93% or $86.3 million of revenue was generated in Canada and 7% or $6.2 million of revenue was generated in the U.S. (June 30, 2010 – 95.4% or $81.9 million of revenue was generated in Canada and 4.6% or $3.9 million of revenue was generated in the U.S). Additionally, as at June 30, 2011, $135.2 million of the Company's assets were located in Canada and $11.4 million were located in the U.S. (2010 - $130.2 million in Canada and $5.9 million in the U.S).

As at June 30, 2011, the Company's goodwill of $17.3 million (December 31, 2010 - $17.3 million) is related entirely to its Canadian leasing segment.

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

The Company's leasing business consists of four major product categories: furniture, electronics, computers and appliances. Lease revenue generated by major product category as a percentage of total lease revenue for the periods ended June 30, 2011 and June 30, 2010 are as follows:

	Six months ended June 30	
(percentage)	**2011**	**2010**
Furniture	**35.9%**	36.5%
Electronics	**33.9%**	35.0%
Computers	**18.6%**	16.8%
Appliances	**11.6%**	11.7%
	100.0%	100.0%

16. IFRS FINANCIAL STATEMENTS RECONCILED TO CGAAP

For all periods up to and including the year ended December 31, 2010, the Company prepared its consolidated financial statements in accordance with Canadian GAAP ("CGAAP"). These interim condensed consolidated financial statements, for the three and six month periods ending June 30, 2011, are prepared in accordance with IFRS.

Accordingly, the Company has prepared interim condensed consolidated financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2010. This note explains the principal adjustments made by the Company in restating its previous CGAAP statements of income and statements of comprehensive income for the three and six month period ended June 30, 2010 and its previous CGAAP statement of financial position as at June 30, 2010.

The transition from Canadian GAAP to IFRS has not had a material impact on the statements of cash flows with the exception of the classification of the purchase of lease assets. The Company previously classified its purchase of lease assets as operating activities in the statements of cash flows. Under IFRS, as the intent is to lease these assets and dispose of them at the end of its economic life, the Company has classified these amounts as investing activities, in the amount of $21.3 million (June 30, 2010 – 20.2 million).

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

The CGAAP statement of income for the three months ended June 30, 2010 has been reconciled to IFRS as follows:

($ in 000's)		**CGAAP**	**IFRS adjustments**	**IFRS**
REVENUE				
Lease revenue	Note 1	39,652	7	39,659
Interest income		1,314	-	1,314
Other	Note 2	3,559	(1,681)	1,878
		44,525	(1,674)	42,851
EXPENSES				
Salaries and benefits	Note 3	13,605	8	13,613
Advertising and promotion	Note 4	1,652	(46)	1,606
Bad debts		696	-	696
Occupancy	Note 5	6,113	(29)	6,084
Distribution and travel		1,608	-	1,608
Other	Note 6	3,440	(575)	2,865
Restructuring charges		328	-	328
		27,442	(642)	26,800
DEPRECIATION AND AMORTIZATION				
Depreciation of lease assets	Note 7	12,438	(836)	11,602
Depreciation of property and equipment	Note 8	1,113	(162)	951
Amortization of intangible assets	Note 9	82	11	93
Impairment (net)	Note 10	-	311	311
		13,633	(676)	12,957
Operating income		3,450	(356)	3,094
Interest expense		266	-	266
Income before income taxes		3,184	(356)	2,828
Income tax expense				
Current		(336)	-	(336)
Deferred	Note 11	1,164	4	1,168
		828	4	832
Net income		2,356	(360)	1,996
Basic earnings per share		0.23	(0.04)	0.19
Diluted earnings per share		0.23	(0.04)	0.19

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

Notes:

1. Adjustment of $7 relates to two components: i) an adjustment of $18 relates to IFRS Adjustment C (Processing Fees); and ii) an adjustment of ($11) relates to IFRS Adjustment I (Functional Currency)
2. Adjustment of ($1,681) consists of three components: i) an adjustment of ($965) relates to IFRS Adjustment E (Vendor Incentives, Allowances and Rebates); ii) an adjustment of ($713) relates to IFRS Adjustment D (Customer Protection Programs) and iii) an adjustment of ($3) relates to IFRS Adjustment I (Functional Currency)
3. Adjustment of $8 relates to two components: i) an adjustment of ($44) relates to IFRS Adjustment F (Share-based Payments); and ii) an adjustment of $52 relates to IFRS Adjustment I (Functional Currency)
4. Adjustment of ($46) relates to IFRS Adjustment G (Advertising and Promotional Expenditures)
5. Adjustment of ($29) relates to IFRS Adjustment H (Onerous Leases)
6. Adjustment of ($575) consists of two components: i) an adjustment of ($712) relates to IFRS Adjustment D (Customer Protection Programs); and ii) an adjustment of $137 relates to IFRS Adjustment I (Functional Currency)
7. Adjustment of ($836) relates to two components: i) an adjustment of ($843) relates to IFRS Adjustment E (Vendor Incentives, Allowances and Rebates); and ii) an adjustment of $7 relates to IFRS Adjustment I (Functional Currency)
8. Adjustment of ($162) consists of two components: i) an adjustment of $75 relates to IFRS Adjustment A (Depreciation of Property and Equipment); and ii) an adjustment of ($237) relates to IFRS Adjustment B (Impairment of Assets)
9. Adjustment of $11 relates to IFRS Adjustment A (Amortization of Intangible Assets)
10. Adjustment of $311 relates to IFRS Adjustment B (Impairment of Assets)
11. Adjustment of $4 relates to IFRS Adjustment J (Tax Effect of IFRS Adjustments)

The CGAAP statement of comprehensive Income for the three months ended June 30, 2010 has been reconciled to IFRS as follows:

($ in 000's)		**CGAAP**	**IFRS adjustment**	**IFRS**
Net income		2,356	(360)	1,996
Other comprehensive income for the period				
Foreign currency translation reserve	Note 1	-	407	407
Comprehensive income		2,356	47	2,403

Note 1. Adjustment of $407 relates to IFRS Adjustment I (Functional Currency)

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

The CGAAP statement of income for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

($ in 000's)		**CGAAP**	**IFRS adjustments**	**IFRS**
REVENUE				
Lease revenue	Note 1	80,336	30	80,366
Interest income		2,193	-	2,193
Other	Note 2	6,345	(3,015)	3,330
		88,874	(2,985)	85,889
EXPENSES				
Salaries and benefits	Note 3	26,562	(12)	26,550
Advertising and promotion	Note 4	3,001	(248)	2,753
Bad debts		1,110	-	1,110
Occupancy	Note 5	12,200	(55)	12,145
Distribution and travel		3,263	-	3,263
Other	Note 6	6,649	(1,107)	5,542
Restructuring charges		641	-	641
		53,426	(1,422)	52,004
DEPRECIATION AND AMORTIZATION				
Depreciation of lease assets	Note 7	25,937	(1,660)	24,277
Depreciation of property and equipment	Note 8	2,162	(239)	1,923
Amortization of intangible assets	Note 9	164	23	187
Impairment (net)	Note 10	-	863	863
		28,263	(1,013)	27,250
Operating income		7,185	(550)	6,635
Interest expense		549	-	549
Income before income taxes		6,636	(550)	6,086
Income tax expense				
Current		456	-	456
Deferred	Note 11	1,647	(8)	1,639
		2,103	(8)	2,095
Net income		4,533	(542)	3,991
Basic earnings per share		0.43	(0.05)	0.38
Diluted earnings per share		0.42	(0.04)	0.38

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

Notes:

1. Adjustment of $30 relates to two components: i) an adjustment of $41 relates to IFRS Adjustment C (Processing Fees); and ii) an adjustment of ($11) relates to IFRS Adjustment I (Functional Currency)
2. Adjustment of ($3,015) consists of three components: i) an adjustment of ($1,771) relates to IFRS Adjustment E (Vendor Incentives, Allowances and Rebates); ii) an adjustment of ($1,241) relates to IFRS Adjustment D (Customer Protection Programs); and iii) an adjustment of ($3) relates to IFRS Adjustment I (Functional Currency)
3. Adjustment of ($12) relates to two components: i) an adjustment of ($64) relates to IFRS Adjustment F (Share-based Payments); and ii) an adjustment of $52 relates to IFRS Adjustment I (Functional Currency)
4. Adjustment of ($248) relates to IFRS Adjustment G (Advertising and Promotional Expenditures)
5. Adjustment of ($55) relates to IFRS Adjustment H (Onerous Leases)
6. Adjustment of ($1,107) consists of two components: i) an adjustment of ($1,240) relates to IFRS Adjustment D (Customer Protection Programs); and ii) an adjustment of $133 relates to IFRS Adjustment I (Functional Currency)
7. Adjustment of ($1,660) relates to two components: i) an adjustment of (1,667) relates to IFRS Adjustment E (Vendor Incentives, Allowances and Rebates); and ii) an adjustment of $7 relates to IFRS Adjustment I (Functional Currency)
8. Adjustment of ($239) consists of two components: i) an adjustment of $228 relates to IFRS Adjustment A (Depreciation of Property and Equipment); and ii) an adjustment of ($467) relates to IFRS Adjustment B (Impairment of Assets)
9. Adjustment of $23 relates to IFRS Adjustment A (Amortization of Intangible Assets)
10. Adjustment of $863 relates to IFRS Adjustment B (Impairment of Assets)
11. Adjustment of ($8) relates to IFRS Adjustment J (Tax Effect of IFRS Adjustments)

The CGAAP statement of comprehensive income for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

($ in 000's)		**CGAAP**	**IFRS adjustment**	**IFRS**
Net income		4,533	(542)	3,991
Other comprehensive income for the period				
Foreign currency translation reserve	Note 1	-	148	148
Comprehensive income		4,533	(394)	4,139

Note 1: Adjustment of $148 relates to IFRS Adjustment I (Functional Currency)

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

The CGAAP statement of financial position at June 30, 2010 has been reconciled to IFRS as follows:

($ in 000's)		**CGAAP**	**IFRS adjustments**	**IFRS**
ASSETS				
Current assets				
Cash		110	-	110
Amounts receivable		5,398	-	5,398
Income taxes recoverable		4,298	-	4,298
Consumer loans receivable		14,112	-	14,112
Prepaid expenses	Note 1	1,189	(198)	991
Total current assets		25,107	(198)	24,909
Amounts receivable		443	-	443
Consumer loans receivable		2,584	-	2,584
Lease assets	Note 2	72,056	(4,372)	67,684
Property and equipment	Note 3	17,368	(3,867)	13,501
Deferred tax assets	Note 4	3,956	2,539	6,495
Intangible assets	Note 5	3,162	(21)	3,141
Goodwill		17,325	-	17,325
TOTAL ASSETS		142,001	(5,919)	136,082
LIABILITIES AND EQUITY				
Current liabilities				
Bank revolving credit facility		22,212	-	22,212
Accounts payable and accrued liabilities	Note 6	18,907	(134)	18,773
Dividends payable		891	-	891
Deferred lease inducements		602	-	602
Unearned revenue	Note 7	3,928	841	4,769
Term loan		3,764	-	3,764
Provisions	Note 8	-	230	230
Total current liabilities		50,304	937	51,241
Accounts payable and accrued liabilities		87		87
Deferred lease inducements		2,018	-	2,018
Term loan		601	-	601
Provisions	Note 8	-	484	484
Total liabilities		53,010	1,421	54,431
Equity				
Share capital		49,149	-	49,149
Contributed surplus	Note 9	3,255	82	3,337
Other comprehensive income	Note 10	-	148	148
Retained earnings	Note 11	36,587	(7,570)	29,017
Total equity		88,991	(7,340)	81,651
TOTAL LIABILITIES AND EQUITY		142,001	(5,919)	136,082

Notes:

1. Adjustment of ($198) relates to IFRS Adjustment G (Advertising and Promotional Expenditures)
2. Adjustment of ($4,372) consists of two components: i) an adjustment of ($4,185) relates to IFRS Adjustment E (Vendor Incentives, Allowances and Rebates); and ii) an adjustment of ($187) relates to IFRS Adjustment I (Functional Currency)
3. Adjustment of ($3,867) consists of three components: i) an adjustment of ($675) relates to IFRS Adjustment A (Depreciation of Property and Equipment); ii) an adjustment of ($3,235) relates to IFRS Adjustment B (Impairment of Assets); and iii) an adjustment of $43 relates to IFRS Adjustment I (Functional Currency)
4. Adjustment of $2,539 relates to IFRS Adjustment J (Tax Effect of IFRS Adjustments)
5. Adjustment of ($21) consists of two components: i) an adjustment of ($23) relates to IFRS Adjustment A (Depreciation of Property and Equipment); and ii) an adjustment of $2 relates to IFRS Adjustment I (Functional Currency)
6. Adjustment of ($134) relates to IFRS Adjustment H (Onerous Leases)
7. Adjustment of $841 relates to IFRS Adjustment C (Processing Fees)
8. Adjustment of $714 relates to IFRS Adjustment H (Onerous Leases). The current portion is $230 while the non-current portion is $484.
9. Adjustment of $82 relates to IFRS Adjustment F (Share-based Payments)
10. Adjustment of $148 relates to IFRS Adjustment I (Functional Currency)
11. Adjustment of ($7,570) consists of multiple components including: i) ($7,028) impact of transition date balance sheet IFRS adjustment and ii) ($542) impact of IFRS adjustments on period net income

A. Depreciation of Property and Equipment and Amortization of Intangible Assets

Under IFRS, either an historical cost model or a revaluation model can be used to value each class of property and equipment. The cost method was used under CGAAP. The Company has elected to continue using the cost method as its accounting policy for the measurement of property and equipment and lease assets after initial recognition.

Under CGAAP, the Company had employed the declining balance method of calculating depreciation for furniture and fixtures, office equipment, signage, automotive and computers. The Company assessed that for the aforementioned asset classes, straight line depreciation better reflects the usage of those assets and will be adopting straight-line depreciation for those asset classes. The change in depreciation will be applied prospectively as at the January 1, 2010 Transition Date.

In addition, IFRS explicitly requires that the residual value and useful life of an asset be reviewed at least annually. Under CGAAP, there is no such explicit annual requirement to perform this review. The Company has made the determination that the useful lives of its fixed assets are as follows:

- furniture and fixture — 7 years
- office equipment — 7 years
- signage — 7 years
- automotive — 5 years
- computers — 5 years
- leasehold improvements — lesser of lease term or 5 years

The Company also adjusted the useful life of all of its software to 5 years.

For the three and six months ended June 30, 2010, depreciation was increased by $86 and $251, respectively, while operating income was reduced by the same amount.

B. Impairment of Assets

CGAAP uses a two-step approach to impairment testing for long-lived assets: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IFRS uses a one-step approach for both testing and measurement of impairment of long-lived assets, with asset carrying values compared directly with the higher of fair value less costs to sell and value-in-use, which is based on discounted future cash flows. IFRS also requires that assets be tested for impairment at the level of CGUs, defined as the lowest level of assets that generate largely independent cash inflows, which the Company has assessed to be at an individual store level. CGAAP requires assets to be grouped at the lowest level for which identifiable cash flows (including both inflows and outflows) are largely independent of the cash flows of other assets and liabilities for impairment testing purposes resulting in impairment assessment being made at a higher level such as a business segment or division. As a result of these differences, IFRS resulted in a higher level of impairment charge than would be otherwise required under CGAAP.

In addition, under IFRS, impairment losses previously recognized must be reversed if the circumstances leading to the impairment changed and caused the impairment to be reduced. CGAAP prohibits reversal of impairment losses.

Various impairment indicators were used to determine the need to test a CGU for an impairment loss. 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 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 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 store's 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 lease assets was required. As such the CGU impairment charge was limited to the property and equipment held by the impaired CGU.

During the three and six month period ended June 30, 2010, an additional impairment expense of $311 and $863, respectively, was recognized. Depreciation expense was reduced by $237 and $467, respectively. The net impact was a reduction to operating income of $74 and $396, respectively.

C. Processing Fees

Both CGAAP and IFRS require that lease income from operating leases shall be recognized in income on a straight-line basis over the lease term. Because leases are cancellable (the lease term ranges from one week to one month in length), under CGAAP processing fees were recognized over the lease term. Under IFRS, the Company has changed its policy to amortize processing fees over the estimated life of the customer arrangement.

During the three and six month period ended June 30, 2010, revenue and operating income were increased by $18 and $41, respectively.

D. Customer Protection Programs

The Company offers various customer protection programs for customers of its leasing and financial services businesses, whereby customers are relieved of some maximum amount from their obligation of their payments in certain circumstances such as death or involuntary unemployment or illness.

Under IFRS, the premiums related to the protection programs are recognized on a net basis, while they were recognized under CGAAP on a gross basis.

The impact of this change was to reduce both revenue and expenses for the three and six months ended June 30, 2011 by $713 and $1,241, respectively. The net impact on operating income for those periods was nil.

E. Vendor Incentives, Allowances and Rebates

Under CGAAP, there are two criteria that allow advertising revenue to be recognized when cash consideration is received from a vendor, to support advertising for a vendor's products. This criterion was met when the identified benefit was sufficiently separable from the customer's purchase of the vendor's products such that the customer would have entered into an exchange transaction with a party other than the vendor in order to provide that benefit, and the customer could reasonably estimate the fair value of the benefit provided. IFRS does not contain similar provisions and, therefore, advertising support for vendors is recognized as a reduction of lease assets.

For the three and six months ended June 30, 2010, revenue reduced by $965 and $1,771, respectively while amortization was reduced by $843 and $1,667 due to decreases in the carrying value of the assets as at January 1, 2010 and assets purchased during the period. The net impact for the three and six month ended June 30, 2010 decreased operating income by $122 and $104, respectively.

F. Share-based Payments

Under IFRS, each instalment of share-based awards that vest in instalments shall be treated as a separate award with a different fair value while CGAAP provides for an election to treat such awards as a pool and recognize the expense on a straight line basis.

IFRS also requires an entity to make an estimate of the forfeiture rate for the awards expected not to vest. Under CGAAP, the Company recognizes forfeitures as they occur.

For the three and six months ended June 30, 2010, expenses were reduced by $44 and $64, respectively with a corresponding increase in operating income.

G. Advertising and Promotional Expenditures

Under IFRS, advertising and promotional expenditures are expensed as incurred and an expense is considered incurred when the entity has the right to access the goods or when it receives the service. Under CGAAP certain of these expenses were deferred over the period of intended use. For certain expenditures including advertising creative and related production costs, IFRS requires that they be expensed as incurred.

For the three and six months ended June 30, 2010, expenses decreased by $46 and $248, respectively and operating income increased by the same amount.

H. Onerous Leases

Both CGAAP and IFRS require that a provision for an onerous contract be made when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The Company has some leases normally related to closed or vacated stores which meet the definition of onerous leases under both CGAAP and IFRS. However, under IFRS, an onerous lease provision shall also be calculated for stores that are deemed impaired. In addition, under IFRS, provisions must be presented separately on the face of the statement of financial position.

During the three and six months June 30, 2010, occupancy costs decreased and operating income increased by $29 and $5, respectively.

I. Functional Currency

Under CGAAP, the Company's U.S. operations were defined as integrated operations which meant that the Canadian dollar was the functional currency. Under IFRS, the functional currency of U.S. is determined as the U.S. dollar. There was no change in the functional currency of other entities in the Company.

The following factors were considered in determining the functional currency of the U.S. operations 1) The currency that mainly influences sales prices for goods and services; 2) The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; 3) The currency that mainly influences labour, material and other costs of providing goods or services. Based on these factors, it is obvious that the functional currency under IFRS is U.S. dollar for U.S. operations.

CGAAP does not have a hierarchy of indicators under which certain indicators are given priority. The following factors which supported the U.S. operations employing the U.S. dollar as the functional currency were considered with equal prominence under CGAAP but are secondary under IFRS: i) the currency in which funds from financing activities are generated; and ii) the currency in which receipts from operating activities are usually retained. Since the U.S. operations were fully funded by the Parent Company in Canadian dollars, the functional currency of the U.S. operations was determined as the Canadian dollar under CGAAP

Under CGAAP, when translating the U.S. operations into the presentation currency of the parent company's consolidated financial statements, monetary assets were translated at the foreign exchange rate prevailing at the balance sheet date and non monetary assets were translated at historical foreign exchange rates, the resulting translation gain or loss was recognized in the net income. Under IFRS all assets and liabilities of U.S. operations are translated to the presentation currency of the Parent Company's consolidated financial statement at the foreign exchange rate prevailing at the balance sheet date, the resulting translation gain or loss is recognized in other comprehensive income.

For the three and six months ended June 30, 2010, operating income decreased by $210 and $206, respectively.

J. Tax Effect of IFRS Adjustments

The change from CGAAP to IFRS did not significantly impact the way in which the Company accounts for taxes. However, the various CGAAP to IFRS adjustments outlined above do impact deferred taxes. These impacts are presented in aggregate.

For the three and six months ended June 30, 2010, deferred tax expense increased by $4 and decreased by $8, respectively.