**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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**Date: May 31, 2011**

The following Management's Discussion and Analysis ["MD&A"] presents an analysis of the financial condition of easyhome Ltd. and its subsidiaries as at March 31, 2011 compared to December 31, 2010, and the results of operations for the three month period ended March 31, 2011 compared with the corresponding period of 2010. This MD&A should be read in conjunction with the Company's 2010 audited consolidated financial statements and the notes and the MD&A relating thereto. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ["IFRS"]. All dollar amounts are in Canadian dollars unless otherwise indicated.

There have been no material changes to the information discussed in the following sections of the Company's 2010 annual MD&A: Outlook, Risk Factors, Adoption of New Accounting Standards and Internal Controls.

This MD&A is the responsibility of management. The Board of Directors has approved this MD&A after receiving the recommendations of the Audit Committee, which is comprised exclusively of independent directors, and of the Company's Disclosure Committee.

This MD&A refers to certain financial measures that are not determined in accordance with IFRS. Although these measures do not have standardized meanings and may not be comparable to similar measures presented by other companies, these measures are defined herein or can be determined by reference to our financial statements. We discuss these measures because we believe that they facilitate the understanding of the results of our operations and financial position.

Additional information is contained in the Company's filing with Canadian securities regulators, including the Company's Annual Information Form. These filings are available on SEDAR at www.sedar.com and on the Company's website at www.easyhome.ca.

## Caution Regarding Forward Looking Statements

This MD&A includes forward-looking statements about easyhome Ltd. including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as 'expects', 'anticipates', 'intends', 'plans', 'believes' or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenue, earnings or growth rates), ongoing business strategies or prospects about future events is also a forward-looking statement. Forward-looking statements are based on certain factors and assumptions, including expected growth, results of operations and business prospects and are inherently subject to, among other things, risks, uncertainties and assumptions about our operations, economic factors and the industry generally. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by us, due to, but not limited to important factors such as our ability to enter into new lease and/or financing agreements, collect on existing lease and/or financing agreements, open new locations on favourable terms, secure new franchised locations, purchase products which appeal to our customers at a competitive rate, cope with changes in legislation, react to uncertainties related to regulatory action, raise capital under favourable terms, manage the impact of litigation (including shareholder litigation), control costs at all levels of the organization and maintain and enhance our system of internal controls. We caution that the foregoing list is not exhaustive. The reader is cautioned to consider these and other factors carefully and not place undue reliance on forward-looking statements, which may not be appropriate for other purposes. We are under no obligation (and expressly disclaim any such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise, unless otherwise required by law.

## Overview of the Business

easyhome Ltd. ["easyhome" or the "Company"] is the largest merchandise leasing company in Canada and the third largest in North America with 255 store locations (including 39 franchised / licensed locations) as of March 31, 2011. easyhome leases, with or without an option to purchase, brand name furniture, appliances, home electronics and computers. The brands we offer include Ashley, Dynasty, Eztia furniture and Serta mattresses, Samsung and Whirlpool appliances, Sony, Samsung, LG and Toshiba home electronics as well as Dell, HP, Acer and Toshiba computers.

Through our stores we offer our customers lease agreements which enable them to obtain products they may not otherwise be able to have as a result of being either cash or credit constrained. Our stores also provide lease programs for those customers who wish to lease merchandise on a short-term basis, or try the product before they make a purchase decision. We commenced operations in 1990 and currently operate corporate stores in all provinces in Canada as well as in the state of New York in the U.S. Through various franchise and license agreements, we operate stores in three provinces in Canada and nine states in the U.S.

Beyond our merchandise leasing business and through easyfinancial Services ["easyfinancial"], we also offer our customers 6 to 18 month term loans, generally in the range of $500 to $3,000, and other financial services such as cheque cashing and prepaid cards. The services offered by easyfinancial bridge the gap between traditional financial institutions and payday lenders, providing a realistic alternative for many of our customers. easyfinancial commenced operations in 2006 and operated 68 kiosks within existing easyhome store locations in 9 provinces in Canada and one national virtual loan kiosk as of March 31, 2011.

## Corporate Strategy & Outlook

The Company's long-term business objectives have three key elements, in order of strategic impact, that are described in greater detail in the 2010 Annual MD&A:

- growing easyfinancial
- enhancing store profitability within our leasing business
- expanding the U.S. franchise network

**Store Locations Summary**

| | Locations as at December 31, 2010 | Locations opened during the quarter | Locations as at March 31, 2011 | Planned Openings for 2011 |
|---|---|---|---|---|
| **Corporate Stores** | | | | |
| Canada | 203 | (1) | 202 | 2 |
| U.S. | 14 | - | 14 | 1 |
| **Franchise Locations** | | | | |
| Canada | 10 | - | 10 | - |
| U.S. | 25 | - | 25 | 10 |
| VIE franchise locations (included in consolidated results) | 4 | - | 4 | 5 |
| **Total Stores** | 256 | (1) | 255 | 18 |
| **easyfinancial** | | | | |
| Kiosks / Stores | 67 | 1 | 68 | 20 - 25 |
| Virtual kiosk | 1 | - | 1 | - |

During the most recent quarter, the focus of the organization was on enhancing its internal controls and processes to allow for sustainable growth rather than growing its store and kiosk network. As such, only one kiosk was opened during the quarter and no stores were opened during the quarter. The 2011 target of 20-25 kiosk / store openings remains but is expected to occur primarily in the second half of 2011. One Canadian Corporate store was closed during the quarter.

The achievement by the Company of the planned openings for 2011 as described above is predicated on a number of factors, including the availability of sufficient capital.

## First Quarter Highlights

- The focus of the Company during the first three months of the year was to continue to enhance its systems, processes and management thus positioning the business for future sustainable growth. During the first quarter of 2011, an independent risk management function was established and many enhancements were made to easyfinancial's operating procedures and information systems.

- During the first quarter of 2011, the Company completed its transition from Canadian generally accepted accounting principles ["CGGAP"] to IFRS. The Company's unaudited interim consolidated financial statements for the three months ended March 31, 2011 contain a detailed analysis of this conversion, including the impacts on the previously reported fiscal periods that were originally reported under CGAAP.

- Revenue for the first quarter increased from $43.0 million in 2010 to $46.2 million in 2011, an increase of $3.2 million or 7.4%. The growth was driven by the expansion of easyfinancial and its loan portfolio. Revenue for easyfinancial increased by $3.0 million.

- Same store revenue growth, which includes revenue growth from easyfinancial, was 7.2% for the three months ended March 31, 2011.

- The economic environment has begun to recover and easyhome's leasing business continued to stabilize during the first quarter of 2011. Overall leasing revenue was relatively unchanged compared to the comparable period in 2010. Revenue declines in the corporate stores as a result of the lingering effects of the economic downturn and its negative impact on the loan portfolio were offset by the revenue growth of the four new franchise stores which are consolidated for financial statement purposes. Potential monthly lease revenue, a key measure of our portfolio size and a leading indicator of future revenues was flat compared with the prior year.

- The loan portfolio at easyfinancial continues to grow. The gross consumer loans receivable at March 31, 2011 was $29.9 million compared to $23.8 million at December 31, 2010 and $11.6 million at March 31, 2010. During the first quarter of 2011, the loan portfolio grew by $6.1 million or 26%. This quarterly growth of the loan portfolio significantly exceeded the first quarter of 2010 where the loan portfolio grew by $2.4 million. Bad debt expense as a percentage of financial revenue decreased from 27.4% for the three months ended March 31, 2010 to 24.7% for the three months ended March 31, 2011. The increase in bad debt expense during the first quarter of 2011 was due to i) the refinement of the methodology used for estimating the provision for consumer loans which occurred in the third quarter of 2010, ii) the focus on the investigation of the employee fraud and the required remediation efforts which limited the resources of easyfinancial that could be focused on lending and collecting, and iii) the changes made to the loan system in response to the issues identified by the fraud investigation which have resulted in a greater number of loans moving into arrears.

- Operating expenses for the quarter excluding depreciation, amortization and non-recurring charges increased from $24.9 million for the first quarter of 2010 to $29.0 million for the first quarter of 2011, an increase of $4.1 million. The year-over-year growth of the easyfinancial kiosk network and the strengthening of its management team contributed $1.5 million to this cost increase. Additional bad debt expense due to the growth of the easyfinancial loan portfolio and the above noted items resulted in bad debts expense increasing by $0.7 million. Costs related to the franchise locations which are consolidated for financial statement purposes and which were not open in the comparable period of 2010, contributed $0.5 million of increased costs (although this was offset by higher revenue associated with these new start up stores). The remaining increase in operating costs related to the corporate office where the Company strengthened its management team, established an independent risk management function and addressed other gaps identified by the fraud investigation. Approximately $0.3 million of these corporate office cost increases are not expected to recur in future quarters. These increases in corporate office costs were necessary to position the business for long term sustainable growth.

- Operating income increased from $3.5 million in the first quarter of 2010 to $3.8 million in the first quarter of 2011. Revenue gains during the quarter were somewhat offset by additional costs necessary to strengthen the business practices. The increase in operating income was also driven by lower depreciation and amortization in the quarter compared with prior year, including a decline in the net impairment charge required under IFRS.

- Net income increased from $2.0 million in the first quarter of 2010 to $2.4 million in the current quarter. Earnings per share for the quarter was $0.20 compared with $0.19 for the prior year.

- The Company continued to generate strong cash flows during the quarter. Cash flow provided by operating activities for the three months ended March 31, 2011 was $3.6 million. Included in these cash flows was a net investment in the easyfinancial Services consumer loans receivable portfolio of $7.6 million. If this net investment in the loan portfolio was treated as cash flow from investing activities, cash flow from operating activities was $11.2 million. This cash flow enabled the Company to invest in the portfolios to drive future revenue growth of all business units, strengthen the management and infrastructure to support sustainable growth and maintain its total dividend payments for the quarter while only increasing external debt by $8.8 million.

## Outlook

The Company's outlook remains as described in its December 31, 2010 MD&A.

## Key Performance Indicators and Non-IFRS Measures

We measure the success of our strategy using a number of key performance indicators as described in more detail below. Several of these key performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative to net income or any other measure of performance under IFRS.

Several non-IFRS measures that we use throughout this discussion are defined as follows:

### Same Store Revenue Growth

Same store revenue growth measures the revenue growth for all stores that have been open for a minimum of 15 months. To calculate same store revenue growth for a period, the revenue for that period is compared to the same period in the prior year. Same store revenue growth is influenced by both the Company's product offerings, including easyfinancial's product offerings, as well as the number of stores which have been open for a 12-36 month time frame as these stores tend to be in the strongest period of growth at this time.

| | Three months ended | |
|---|---|---|
| | **March 31, 2011** | **March 31, 2010** |
| Same store revenue growth | **7.2%** | (0.5%) |
| Same store revenue growth excluding easyfinancial | **(0.7%)** | (2.9%) |

### Potential Monthly Lease Revenue

Potential monthly lease revenue reflects the revenue that our portfolio of leased merchandise would generate in a month providing we collected all lease payments due in that period. Our growth in potential monthly lease revenue is driven by several factors including an increased number of customers, an increased number of leased assets per customer as well as an increase in the average price of our leased items. We believe that our potential monthly lease revenue is an important indicator of how revenue will change in future periods.

| | Three months ended | |
|---|---|---|
| **($ in 000's)** | **March 31, 2011** | **March 31, 2010** |
| Potential monthly lease revenue | **11,440** | 11,427 |

**Gross Consumer Loans Receivable**

Gross consumer loans receivable reflects the period end balance of our consumer loans receivable portfolio before provisioning for potential future charge offs. Our growth in gross consumer loans receivable is driven by several factors including an increased number of customers and an increased loan value per customer. We believe that our gross consumer loans receivable value is an important indicator of our easyfinancial business and of how revenue will grow in future periods.

| | Three months ended | |
|---|---|---|
| **($ in 000's)** | **March 31, 2011** | **March 31, 2010** |
| Gross consumer loans receivable | **29,894** | 11,634 |
| Growth in gross consumer loans receivable during quarter | **6,094** | 2,383 |

**Bad Debt Expense as Percentage of easyfinancial Revenue**

Bad debt expense as a percentage of easyfinancial revenue reflects the collection performance of the easyfinancial loan portfolio. Bad debt expense includes actual write offs and the impact of the provision taken against the loan portfolio. We believe that bad debt expense as a percentage of easyfinancial revenue is a useful indicator of the Company's ability to collect its outstanding consumer loans receivable in future periods.

| | Three months ended | |
|---|---|---|
| | **March 31, 2011** | **March 31, 2010** |
| Bad debt expense as a percentage of easyfinancial revenue | **24.7%** | 27.4% |
| Bad debt expense as a percentage of easyfinancial revenue (adjusted)[1] | **24.7%** | 16.7% |

[1]Adjusted for the impact of the employee fraud discovered in October 2010

**Adjusted Operating Earnings, Adjusted Earnings, Adjusted Earnings Per Share**

At various times, our operating income, net income and earnings per share may be affected by unusual items which have occurred in the period and which impact the comparability of these measures with other periods. Items are considered unusual if they are outside of the normal business activities, significant in amount and scope and are not expected to occur on a recurring basis. We define i) adjusted operating earnings as operating income excluding such unusual and non-recurring items, ii) adjusted earnings as net income excluding such items and iii) adjusted earnings per share as earnings per share excluding such items. We believe that adjusted operating earnings, adjusted earnings and adjusted earnings per share are important measures of the profitability of operations adjusted for the effects of unusual items.

Items which can be used to adjust operating income, net income and earnings per share for the three months ended March 31, 2011 and 2010 include those indicated in the chart below:

| ($ in 000's except earnings per share) | Three months ended March 31, 2011 | March 31, 2010 |
|---|---|---|
| Operating income as stated | **3,842** | 3,541 |
| Restructuring charge included in operating expenses [1] | **-** | 313 |
| Additional bad debts expense due to the employee fraud [2] | **-** | 161 |
| Net unusual items | **-** | 474 |
| **Adjusted operating earnings** | **3,842** | 4,015 |
| Net income as stated | **2,382** | 1,995 |
| Restructuring charge included in operating expenses [1] | **-** | 313 |
| Additional bad debts expense due to the employee fraud [2] | **-** | 161 |
| Tax impact of above items | **-** | (142) |
| Net unusual items | **-** | 332 |
| **Adjusted earnings** | **2,382** | 2,327 |
| Earnings per share as stated | **0.20** | 0.19 |
| Per share impact of unusual items | **-** | 0.03 |
| **Adjusted earnings per share** | **0.20** | 0.22 |

[1] During the third quarter of 2009, the Company initiated a reorganization of its administrative facilities and certain functions. This restructuring was completed on June 30, 2010 and consolidated all administrative functions into one central location to promote efficient and effective activities. The cost of this restructuring was $2.6 million.
[2] In October 2010, the Company discovered an employee fraud.

**Operating Expenses Before Depreciation and Amortization**

We define operating expenses before depreciation and amortization as total operating expenses excluding depreciation and amortization expenses for the period. We believe that operating expenses before depreciation and amortization are an important measure of the cost of operations adjusted for the effects of purchasing decisions that may have been made in prior periods.

Items which can be used to adjust operating expenses before depreciation and amortization for the three months ended March 31, 2011 and 2010 those indicated in the chart below:

| ($ in 000's except percentages) | Three Months ended<br>March 31, 2011 | March 31, 2011 (adjusted) | March 31, 2010 | March 31, 2010 (adjusted) |
|---|---|---|---|---|
| Operating expenses before depreciation and amortization | **28,958** | **28,958** | 25,204 | 25,204 |
| Restructuring charges | **-** | **-** | **-** | (313) |
| Additional bad debts expense due to the employee fraud | **-** | **-** | **-** | (161) |
| Net unusual items | **-** | **-** | - | (474) |
| **Adjusted operating expenses before depreciation and amortization** | **28,958** | **28,958** | 25,204 | 24,730 |
| Divided by revenue | **46,203** | **46,203** | 43,038 | 43,038 |
| **Operating expenses before depreciation and amortization as % of revenue** | **62.7%** | **62.7%** | 58.6% | 57.5% |

**Operating Margin**

We define operating margin as operating income divided by revenue. We believe operating margin is an important measure of the profitability of operations which in turn assists us in assessing our ability to generate cash to pay interest on our debt and to pay dividends.

| ($ in 000's except percentages) | Three months ended<br>March 31, 2011 | March 31, 2011 (adjusted) | March 31, 2010 | March 31, 2010 (adjusted) |
|---|---|---|---|---|
| Operating income | **3,842** | **3,842** | 3,541 | 3,541 |
| Restructuring charges | **-** | **-** | - | 313 |
| Additional bad debts expense due to the employee fraud | **-** | **-** | - | 161 |
| Net unusual items | **-** | **-** | - | 474 |
| Operating income | **3,842** | **3,842** | 3,541 | 4,015 |
| Divided by revenue | **46,203** | **46,203** | 43,038 | 43,038 |
| **Operating margin** | **8.3%** | **8.3%** | 8.2% | 9.3% |

**Return on Equity**

We define return on equity as annualized net income in the period divided by average shareholders' equity for the period. We believe return on equity is an important measure of how shareholders' invested capital is utilized in the business.

| ($ in 000's except multiples and percentages) | Three months ended March 31, 2011 | March 31, 2011 (adjusted) | March 31, 2010 | March 31, 2010 (adjusted) |
|---|---|---|---|---|
| Net income for the period | **2,382** | **2,382** | 1,995 | 1,995 |
| Restructuring charges | **-** | **-** | - | 313 |
| Additional bad debts expense due to the employee fraud | **-** | **-** | - | 161 |
| Tax impact of above items | | | | (142) |
| Net unusual items | **-** | **-** | - | 332 |
| Net income for the period | **2,382** | **2,382** | 1,995 | 2,327 |
| Multiplied by number of periods in year | **X 4/1** | **X 4/1** | X 4/1 | X 4/1 |
| Divided by average shareholders' equity for the period | **92,748** | **92,748** | **79,192** | 79,192 |
| **Return on equity** | **10.3%** | **10.3%** | **10.1%** | 11.8% |

## Results of Operations for the Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

### Summary Financial Results

| ($ in 000's except earnings per share and percentages) | Three months ended March 31, 2011 | Three months ended March 31, 2010 | Variance $ / # / % | Variance % change |
|---|---|---|---|---|
| Revenue | | | | |
| Lease revenue | **40,782** | 40,707 | 75 | 0.2% |
| Interest income | **2,843** | 879 | 1,964 | 223.4% |
| Other | **2,578** | 1,452 | 1,126 | 77.7% |
| | **46,203** | 43,038 | 3,165 | 7.4% |
| Operating expenses before depreciation and amortization | | | | |
| Salaries and benefits | **14,690** | 12,937 | 1,753 | 13.5% |
| Advertising and promotion | **1,594** | 1,147 | 447 | 39.0% |
| Bad debts | **1,124** | 414 | 710 | 171.5% |
| Occupancy | **6,457** | 6,061 | 396 | 6.5% |
| Distribution and travel | **1,881** | 1,655 | 226 | 13.7% |
| Other | **3,212** | 2,677 | 535 | 20.0% |
| Other items | **-** | 313 | (313) | (100.0%) |
| | **28,958** | 25,204 | 3,754 | 14.9% |
| Depreciation and amortization expense | **13,403** | 14,293 | (890) | (6.2%) |
| Operating income | **3,842** | 3,541 | 301 | 8.5% |
| Interest expense | **297** | 283 | 14 | 4.9% |
| Net income for the period | **2,382** | 1,995 | 387 | 19.4% |
| Diluted earnings per share | **0.20** | 0.19 | 0.01 | 5.3% |
| **Key Performance Indicators** | | | | |
| Adjusted earnings | **2,382** | 2,327 | 55 | 2.4% |
| Diluted EPS (adjusted) | **0.20** | 0.22 | (0.02) | (9.1%) |
| Operating margin (adjusted) | **8.3%** | 9.3% | (1.0%) | - |
| Return on equity (adjusted) | **10.3%** | 11.8% | (1.5%) | - |
| **Key Performance Indicators (Quarter End)** | | | | |
| Potential monthly lease revenue | **11,440** | 11,427 | 13 | 0.1% |
| Gross customer loan receivable | **29,894** | 11,634 | 18,260 | 157.0% |
| Number of stores opened in quarter (corporate & franchise) | **(1)** | 3 | (4) | - |
| Number of kiosks opening in quarter | **1** | 10 | (9) | - |
| Corporate store count | **216** | 219 | (3) | - |
| Franchise store count (including VIE franchise locations) | **39** | 24 | 15 | - |
| Total store count | **255** | 243 | 12 | - |
| easyfinancial kiosks | **69** | 35 | 34 | - |
| Same store revenue growth | **7.2%** | (0.5%) | 7.7% | - |

## Revenue

Revenue for the three months ended March 31, 2011 was $46.2 million compared to $43.0 million in the comparable period in 2010, an increase of $3.2 million or 7.4%.

Lease revenue for the quarter increased slightly to $40.8 million from $40.7 million for the same period last year. Revenue declines in the corporate stores as a result of the lingering effects of economic downturn and its negative impact on the loan portfolio were offset by the revenue growth of the four new franchise stores which are consolidated for financial statement purposes. Potential monthly lease revenue was flat compared with the prior year.

Interest income for the quarter increased to $2.8 million compared with $0.9 million for the same period last year. The increase was due to the growth in the consumer loan portfolio which increased to $29.9 million as at March 31, 2011 from $11.6 million as at March 31, 2010.

Other revenue includes revenue generated on customer protection programs, franchise revenue and sundry revenue associated with the easyfinancial business. Other revenue increased to $2.6 million for the quarter compared with $1.5 million for the same period last year, an increase of $1.1 million or 78%. The bulk of the increase related to the customer protection program associated with the easyfinancial business and is related to the growth in the loan portfolio.

## Operating Expenses Before Depreciation and Amortization

Operating expenses before amortization increased to $29.0 million in the quarter from $25.2 million for the same period last year, an increase of $3.8 million or 14.9%. Operating expenses before amortization represented 62.7% of revenue for the quarter compared with 58.6% for the same period last year.

The $3.8 million increase in operating expenses before amortization is attributable to the following:

*Salaries and Benefits*

Salaries and benefits were $14.7 million for the three months ended March 31, 2011 compared to $12.9 million for the three months ended March 31, 2010, an increase of $1.8 million or 13.5%.

The growth of easyfinancial contributed to $0.9 million of this increase. In late 2010, the Company increased the size and capability of the easyfinancial management team to provide greater support and experience to our easyfinancial business. The number of kiosks also increased significantly throughout 2010. Kiosk count as at March 31, 2011 was 69 compared with 35 from the same point a year ago driving a greater headcount.

Salaries and benefits at our corporate owned leasing stores were essentially unchanged year over year. However, $0.3 million of the increase in salaries and benefits relates to the four franchise locations opened in the fourth quarter of 2010 which are consolidated for financial statement purposes.

The remaining increase of $0.6 million in salaries and benefits relates to the corporate office. The Company has been strengthening its management team, particularly in the area of risk management and financial controls, to position the business for long-term sustainable growth.

*Advertising and promotion*

Advertising and promotion was $1.6 million for the three months ended March 31, 2011 compared to $1.1 million for the three months ended March 31, 2010, an increase of $0.5 million or 39%. The additional spend was in support of both the leasing and easyfinancial businesses.

*Bad Debts*

Bad debt expense was $1.1 million for the three months ended March 31, 2011 compared to $0.4 million for the three months ended March 31, 2010, an increase of $0.7 million. The increase is due to i) the increased size of the loan portfolio, ii) the refinement of the methodology used for estimating the provision for consumer loans which occurred in the third quarter of 2010, iii) the focus on the investigation of the employee fraud and the required remediation efforts which limited the resources of easyfinancial that could be focused on lending and collecting, and iv) the changes made to the loan system in response to the issues identified by the fraud investigation have resulted in a greater number of loans moving into arrears.

Expressed as a percentage of easyfinancial revenue, bad debts was 24.7% for the quarter compared with 27.4% for the same period last year. However, after adjusting for the impact of the employee fraud, adjusted bad expenses as a percentage of easyfinancial revenue was 16.7% for the three months ended March 31, 2010.

*Occupancy*

Occupancy costs were $6.5 million for the three months ended March 31, 2011 compared to $6.1 million for the three months ended March 31, 2010, an increase of $0.4 million or 6.5%. Approximately half of the increase was due to the four franchise locations opened in the fourth quarter of 2010 which are consolidated for financial statement purposes. The balance was due to higher rent and utility costs for the leasing division.

*Distribution & Travel*

Distribution costs were $1.9 million for the three months ended March 31, 2011 compared to $1.7 million for the three months ended March 31, 2010, an increase of $0.2 million or 13.7%. The increase was due to higher vehicle fuel costs and travel during the quarter.

*Other*

Other general and administrative expenses were $3.2 million for the three months ended March 31, 2011 compared to $2.7 million for the comparable period in 2010, an increase of $0.5 million or 20.0%. Approximately half of this increase was due to additional general and administrative costs associated with the increased size of the easyfinancial business. The remaining increase was due to an increase in professional fees and training expenditures at the corporate office that were incurred early in the year to ensure that risks and gaps identified by the employee fraud were adequately addressed and that the Company was appropriately structured to support sustained future growth.

*Restructuring charges*

Restructuring charges of $0.3 million in the three months ended March 31, 2010 related to the restructuring that was announced in the third quarter of 2009. No such expenditures were incurred during 2011.

**Depreciation and Amortization**

Depreciation and amortization of lease assets, property and equipment and intangible assets for the three months ended March 31, 2011 was $13.4 million compared to $14.3 million for the three months ended March 31, 2010, a decrease of $0.9 million. The main driver of this decrease was the impairment charge which accounted for $0.6 million of the decline. Under IFRS, individual stores or Cash Generating Units ["CGUs"] are tested for impairment on a regular basis. During the three months ended March 31, 2010, additional stores or CGUs were deemed to be impaired resulting in a charge of $0.6 million. No store or CGUs were deemed to be impaired during the three months ended March 31, 2011.

**Operating Income (Income before Interest Expense and Income Taxes)**

Operating income for the three months ended March 31, 2011 was $3.8 million compared to $3.5 million for the three months ended March 31, 2010, an increase of $0.3 million or 8.5%. Revenue increases of $3.2 million were largely offset by higher operating expenses. The increase in operating income was driven primarily by lower depreciation and amortization. Operating income as a percentage of revenue for the three months ended March 31, 2011 and March 31, 2010 was 8.3% and 8.2%, respectively.

Excluding the non-recurring charges, adjusted operating income for the three months ended March 31, 2011 was relatively unchanged at $3.8 million or 8.3% of revenue compared to $4.0 million or 9.3% of revenue for the same period last year.

**Interest Expense**

Interest expense for the three months ended March 31, 2011 remained relatively unchanged at $0.3 million.

**Income Tax Expense**

The effective income tax rate for the three months ended March 31, 2011 was 32.2% compared to 38.8% in 2010. The effective tax rate has declined due to reductions in the statutory income tax rates in jurisdictions where the Company operates. Additionally, earnings at the Company's U.S. operations have improved, further reducing the effective income tax rate. No tax benefit has been recorded for the losses by the Company's U.S. operations.

**Net Income and EPS**

Net income for the three months ended March 31, 2011 was $2.4 million ($0.20 per share) compared to $2.0 million ($0.19 per share) million in the comparable period last year.

Adjusted earnings for the three months ended March 31, 2011 was $2.4 million ($0.20 per share) compared to $2.3 million ($0.22 per share) in the comparable period last year. On a per share basis, the increased earnings were offset by the increased number of shares that resulted from the equity offering that was completed in the fourth quarter of 2010.

**Segmented Revenue and Operating Income (Loss)**

We have provided segmented reporting information for the three months ended March 31, 2011 and 2010 in the MD&A as we believe it provides meaningful analysis of our operating segments; leasing, easyfinancial and franchising as well as the unallocated costs of our corporate office.

| **Three Months Ended March 31, 2011 ($ in 000's)** | **Leasing** | **easyfinancial** | **franchising** | **Corporate** | **Total** |
|---|---|---|---|---|---|
| Revenue | 41,275 | 4,552 | 376 | - | **46,203** |
| Total operating expenses before amortization and unusual items | 21,131 | 3,550 | 81 | 4,196 | **28,958** |
| Restructuring charges | - | - | - | - | **-** |
| Depreciation and amortization | 13,192 | 77 | 23 | 111 | **13,403** |
| Operating income (loss) | 6,952 | 925 | 272 | (4,307) | **3,842** |
| Interest expense | | | | | **297** |
| Income before income taxes | | | | | **3,545** |

| **Three Months Ended March 31, 2010 ($ in 000's)** | **Leasing** | **easyfinancial** | **franchising** | **Corporate** | **Total** |
|---|---|---|---|---|---|
| Revenue | 41,298 | 1,512 | 228 | - | **43,038** |
| Total operating expenses before amortization and unusual items | 20,445 | 1,363 | 114 | 2,969 | **24,891** |
| Restructuring charges | - | - | - | 313 | **313** |
| Depreciation and amortization | 14,181 | 30 | 1 | 81 | **14,293** |
| Operating income (loss) | 6,672 | 119 | 113 | (3,363) | **3,541** |
| Interest expense | | | | | **283** |
| Income before income taxes | | | | | **3,258** |

*Leasing*

Revenue for the three months ended March 31, 2011 was $41.3 million, unchanged from the comparable period last year. Revenue declines in the corporate stores as a result of the lingering effects of economic downturn and its negative impact on the loan portfolio were offset by the revenue growth of the four franchise stores which are consolidated for financial statement purposes and which opened in the fourth quarter of 2010. Potential monthly lease revenue was relatively unchanged compared with the prior year.

Operating income for the three month period ended March 31, 2011 was $7.0 million compared with $6.7 million for the same period last year; an increase of $0.3 million or 4.2%. Operating margin improved from 16.2% for the first three months of 2010 to 16.8% for the first three months of 2011.

*easyfinancial*

Revenue for the three month period ended March 31, 2011 was $4.6 million compared with $1.5 million for the same period last year, an increase of $3.1 million. The increase was related to the increased loan portfolio which increased from $11.6 million as at March 31, 2010 to $29.9 million as at March 31, 2011.

Operating income for the three months period ended March 31, 2011 was $0.9 million compared with $0.1 million for the same period last year; an increase of $0.8 million.

During the fourth quarter of 2010, the Company increased the size and capabilities of the easyfinancial management team to provide greater support and experience to the easyfinancial business. The number of kiosks increased significantly and accordingly expected headcount increased. Kiosk count as at March 31, 2011 was 69 compared to 35 from the same point a year ago. Salaries and benefits accounted for $0.9 million of the cost increase. Bad debts increased $0.7 million driven by the growth of the loan portfolio. Expressed as a percentage of easyfinancial revenue, bad debts was 24.7% for the quarter compared with 27.4% for the same period last year. The reasons for the increase in bad debt expense have been described in detail earlier in this MD&A. The remaining increase to cost consists of $0.2 million in additional advertising and marketing costs to grow the easyfinancial business and an additional $0.4 million in other costs associated with the growth of the kiosk network.

*Franchising*

The increase in revenue and operating income associated with franchising for the three months ended March 31, 2010 compared with the same period last year was largely related to the increased number of franchise locations. The Company had 24 franchise locations as at March 31, 2010 compared with 39 as at March 31, 2011.

*Corporate*

Operating expenses excluding amortization and unusual items for the three months ended March 31, 2011 were $4.2 million compared with $3.0 million for the same period last year, an increase of $1.2 million. Salaries and benefits increased by $0.6 million as the Company strengthened its management team, particularly in the area of risk management and financial controls, to position the business for long-term sustainable growth. Other costs increased by $0.6 million over the prior year due to an increase in professional fees and training expenditures at the corporate office that were incurred early in the year to ensure that risks and gaps identified by the employee fraud were adequately addressed and that the Company was appropriately structured. Approximately $0.3 million of these corporate office cost increases are not expect to recur in future quarters. As a comparative, Corporate costs for the fourth quarter of 2010 were $3.7 million.

## Selected Quarterly Information

| ($ in millions except per share amounts) | March 2011 | Dec. 2010 | Sept. 2010 | Jun. 2010 | March 2010 | Dec. 2009 | Sept. 2009 | Jun. 2009 |
|---|---|---|---|---|---|---|---|---|
| Accounting basis[2] | **IFRS** | IFRS | IFRS | IFRS | IFRS | CGAAP | CGAAP | CGAAP |
| Revenue | **46.2** | 45.1 | 43.2 | 42.9 | 43.0 | 43.3 | 42.6 | 43.4 |
| Net Income (loss) for the period | **2.4** | (0.3) | 2.5 | 2.0 | 2.0 | 0.9 | (0.0) | 1.8 |
| Net income (loss) as a percentage of revenue | **5.2%** | (0.8%) | 5.7% | 4.6% | 4.6% | 2.1% | (0.1%) | 4.1% |
| **Earnings (loss) per Share[1]** | | | | | | | | |
| Basic | **0.20** | (0.03) | 0.23 | 0.19 | 0.19 | 0.09 | (0.00) | 0.17 |
| Diluted | **0.20** | (0.03) | 0.23 | 0.19 | 0.19 | 0.09 | (0.00) | 0.17 |

[1]Quarterly earnings per share are not additive and may not equal the annual earnings per share reported. This is due to the effect of stock issued during the year on the basic weighted average number of units outstanding together with the effects of rounding.

[2] The Company transitioned to IFRS effective January 1, 2010. Financial results subsequent to this point are presented in accordance with IFRS. Financial results prior to the transition date continue to be presented under CGAAP

## Liquidity and Capital Resources

The Company continued to generate strong cash flows for the three months ended March 31, 2011. Cash flows provided by operating activities for the three months ended March 31, 2011 were $3.6 million. Included in this $3.6 million is a net investment of $7.6 million to increase the easyfinancial loan portfolio. If this net investment in the easyfinancial loan portfolio was treated as cash flow from investing activities, the cash flows generated by operating activities was $11.2 million. This represents a decline of $5.4 million compared to the first three months of 2010, primarily due to the timing of payments to vendors.

The cash flows from operating activities, combined with an $8.8 million increase in external debt, enabled the Company to i) meet the needs of easyfinancial as described above, ii) invest $10.8 million in additional lease assets, iii) invest $0.6 million in additional property and equipment and intangible assets, and iv) maintain its total dividend payments for the quarter.

For the three months ended March 31, 2010, cash flows provided by operating activities were $13.9 million. If the net investment in the easyfinancial loan portfolio was treated as cash flow from investing activities, the cash flows generated by operating activities was $16.6 million. This enabled the Company to i) invest $10.0 million in additional lease assets, ii) invest $1.4 million in additional property and equipment and intangible assets, iii) reduce external debt by $1.8 million and iv) make total dividend payments for the quarter.

As at March 31, 2011, the Company had a prime rate based revolving loan facility to a maximum of $30.0 million, of which $25.3 million was drawn upon as at quarter end. The Company also had a term loan, the balance of which was $1.7 million was at March 31, 2011. Both the revolving loan facility and the term loan mature on June 30, 2011.

The Company is working with its lenders to renew its current banking facilities upon the same or similar terms. At the same time, the Company is also exploring opportunities to secure a larger banking facility and obtain other sources of independent debt financing. Although the Company is confident that its lending arrangements will be finalized in the near future without negatively impacting its operations, there is no certainty that these activities will be successful or completed on terms favourable to the Company.

At March 31, 2011, the Company was in compliance with all of its financial covenants under its lending agreement.

As a result of the previously announced 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.

We believe that the cash flow provided by operations during 2011, coupled with the available loan facility and the $11.5 million equity offering completed in December 2010 will be sufficient in the near term to meet operational requirements, purchase leased assets, meet capital spending requirements and pay dividends. In order for the Company to achieve the full growth opportunities available, as contemplated in its Outlook, it will require additional sources of financing over and above the currently available loan facility. The Company is currently considering its alternatives in this regard. While the Company is engaged in a series of activities to obtain the funds necessary to finance future operations, there is no certainty that these activities will be successful or completed on terms favourable to the Company.

## Outstanding Shares

As at May 31, 2011 there were 11,849,450 shares, 724,962 options and no warrants outstanding.

On December 23, 2010, the Company completed a private placement of 1,352,940 common shares ("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, as well as in the United States under applicable private placement exemptions. Net proceeds of the private placement were $10.7 million.

## Dividends

For the three months ended March 31, 2011, the Company paid a $0.085 per share dividend on outstanding common shares. The Company reviews its dividend distribution policy on a regular basis, evaluating its financial position, profitability, cash flow and other factors the Board of Directors considers relevant. No dividends may be declared in the event there is a default of the loan facility, or where such payment would lead to a default.

The following table sets forth the quarterly dividends paid by the Company in the last quarter of the years indicated:

| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|
| Dividend per share | $ 0.085 | $ 0.085 | $ 0.085 | $ 0.070 | $ 0.060 | $ 0.040 |
| Percentage increase | 0.0% | 0.0% | 21.4% | 16.7% | 50.0% | 0.0% |

## Commitments, Guarantees and Contingencies

The Company's commitments, guarantees and contingencies remain as described in its December 31, 2010 MD&A except as follows:

### 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 claims 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 Canadian generally accepted accounting principles. The first action and the second action are expected to be consolidated by the court into a single action.
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.

## Transactions with Related Parties

The Company, through its wholly-owned subsidiary easyhome U.S., 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 Director discussions relating to the License Agreement. The License Agreement has an initial six-year term and allows easygates LLC to set up easyhome franchises in the U.S., excluding the 14 U.S. states that border Canada. The License Agreement provides that, for each franchise store that is opened, Gates LLC and easyhome will split both the initial franchise fee and the ongoing royalty fees. As at March 31, 2011, 26 franchise locations were opened and operated under the License Agreement.

## Risk Factors

The Company's activities are exposed to a variety of operational and financial risks. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee of the Board of Directors reviews the Company's risk management policies on an annual basis. In addition the risk factors described below, additional risk factors are described in the Company's Annual Information Form ["AIF"].

The Company's risk factors remain as described in its December 31, 2010 MD&A and AIF.

## Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual amounts could differ from these estimates.

Key areas of estimation where management has made difficult, complex or subjective judgments often in respect of matters that are inherently uncertain are:

- consumer loan loss provisions
- cost of lease assets

- depreciation of lease assets
- depreciation of property and equipment
- allocation of the purchase price in business combinations
- impairment of non financial assets
- impairment of goodwill and indefinite life intangibles
- fair value of stock-based compensation
- provisions
- contingencies
- taxation amounts

Significant changes in assumptions, including those with respect to future business plans and cash flows, could change the recorded amounts by a material amount.

*Consumer Loan Loss Provisions*

Consumer loans receivable are carried at amounts advanced less principal repayments, net of an allowance for loan losses.

The allowance for loan losses consists of both specific allowances on identified impaired loans and an estimate of incurred losses in the loan portfolio that have not yet been identified based on an assessment of historical loss rates and patterns. When a loan is identified as impaired, it is written down to the net present value of the expected cash flows using the original effective interest rate. Loans are written off by the Company when they become greater than 90 days overdue or when certain specific criteria, such as bankruptcy are met.

In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the loans are credited to the provision for loan losses in the consolidated statements of income.

*Cost of Lease Assets*

Lease assets are recorded at cost, including freight. Vendor volume rebates are recorded as a reduction of the cost of lease assets and are determined based on the rebate amount the Company believes are probable and reasonably estimable during the term of each rebate program.

*Depreciation of Lease Assets*

Assets on lease, (excluding game stations, computers and related equipment) are amortized in the proportion of lease payments received to total expected lease amounts provided over the lease agreement term (the units of activity method). Game stations are amortized on a straight-line basis over 18 months. Computers are amortized on a straight-line basis over 24 months. Amortization of computers commences at the earlier of the date of first lease or 90 days after arrival in the store. Assets not on lease are not amortized where such assets have not been leased for less than 90 consecutive days. After that they are amortized straight-line over 36 months. When the asset does go on lease, amortization will revert to the units of activity basis. Management judgment is also required in estimating a provision for lease assets which are no longer marketable as at period end.

*Depreciation of Property and Equipment*

Property and equipment are recorded at cost, including freight and are amortized on a straight line basis over their estimated useful lives.

*Impairment on Non Financial Assets*

The Company assesses at each reporting date whether there is an indication that a non financial asset or the assets of a cash-generating unit ["CGU"] may be impaired. 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.

The indicators of impairment are based on management's judgment. If an indication of impairment exists, or when annual testing for an asset is required, the Company estimates the asset's or CGU's recoverable amount. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing the recoverable amount, management estimated the asset or CGU's value in use. Value in use is based on the estimated future cash flows of the asset or CGU discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment test calculations are based on detailed budgets and forecasts which are prepared for each CGU to which the assets are allocated. These budgets and forecasts are generally covering a period of three years with a long term growth rate applied after the third year. Key areas of management judgment involved the three year cash flow forecast, the growth rate applied to cash flows subsequent to the three years specifically forecast and the discount rate.

*Allocation of the Purchase Price in Business Combinations*

The value of acquired assets and liabilities on the acquisition date requires the use of estimates to determine the purchase price allocation. Estimates are made as to the valuation of property, plant and equipment, intangible assets, and goodwill, among other items.

*Impairment of Goodwill and Indefinite Life Intangibles*

Goodwill and indefinite life intangibles are tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill and indefinite life intangibles by assessing the recoverable amount of each group of CGUs to which the asset being tested relates. Where the recoverable amount of the group of CGUs is less than their carrying amount, an impairment loss is recognized and the carrying value of the tested asset reduced.

In assessing recoverable amount, management estimated the group of CGU's value in use. Value in use is based on the estimated future cash flows of the asset or CGU discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The impairment test calculations are based on detailed budgets and forecasts which are prepared for each CGU to which the assets are allocated. These budgets and forecasts generally cover a period of three years with a long term growth rate applied after the third year. Key areas of management judgment involved the three year cash flow forecast, the growth rate applied to cash flows subsequent to the three years specifically forecast and the discount rate.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's or CGU's recoverable amount since the last impairment loss was recognized. However, impairment losses relating to goodwill cannot be reversed in future periods.

*Fair Value of Stock-based Compensation*

The fair value of our options granted are measured at the grant date using the Black-Scholes option-pricing model. The Black-Scholes valuation model was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. Because our share options have characteristics significantly different from those of freely traded options and because changes in subjective input assumptions can materially affect our fair value estimate, the existing models do not necessarily provide a single reliable measure of the fair value of our unit options granted.

*Provisions*

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, and the costs to settle the obligation are both probable and reliably measurable. Where there is expected to be a reimbursement of some or all of a provision, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted. Where discounting is used, the increase in the provision as a result of the passage of time is recognized as a finance cost.

*Contingencies*

Contingent liabilities are recognized in the consolidated financial statements where the likelihood of the obligation arising is deemed probable and measurable by management. Contingent assets are not recognized on the financial statements even if probable; rather note disclosure is provided. Probable is defined as being more than 50% likely to occur.

*Taxation amounts*

Income tax provisions, including current and future income tax assets and liabilities, may require estimates and interpretations of federal and provincial income tax rules and regulations and judgments as to their interpretation and application to our specific situation. Therefore, it is possible that the ultimate value of our tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on our consolidated financial statements.

## Adoption of New Accounting Standards

The Company adopted IFRS commencing on January 1, 2011 with a requirement to present 2010 comparable financial results under IFRS. The adopted accounting policies are described fully in the notes to the financial statements.

## International Financial Reporting Standards [“IFRS”]

### IFRS Standards Exemptions Applied

The Company has adopted IFRS for its first quarter 2011 unaudited interim consolidated financial statements. These financial statements, including the 2010 comparative figures, are prepared in accordance with IFRS and IAS 34, “Interim Financial Reporting”.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied. The Company has applied the following exemptions to the retrospective application of its opening statement of financial position dated January 1, 2010:

*Business Combinations*

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, Business Combinations [“IFRS 3”] retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and has applied IFRS 3 to business combinations that occurred on or after January 1, 2010.

*Cumulative translation differences*

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21, The Effects of Changes in Foreign Exchange Rates for cumulative translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election. If, subsequent to adoption, a foreign operation is disposed of, the translation differences that arose before the date of transition to IFRS will not affect the gain or loss on disposal.

*Share-based payment transactions*

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, Share-based Payment ["IFRS 2"] to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with CGAAP.

**IFRS Accounting Choices and Differences to CGAAP**

During the first quarter of 2011 management finalized its IFRS accounting policy choices. These accounting policies are consistent with those disclosed in the 2010 MD&A and have been approved by the Company's Audit Committee.

The key changes on the Company's financial statements that result from IFRS requirements that are different from CGAAP are as follows:

*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 on 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.

As a result of these changes, the net book value of property and equipment was written down by $448 as at January 1, 2010.

For the three months ending March 31, 2010, depreciation was reduced by $163 while operating income was increased by the same amount.

For the year ended December 31, 2010, depreciation of property and equipment was reduced by $7 while operating income increased by the same amount and amortization of intangible assets increased by $46 with operating income decreasing by the same amount.

*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 and a 3% long term growth rates 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.

As at January 1, 2010, an impairment charge of $2,840 was recognized. This charge reduced property and equipment as well as retained earnings as at the IFRS transition date.
During the three month period ended March 31, 2010, an additional impairment expense of $552 was recognized. Depreciation expense was reduced by $229 because of the write down of assets at January 1, 2010. The net impact was a reduction to operating income of $323.

During the year ended December 31, 2010 an additional net impairment expense of $1,232 was recognized. Depreciation expense was reduced by $821 because of the write down of assets at January 1, 2010. The net impact was a reduction to operating income of $411.

*Processing Fees*

Both CGAAP and IFRS require that Lease income from operating leases shall be recognised 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.

The impact as at January 1, 2010, increased unearned revenue and decreased retained earnings by $882.

During the three month period ended March 31, 2010, revenue and operating income were increased by $24.

During the year ended December 31, 2010, revenue and operating income were reduced by $61.

*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.

There was no impact on the opening IFRS balance sheet for this change.

The impact of this change was to reduce both revenue and expenses by $528 and $2,983 during the three months ended March 31, 2010 and the year ended December 31 2010, respectively. The net impact on operating income for those periods was nil.

*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 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.

The impact as at January 1, 2010, reduced leased assets and retained earnings by $4,082.

For the three months ended March 31, 2010, revenue reduced by $806 while amortization reduced by $824 due to decreases in the carrying value of the assets as at January 1, 2010 and assets purchased during the period . The net impact increased operating income by $18.

For the year ended December 31, 2010, revenue reduced by $3,560 while depreciation reduced by $3,465 due to decrease the carrying value of the assets as at January 1, 2010 and assets purchased during the period. The net impact reduced operating income by $95.

*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.

The impact of the aforementioned differences on the opening IFRS balance sheet was an increase of contributed surplus of $146 with an offsetting decrease to retained earnings.

For the three months ended March 31, 2010, expenses were reduced by $20 with a corresponding increase in operating income.

For the year ended December 31, 2010, expenses were reduced by $118 with a corresponding increase in operating income.

*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.

As at January 1, 2010, both prepaid expenses and retained earnings decreased by $446.

For the three months ended March 31, 2010, expenses decreased by $202 and operating income increased by the same amount.

For the year ended December 31, 2010, expenses increased by $118 and operating income decreased by the same amount.

*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.

The impact as at January 1, 2010 was an increase in provisions and a decrease in retained earnings of $632 and a reclassification from accounts payable and accrued liabilities to provisions of $196.

During the three month period ended March 31, 2010, occupancy costs decreased and operating income increased by $26 and a reclassification from accounts payable and accrued liabilities to provisions of $164 was made.

During the year ended December 31, 2010, occupancy costs decreased and operating income increased by $3 and a reclassification from accounts payable and accrued liabilities to provisions of $198 was made.

*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 US 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 US operations:

- The currency that mainly influences sales prices for goods and services;

- The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services;
- 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 US dollar for US operations

CGAAP does not have a hierarchy of indicators under which certain indicators are given priority. The following factors which supported the US operations employing the US 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 US operations were fully funded by the Parent Company in Canadian dollars, the functional currency of the US 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 are recognized in other comprehensive income.

As at January 1, 2010, the impact was a reduction of assets of $84 and a corresponding reduction of retained earnings.

For the three months ended March 31, 2010, expenses decreased and operating income increased by $4. The exchange loss on translation of US operations resulted in recognition of foreign exchange translation reserve of $(259) in other comprehensive income.

For the year ended December 31, 2010, expenses increased by $118, amortization increased by $14 and operating income decreased by $132. Foreign exchange translation reserve of $(257) was recognized in other comprehensive income.

*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 amalgam.

As at January 1, 2010, the impact was an increase in deferred tax assets and retained earnings of $2,531.

For the three months ended March 31, 2010, deferred tax expense decreased by $12.

For the year ended December 31, 2010, deferred tax expense increased by $64.

**IFRS Statements and Reconciliations**

The Company has finalized its unaudited opening balance sheet as well as the unaudited financial statements for 2010 based on these accounting policies.

Reconciliations prepared in accordance with IFRS 1, “First-Time Adoption of International Financial Reporting Standards” are provided in note 25 to the unaudited interim consolidated financial statements.

## <u>Internal Controls</u>

### Disclosure Controls and Procedures ["DC&P"]

DC&P are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company's management, including the Chief Executive Officer ["CEO"] and Chief Financial Officer ["CFO"], so that timely decisions can be made regarding disclosure.

The Company's management, under supervision of, and with the participation of, the CEO and CFO, have designed and evaluated the Company's DC&P, as required in Canada by National Instrument – 52-109, "*Certification of Disclosures in Issuers' Annual and Interim Filings*". Based on this evaluation, the CEO and CFO have concluded that, as of March 31, 2011, the Company's DC&P were ineffective, due to material weaknesses in internal controls over financial reporting described below.

### Internal Controls over Financial Reporting ["ICFR"]

ICFR is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, to provide reasonable assurances regarding the reliability of financial reporting and preparation of the Company's consolidated financial statements in accordance with IFRS. Management is responsible for establishing and maintaining ICFR and designs such controls to attempt to ensure that the required objectives of these internal controls have been met. Management uses the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company reviews and, where appropriate, enhances its systems of controls and procedures on an ongoing basis. However, because of the inherent limitations in all control systems, ICFR will not prevent or detect all misstatements as a result of, among other things, error or fraud.

### Update on December 31, 2010 Evaluation of ICFR and Related Remediation

At December 31, 2010, the Company noted that its ICFR were ineffective due to several weaknesses. Management has been working on remediating the internal control weaknesses and progress updates have been provided below. Such updates should be read in conjunction with the details contained in the Company's December 31, 2010 MD&A.

*Independent Oversight for Risk Management*

An independent risk management function has been created. The Company hired a Vice President of risk management and additional field auditors and moved the reporting structure of risk management outside of the business operations. The Vice President of risk management also has a direct reporting relationship to the Company's Audit Committee.

*Monitoring Controls*

Additional monitoring controls have been created to manage the easyfinancial business. These monitoring controls report on a variety of business and fraud related KPIs. Moreover, additional credit risk monitoring controls have been created.

*Process and System Controls*

As disclosed in the Company's December 31, 2010 MD&A, process and system control weaknesses existed for the easyfinancial business. In environments where there is a high volume of similar transactions, such as the easyfinancial business, embedding process controls that limit transactions to those pre-determined criteria will help to limit or highlight unusual transactions. Enhancements can be made to the Company's information system that processes and manages the easyfinancial consumer loans to further limit transactions from being processed that are outside of the Company's specified consumer offerings.

The impact of these weaknesses upon the Company's financial reporting remains as described in its December 31, 2010 MD&A.

The Company has made enhancements to the information system currently supporting the easyfinancial business to strengthen the controls that prevent such transactions from being processed. Several modifications have been made to the Company's information system that processes and manages the easyfinancial consumer loans that will automatically reject transactions that are outside of predetermined parameters or that lack information in data fields that are considered important for the detection of inappropriate transactions. Additionally, changes have been made to the Company's transaction reconciliation processes to ensure that reviews are performed at an individual transaction level rather than at an aggregated level.

In addition, with the assistance of a recognized global leader in credit and information management, the Company has implemented a new electronic automated loan decisioning and ID verification tool.

Moreover, during the first quarter of 2011, the Company identified the need to replace the information system currently supporting the easyfinancial business. This project has commenced and will be a key step in both tightening controls and facilitating operational improvements.

**March 31, 2011 Evaluation of ICFR and Related Remediation**

As of March 31, 2011, the Company's management, under the direction and supervision of the CEO and CFO of the Company, evaluated the effectiveness of the Company's ICFR. Based on those evaluations, the CEO and CFO concluded that as at March 31, 2011, the ICFR were ineffective as a result of the continuing existence of the above noted and previously disclosed material weaknesses. Management continues to working on remediating these internal controls as described and anticipates that such remediation will be complete by the end of 2011.

Notwithstanding the above mentioned weaknesses, the Company has concluded that the unaudited interim consolidated financial statements fairly present easyhome's consolidated financial position and consolidated results of operations as of and for the three months ended March 31, 2011.