Consolidated Financial Statements

easyhome Ltd.

For the Years Ended
December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of easyhome Ltd.

We have audited the accompanying consolidated financial statements of easyhome Ltd,, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of easyhome Ltd. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/s/ Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 28, 2011

easyhome Ltd.

CONSOLIDATED BALANCE SHEETS

(Continued under the laws of Ontario)

	As at December 31, 2010	As at December 31, 2009
(in 000's)	$	$
		Restated [note 3]
ASSETS [note 9]		
Cash	**731**	291
Amounts receivable [note 4]	**5,871**	5,284
Income taxes recoverable	**-**	2,987
Consumer loans receivable [note 5]	**21,829**	8,941
Prepaid expenses	**1,861**	1,592
Lease assets [note 6]	**73,046**	75,398
Property and equipment [note 7]	**16,737**	15,637
Future tax assets [note 13]	**5,580**	5,603
Intangible assets [note 8]	**3,272**	3,183
Goodwill	**17,325**	17,325
	146,252	136,241
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Bank revolving credit facility [note 9]	**15,649**	23,764
Accounts payable and accrued liabilities [note 14]	**16,394**	10,645
Income taxes payable	**65**	-
Accrued employee costs [note 14]	**3,577**	2,882
Dividends payable [note 11]	**892**	884
Deferred lease inducements	**2,459**	2,303
Unearned revenue	**4,366**	3,936
Term loan [notes 9 and 11]	**2,602**	6,120
	46,004	50,534
Commitments and contingencies [notes 10 and 17]		
Shareholders' equity		
Common shares [note 11]	**60,074**	48,880
Contributed surplus [note 12]	**3,034**	2,996
Retained earnings	**37,140**	33,831
	100,248	85,707
	146,252	136,241

See accompanying notes to the consolidated financial statements

On behalf of the Board:

David Ingram
Director

Donald K. Johnson
Director

easyhome Ltd.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years ended December 31,	
	2010	**2009**
(in 000's, except earnings per share)	$	$
		Restated [note 3]
REVENUE		
Lease	**132,651**	135,005
Interest revenue and other income	**48,138**	38,341
	180,789	173,346
EXPENSES		
Salaries and benefits [note 12]	**53,746**	50,092
Selling, general and administrative	**24,554**	22,243
Occupancy	**25,094**	24,492
Automotive and travel	**6,709**	6,898
Restructuring and other charges [note 14]	**3,069**	1,931
	113,172	105,656
AMORTIZATION		
Amortization of lease assets [note 6]	**52,049**	53,341
Amortization of property and equipment and intangible assets [notes 7 and 8]	**5,123**	4,960
	57,172	58,301
Total operating expenses	**170,344**	163,957
Operating income	**10,445**	9,389
Interest expense [note 9]	**1,238**	1,138
Income before income taxes	**9,207**	8,251
Income taxes [note 13]		
Current	**2,105**	1,435
Future	**231**	1,761
	2,336	3,196
Net income and comprehensive income for the year	**6,871**	5,055
Earnings per share [note 15]		
Basic	**0.65**	0.48
Diluted	**0.65**	0.48

See accompanying notes to the consolidated financial statements

easyhome Ltd.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Years ended December 31,	
(in 000's)	**2010**	**2009**
	$	$
		Restated [note 3]
Retained earnings, beginning of the year as previously stated	**33,831**	32,827
Transitional adjustment on the adoption of new accounting policies [note 2]	**-**	(130)
Retained earnings, beginning of the year as restated	**33,831**	32,697
Purchase and cancellation of shares in excess of average cost	**-**	(360)
Net income for the year	**6,871**	5,055
Common share dividends [note 11]	**(3,562)**	(3,561)
Retained earnings, end of the year	**37,140**	33,831

See accompanying notes to the consolidated financial statements

easyhome Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2010	**2009**
(in 000's)	$	$
		Restated [note 3]
OPERATING ACTIVITIES		
Net income for the year	**6,871**	5,055
Add (deduct) items not affecting cash:		
Stock based compensation [note 12]	**621**	331
Amortization of lease assets	**52,049**	53,341
Amortization of property and equipment and intangible assets	**5,123**	4,720
Future income taxes	**231**	1,761
(Gain) loss on sale of property and equipment	**(896)**	240
Net change in non-cash operating items :	**-**	-
Lease assets	**(49,697)**	(45,563)
Consumer loans receivable	**(12,888)**	(4,877)
Other operating assets and liabilities [note 16]	**8,784**	473
Cash flow provided by operating activities	**10,198**	15,481
INVESTING ACTIVITIES		
Purchase of property and equipment	**(5,777)**	(4,949)
Purchase of intangible assets	**(449)**	(525)
Proceeds on sale of property and equipment	**946**	363
Cash flow used in investing activities	**(5,280)**	(5,111)
FINANCING ACTIVITIES		
Repayments of bank revolving credit facility	**(8,115)**	(2,375)
Repayments of term loan [note 9]	**(3,654)**	(3,630)
Issuance of common shares on exercise of options [note 12]	**153**	1
Issuance of common shares [note 11]	**10,700**	-
Shares purchased for cancellation [note 11]	-	(766)
Common share dividend payments [note 11]	**(3,562)**	(3,561)
Cash flow used in financing activities	**(4,478)**	(10,331)
Increase in cash	**440**	39
Cash, beginning of the year	**291**	252
Cash, end of the year	**731**	291

See accompanying notes to the consolidated financial statements

1. Description of the Business and Nature of Operations

easyhome Ltd. ("easyhome" or the "Company") operates in three reportable segments. The largest segment is the Canadian leasing segment wherein the Company leases with or without an option to purchase, direct to consumer, brand name home entertainment products, appliances and household furniture across Canada. The Company also has a U.S. leasing segment while easyfinancial is the segment which provides consumer loans to individuals from kiosks in its Canadian leasing store locations. As at December 31, 2010, the Company operated 217 (2009 – 218) corporate stores in 11 provinces and 1 U.S. state, and 67 kiosks (2009 – 29) within existing Canadian store locations and 1 national loan kiosk. In addition, through various franchising and licensing agreements, the Company operates 10 Canadian franchise/license locations (2009 – 7) and 29 U.S. franchise/license locations (2009 – 15).

2. Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of the Company, all wholly owned subsidiaries, as listed below, and certain enterprises considered variable interest entities ("VIEs") where control is achieved on a basis other than through ownership of a majority of voting rights. Material inter-company transactions and balances are eliminated on consolidation. The Company's principal subsidiaries are:

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

Subsequent to December 31, 2010, RTO Asset Management Inc. and RTO Distribution Inc. were amalgamated to simplify the Company's structure. The merged entity is RTO Asset Management Inc.

Use of 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 the estimates of the useful lives of depreciable assets, commitments and contingencies, loan loss provisions, assumptions used in determining stock-based compensation, allocation of the purchase price in business combinations, the rates and recoverability of amounts involved in estimating future income taxes, the recoverability of property and equipment and intangible assets using estimates of future cash flows and impairment testing of goodwill. Significant changes in assumptions, including those with respect to future business plans and cash flows, could change the recorded amounts by a material amount.

Business Cycle and Balance Sheet Classifications

Lease agreements for new product are written for an initial period of one week or one month, with successive renewal terms ranging up to 36 months, and lease agreements for previously leased products are similarly written, with successive renewal terms ranging from 4 to 35 months. Fewer than 5% of the Company's lease agreements carry terms of less than 12 months and all leases are cancellable at any time. Consumer loans receivable agreements are generally written for a period of between 6 months and 18 months. Accordingly, an unclassified balance sheet has been presented.

Revenue Recognition

(a) Lease Revenue

Merchandise is leased to customers pursuant to agreements that provide for weekly or monthly lease payments collected in advance. The lease agreements can be terminated by the customer at the end of the weekly or monthly lease period without any further obligation or cost to the customer. Revenue from lease agreements is recognized when earned and payment is received.

(b) Interest Revenue and Other Income

Interest revenue from consumer loans receivable is recognized when earned. Other revenue consists primarily of product damage liability waivers, processing and other fees, sale of creditor insurance products, vendor advertising incentives (excluding vendor volume rebates) and franchise royalties and fees, all of which are recognized as earned and collected except for supplier incentives and franchise fees, which are recognized as earned.

Vendor Rebates

The Company participates in various vendor rebate programs, many of which are based on annual periods that differ from the Company's financial reporting year, including vendor volume rebates and vendor advertising incentives. The Company records the benefit of vendor volume rebates on purchases made as a reduction of lease assets based on the rebate amounts the Company believes are probable and reasonably estimable during the term of each rebate program. Where vendor advertising incentives are tied to related advertising supporting the vendors products, amounts are accounted for as revenue where the vendor support is sufficiently separable from the purchases of the product and fair values are reasonably estimable and the services have been provided.

Cash

Cash consists of bank demand deposits which are not subject to significant changes in value.

Consumer Loans and Allowance for Loan Losses and Impaired Loans

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 over due or when certain specific criteria, such as customer 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.

Lease Assets

Lease assets are recorded at cost, including freight and duties. Vendor volume rebates are recorded as a reduction of the cost 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 and related equipment are amortized on a straight-line basis over 24 months and the amortization of computers and related equipment commences at the earlier of the date of the first lease or 90 days after arrival in the store. Assets that are subject to units of activity method of amortization that are not on lease for less than 90 consecutive days are not amortized during such period. After that they are amortized on a straight-line basis over 36 months. When an asset goes on lease, amortization will revert to the units of activity basis. Amortization includes the remaining book value at the time of disposition of lease assets that have been sold and amounts which have been charged off as stolen, lost or no longer suitable for lease.

In the event management determines that the Company can no longer lease or sell certain leased assets, they are written off. The determination of future net cash flows involves considerable judgment and measurement uncertainty and the impact on the consolidated financial statements for future periods could be material. Estimates of useful lives involve considerable judgment, and a shortening of the estimated life of these assets would result in higher amortization expense in future periods.

Property and Equipment

Property and equipment are recorded at cost, including freight and installation.

Property and equipment are stated at cost net of accumulated amortization, and are amortized over their estimated useful lives using the following rates and methods:

	Rate	**Method**
Furniture and fixtures	20%	Declining balance
Office equipment	20-30%	Declining balance
Signage	20%	Declining balance
Automotive	30%	Declining balance
Leasehold improvements		Straight-line over the lesser of the related lease term or five years

Amortization is recorded at one-half of the above rates in the year of acquisition on all property and equipment, except leasehold improvements and display units.

Lease Inducements

Lease inducements are recognized as future obligations when the Company becomes entitled to them and are amortized on a straight-line basis over the term of the related leases as a reduction of rent expense.

Intangible Assets

Customer lists and software are amortized over their estimated useful life of five years.

The Company's trademark has been assessed to have an indefinite life and is not amortized but is subject to an annual impairment test. An impairment loss would be recognized if the carrying amount of the trademark exceeded its estimated fair value.

Goodwill

The purchase price of acquisitions accounted for under the purchase method are allocated based on the fair value of the net identifiable assets acquired. The excess of purchase price over the value of such net assets is recorded as goodwill. Goodwill is not amortized. Instead, goodwill is reviewed by management on an annual basis to determine whether there is impairment in value. Goodwill is tested between annual tests when an event or circumstance indicates the asset might be impaired. An impairment loss would be recognized if the carrying amount of the goodwill exceeds its estimated fair value. Due to the long-term nature of assumptions made, it is possible that estimates could prove to be materially incorrect, and accordingly the impact on the consolidated financial statements for future periods could be material. The Company performed an impairment test as at December 31, 2010 and determined that the carrying value of the goodwill was not impaired.

Impairment of Long-Lived Assets

Long-lived assets of the Company include property and equipment, lease assets and intangible assets with finite lives. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is then recognized when the carrying amount exceeds their fair value.

There were no events or changes in circumstances, which indicated that the carrying amounts of long-lived assets may not be recoverable, thereby requiring any impairment losses to be recognized.

Foreign Currency Translation

Transactions and balances denominated in U.S. dollars and the financial statements of the integrated foreign subsidiary included in the consolidated financial statements are translated into Canadian dollars as follows: monetary consolidated balance sheet items at the rate of exchange at the balance sheet date, non-monetary consolidated balance sheet items at historical exchange rates and consolidated income statement items are translated at average monthly foreign exchange rates. Any resulting gains or losses are included in income.

Income Taxes

The Company follows the liability method in accounting for income taxes whereby future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Future income tax assets and liabilities are measured based on the enacted or substantively enacted tax rates and laws which are expected to be in effect when the future income tax assets or liabilities are expected to be realized or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

Stock-Based Compensation

The Company has stock-based compensation plans as described in note 12. The Company utilizes the fair-value-based method of accounting for stock-based compensation. The fair value of stock-based compensation, determined using an option pricing model, is recorded over the vesting period as a charge to net income with a corresponding credit to contributed surplus.

The Company has a Restricted Share Unit (“RSU”) plan for senior employees under which certain employees are granted RSUs of common shares. These RSUs vest five years from the grant date provided certain performance criteria are met. The Company exchanges all of the participants’ RSUs on the basis of one common share for each RSU vested. Compensation expense and the related credit to contributed surplus are recorded equally over the five-year vesting period, taking into account dividends paid and actual forfeitures.

The Company has a Deferred Share Unit (“DSU”) plan for non-employee Directors. The plan enables Directors of the Company to elect to receive their remuneration in DSUs. These DSUs vest immediately and compensation expense is charged to net income in the period the DSUs are granted with a related credit to contributed surplus. On termination, the Company will redeem all of the participants’ DSUs in cash or shares at the Company’s option, equal to the value of one common share at the termination date for each DSU.

The Company has a Performance Share Unit (“PSU”) plan for senior employees under which certain employees are granted a portion of their long-term incentive plan in the form of PSUs. Each PSU entitles the participant to the cash equivalent of one common share for each PSU granted, at the end of each vesting period if certain performance and vesting criteria have been met. Accordingly, this plan is accounted as a liability plan. These PSUs are non-dilutive. When cash dividends are paid on the common shares of the Company, additional PSUs of equivalent value are credited to the participant’s account.

Earnings Per Share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options and warrants is applied to purchase shares at the average price during the period and that the difference between the shares issued upon exercise of the options and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive options are not considered in computing diluted earnings per share.

Financial Instruments

Initially, all financial assets and financial liabilities are recorded on the consolidated balance sheets at fair value with subsequent measurement determined by the classification of each financial asset and liability. Transaction costs related to financial instruments classified as available-for-sale, held-to-maturity and loans and receivables are generally expensed as incurred.

The Company does not have financial assets or liabilities held for trading, nor does it have any available-for-sale financial assets or derivatives. As a result, the Company does not have other comprehensive income or accumulated other comprehensive income. The Company's consumer loans receivable are non-derivative financial assets resulting from the delivery of cash or other assets to a borrower in return for a promise to repay on a specified date or dates, or on demand, with interest. The Company's financial assets are all considered loans and receivables and include vendor rebates receivable, amounts due from licensee, amounts due from related party, consumer loans receivable and other receivables. The Company's lease portfolio is not considered to be a financial asset and accordingly, is carried at its remaining unamortized cost.

The Company's financial liabilities include the bank revolving credit facility and related term loan as well as all accounts payable, accrued liabilities and dividends payable. The Company accountsfor its long-term debt, including related debt issue costs, at amortized cost using the effective interest rate method.

Adoption of New Accounting Standards

There were no accounting standard changes adopted by the Company during the current year.

The following is an overview of accounting standard changes that the Company adopted during the year ended December 31, 2009:

(a) Goodwill and Intangible Assets

On January 1, 2009, the Company adopted a new accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets", which supersedes CICA Section 3062, "Goodwill and Other Intangible Assets", and CICA Section 3450, "Research and Development Costs". CICA Section 3064 provides additional guidance on when expenditures qualify for recognition as intangible assets and requires that costs can be deferred only when relating to an item meeting the definition of an asset.

Prior to the adoption of CICA Section 3064, the Company deferred and amortized incorporation costs on a straight-line basis over five years. The impact of adopting this section on a retrospective basis was a decrease of $130,000 in shareholders' equity at January 1, 2009.

Additionally, as required by the adoption of CICA Section 3064, the Company has retroactively reclassified computer software assets from property and equipment to intangible assets with no impact on previously reported net earnings. This change was made prior to 2009 so there is no impact on 2009 and 2010.

(b) Financial Instruments and Disclosures

In June 2009, the CICA issued amendments to CICA Section 3862, "Financial Instruments – Disclosures", which requires enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Assets and liabilities in Level 3 include valuations using inputs that are not based on observable market data. The Company adopted the amendments to the accounting standard and the amendments to CICA Section 3862 did not have a material impact on its results of operations, financial position or cash flows.

In August 2009, the CICA issued amendments to CICA Section 3855, "Financial Instruments - Recognition and Measurement". These amendments permit (or require in certain circumstances) entities to reclassify certain investments in debt instruments, amend the guidance regarding impairment measurement for held-to-maturity debt instruments and require reversals of impairment losses for available-for-sale debt instruments when conditions have changed. These amendments apply only to investments in debt instruments and do not apply to investments in equity investments or to debt instruments that have been designated at origination as held-for-trading. The Company adopted the amendments to the accounting standard and the amendments to CICA Section 3855 did not have a material impact on its results of operations, financial position or cash flows.

In August 2009, the CICA amended CICA Section 3025, "Impaired Loans", to conform with the definition of a loan to that in amended Section 3855 and to include held-to-maturity investments within the scope of this section. The Company adopted the amendments to the accounting standard and the amendments to CICA Section 3025 did not have a material impact on its results of operations, financial position or cash flows.

Recently Issued Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian public reporting enterprises will be required to adopt International Financial Reporting Standards IFRS effective for years beginning on or after January 1, 2011. As a result, the Company will be required to change over to IFRS for its fiscal 2011 interim and annual financial statements with comparative information of fiscal 2010. The Company is in the process of finalizing the impact of conversion of the January 1, 2010 transition date balance sheet and related impacts on 2010.

3. Restatements

Restatement Due to Employee Fraud

During the year ended December 31, 2010, easyhome Ltd. discovered a material fraud (the "Employee Fraud") perpetrated by an employee of its easyfinancial Services ("easyfinancial") business. The Employee Fraud, which occurred at one easyfinancial kiosk, was detected during a detailed review of easyfinancial's consumer loans receivable portfolio.

Following the discovery of the Employee Fraud – as contemplated by the Mandate of the Audit Committee and with the unanimous approval of the Board of Directors – the Audit Committee of the Board assumed responsibility for the investigation of the Employee Fraud and related matters; and engaged independent legal counsel who, among other things, engaged a large national accounting and audit firm to provide expert assistance in a forensic review.

Under the oversight of the Audit Committee's counsel, a forensic review was undertaken related to the Employee Fraud and easyfinancial's policies, procedures and processes to, among other things: quantify the financial impact of the Employee Fraud, determine whether other individuals were involved in (or aware of) the Employee Fraud and assess whether practices that were associated with the Employee Fraud were evident at other easyfinancial kiosks.

The Audit Committee held regular, formal meetings to receive updates from, and to provide direction to, its legal advisors, management, and the Company's independent auditor. The Chair of the Audit Committee also held additional, separate, informal meetings with the other members of the Audit Committee, the Audit Committee's legal advisors, members of management and the Board of Directors, and the Company's independent auditor. Additionally the Audit Committee provided periodic updates to the Board of Directors.

The Audit Committee's investigation indicated that the manager of the easyfinancial kiosk processed fictitious loan applications, processed improper payments against legitimate customer accounts, subverted certain policies, procedures and controls and appropriated Company funds. The results of these activities were to, among other things, overstate the consumer loans receivable balance and reduce the amount of consumer loans that were not current or were otherwise in default. The Audit Committee's investigation also indicated that certain individuals responsible for oversight of this employee and kiosk did not adhere to the Company's standard operating policies and procedures, which, if followed, may have detected the fraud earlier. The individual responsible for the Employee Fraud and the individuals who did not discharge their oversight responsibilities for the employee and the kiosk have been terminated.

The Audit Committee's investigation revealed that:

- $0.7 million had been erroneously recognized by the Company as revenue received from the proceeds of fictitious loans in the prior year ended December 31, 2009;
- $1.5 million had been erroneously recognized by the Company as revenue received from the proceeds of fictitious loans in the nine months ended September 30, 2010, which has not been reflected in these consolidated financial statements;
- $0.7 million had been either fraudulently removed from the Company or inappropriately applied as principal payments against legitimate consumer loans receivable;
- the consumer loans receivable provision required an increase of $0.9 million to provide for the increased risk of non-collection of the remaining customer accounts at the specific easyfinancial kiosk due to fraudulent loans and the non-compliance with the Company's standard underwriting procedures; and
- while other instances of fraud have occurred at other easyfinancial kiosks, there are no other significant instances.

To eliminate the fraudulent loans associated with the Employee Fraud from the Company's consumer loans receivable portfolio and provide for the other financial impacts of the Employee Fraud, the gross consumer loans receivable (consumer loans receivable before provision) was reduced by $2.8 million and the related provision was increased by $0.9 million as noted above. The net impact of the Employee Fraud was a reduction in the consumer loans receivable balance of $3.7 million. These amounts were determined to have occurred as follows:

($ in 000's)	**Total**	**2010**	**2009[2]**
Erroneous recognition of revenue	**680**	-	680
Erroneous revenue initially recognized and subsequently eliminated in 2010	**1,499**	1,499	-
Fraudulent removal of funds	**652**	303	349
Additional provision [1]	**851**	599	252
Total	**3,682**	2,401	1,281

[1]Additional provision required to provide for the increased risk of non-collection of the remaining customer accounts at the specific easyfinancial kiosk due to fraudulent loans and the non-compliance with the Company's standard underwriting procedures.

[2]The net impacts of the Employee Fraud for 2009 include approximately $240,000 that may be attributable to the year ended December 31, 2008. The financial statements for the year ended December 31, 2008 have not been restated as this was not considered a material adjustment for that reporting period.

The Company originally filed its 2009 consolidated financial statements on March 24, 2010. As a result of the Employee Fraud, the Company restated its 2009 consolidated financial statements which were filed on December 22, 2010.

Restatement Due to Understatement of Unearned Revenue

As a result of a review carried out in preparation for the conversion to IFRS, it was determined that an error existed in the historic calculation of the Company's unearned revenue balance resulting in an understatement of the unearned revenue balance and an overstatement of the earnings reported in prior periods. Accordingly, the Company's opening balance sheet as at January 1, 2009 has been restated, including a reduction to opening retained earnings of approximately $2.0 million.

The restatement (reduction) in 2009 opening retained earnings is required as a result of the cumulative effect since 2000 of this historical calculation error, which resulted in the amount of revenue received but not yet earned being understated by $2.0 million, net of corresponding impacts related to accumulated amortization and adjustments for income taxes. Accordingly, the 2009 opening retained earnings have been restated to $32.8 million (from $34.8 million).

As a result of the restatement due to the understatement of unearned revenue, the previously filed consolidated financial statements for the year ended December 31, 2009 and associated MD&A should no longer be relied upon.

Summary of Restatements

The following tables summarize the impact of the restatements as a result of the Employee Fraud and the Understatement of Unearned Revenue on the consolidated balance sheet, consolidated statements of income and comprehensive income and consolidated statements of retained earnings for the year ended December 31, 2009.

Consolidated Balance Sheet as at December 31, 2009

($ in 000's)	**Originally Reported [1]**	**Restatement Due to Employee Fraud**	**Restatement Due to Understatement of Unearned Revenue**	**Restated**
ASSETS				
Income taxes recoverable	2,886	101	-	2,987
Consumer loans receivable	10,222	(1,281)	-	8,941
Lease assets	74,686	-	712	75,398
Future tax assets	4,655	274	674	5,603
All other assets	43,312	-	-	43,312
	135,761	(906)	1,386	136,241
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Unearned revenue	748	-	3,188	3,936
All other liabilities	46,598	-	-	46,598
	47,346	-	3,188	50,534
Shareholders' equity				
Common shares and contributed surplus	51,876	-	-	51,876
Retained earnings	36,539	(906)	(1,802)	33,831
	88,415	(906)	(1,802)	85,707
	135,761	(906)	1,386	136,241

[1]The Company originally filed its 2009 consolidated financial statements on March 24, 2010. As a result of the Employee Fraud, the Company restated its 2009 consolidated financial statements which were filed on December 22, 2010. Therefore, the above table reflects the impact of the restatements as it relates to the originally filed consolidated financial statements.

Consolidated Statement of Income and Comprehensive Income for the Year Ended December 31, 2009

($ in 000's, except earnings per share)	**Originally Reported[1]**	**Restatement Due to Employee Fraud**	**Restatement Due to Understatement of Unearned Revenue**	**Restated**
REVENUE				
Lease	135,005	-	-	135,005
Interest revenue and other income	38,723	(680)	298	38,341
	173,728	(680)	298	173,346
OPERATING EXPENSES				
Selling, general and administrative	21,642	601	-	22,243
Amortization of lease assets	53,320	-	21	53,341
All other operating expenses	88,373	-	-	88,373
Total operating expenses	163,335	601	21	163,957
Operating income	10,393	(1,281)	277	9,389
Interest expense	1,138	-	-	1,138
Income before income taxes	9,255	(1,281)	277	8,251
Income taxes				
Current	1,536	(101)	-	1,435
Future	1,954	(274)	81	1,761
	3,490	(375)	81	3,196
Net income and comprehensive income for the year	5,765	(906)	196	5,055
Earnings per share				
Basic	0.55	(0.09)	0.02	0.48
Diluted	0.55	(0.09)	0.02	0.48

[1]The Company originally filed its 2009 consolidated financial statements on March 24, 2010. As a result of the Employee Fraud the Company restated its 2009 consolidated financial statements which were filed on December 22, 2010. Therefore, the above table reflects the impact of the restatements as it relates to the originally filed consolidated financial statements.

Consolidated Statement of Retained Earnings for the Year Ended December 31, 2009

($ in 000's)	Originally Reported[1]	Restatement Due to Employee Fraud	Restatement Due to Understatement of Unearned Revenue	Restated
Retained earnings, beginning of year as previously stated	34,825	-	(1,998)	32,827
Transitional adjustment on the adoption of new accounting policies [note 2]	(130)	-	-	(130)
Retained earnings, beginning of year as previously stated	34,695	-	(1,998)	32,697
Net income for the year	5,765	(906)	196	5,055
Purchase and cancellation of shares in excess of average cost	(360)	-	-	(360)
Common share dividends	(3,561)	-	-	(3,561)
Retained earnings, end of year	36,539	(906)	(1,802)	33,831

[1]The Company originally filed its 2009 consolidated financial statements on March 24, 2010. As a result of the Employee Fraud the Company restated its 2009 consolidated financial statements which were filed on December 22, 2010. Therefore, the above table reflects the impact of the restatements as it relates to the originally filed consolidated financial statements.

4. Amounts Receivable

($ in 000's)	December 31, 2010	December 31, 2009
Vendor rebates receivable	**1,366**	1,377
Due from licensee	**-**	95
Due from franchisee	**2,668**	1,686
Other	**1,837**	2,126
	5,871	5,284

In February 2008, the Company sold two stores to a former officer. Consideration included a$1.1 million receivable which now bears interest at prime plus 2% per annum and expires in November 30, 2013. The receivable is collateralized by a first charge on all assets of the stores sold to the individual. The transaction occurred at the carrying values of the store's related assets and liabilities. The former officer also purchases inventory of leased assets from the Company from time to time and has opened additional franchise stores. In addition, the individual has entered into a franchise agreement for each store which has an initial term of 10 years with a renewal option for a further five years. The Company has first rights of refusal on any sale of these stores, after January 2013.

The amounts due from licensee is repayable on demand and bears interest at prime plus 2.5%. The loan is principally collateralized by the underlying assets of the licensed location.

5. Consumer Loans Receivable

Consumer loans receivable represent amounts advanced to customers of easyfinancial, a wholly owned subsidiary of easyhome. Loan terms generally range from 6 to 18 months.

($ in 000's)	**December 31, 2010**	**December 31, 2009**
		Restated [note 3]
Consumer loans receivable	**23,800**	9,251
Allowance for loan losses	**(1,971)**	(310)
	21,829	8,941

An aging analysis of consumer loans past due at December 31 is as follows:

($ in 000's except %)	**December 31, 2010**	**% of Total Loans**	**December 31, 2009**	**% of Total Loans**
			Restated [note 3]	Restated [note 3]
1 – 30 days	**1,238**	**5.2**	443	4.8
31 – 44 days	**238**	**1.0**	62	0.7
45 – 60 days	**405**	**1.7**	40	0.4
61 – 90 days	**690**	**2.9**	78	0.8
Total	**2,571**	**10.8**	623	6.7

During the year ended December 31, 2010, the Company refined its methodology for estimating its allowance for loan losses, resulting in an increase of $0.9 million.

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 over due or when certain specific criteria, such as customer bankruptcy, are met.

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

The changes in the consumer loans receivable provision are summarized as follows:

($ in 000's)	**December 31, 2010**	**December 31, 2009**
		Restated [note 3]
Balance, beginning of year	**310**	32
Amounts written off against provision	**(1,897)**	(745)
Increase in provision due to normal lending and collection activities	**2,093**	771
Increase due to refinement of estimating the provision	**866**	-
Amounts written off against provision due to fraud [note 3]	**(303)**	(349)
Increase in provision due to fraudulent removal of funds [note 3]	**303**	349
Increase in provision due to non-compliance with standard underwriting procedures [note 3]	**599**	252
Balance, end of year	**1,971**	310

6. Lease Assets

($ in 000's)	**December 31, 2010**	**December 31, 2009**
Lease assets, cost	**128,197**	133,385
Accumulated amortization	**(55,151)**	(57,987)
Net book value	**73,046**	75,398

For the year ended December 31, 2010, the Company recorded amortization of leased assets of $52.0 million (2009 - $53.3 million).

7. Property and Equipment

	December 31, 2010		
($ in 000's)	**Cost**	**Accumulated Amortization**	**Net Book Value**
Furniture and fixtures	**9,441**	**4,385**	**5,056**
Office equipment	**9,567**	**5,677**	**3,890**
Signage	**5,087**	**2,658**	**2,429**
Automotive	**469**	**207**	**262**
Leasehold improvements	**13,322**	**8,222**	**5,100**
	37,886	**21,149**	**16,737**

	December 31, 2009		
($ in 000's)	**Cost**	**Accumulated Amortization**	**Net Book Value**
Furniture and fixtures	8,336	3,687	4,649
Office equipment	7,950	4,811	3,139
Signage	4,547	2,231	2,316
Automotive	528	161	367
Leasehold improvements	11,818	6,652	5,166
	33,179	17,542	15,637

The amount of property and equipment classified as under construction or development and not being amortized was $0.7 million (2009 - $0.6 million). For the year ended December 31, 2010, the Company recorded amortization of property and equipment of $5.0 million (2009 - $4.7 million.)

8. Intangible Assets

	December 31, 2010		
($ in 000's)	**Cost**	**Accumulated Amortization**	**Net Book Value**
Trademark	**1,823**	**-**	**1,823**
Customer lists	**246**	**62**	**184**
Software	**2,102**	**837**	**1,265**
	4,171	**899**	**3,272**

	December 31, 2009		
($ in 000's)	**Cost**	**Accumulated Amortization**	**Net Book Value**
Trademark	1,823	-	1,823
Customer lists	246	15	231
Software	1,886	757	1,129
	3,955	772	3,183

For the year ended December 31, 2010, the Company recorded amortization of intangible assets of $0.1 million (2009 - $0.3 million).

9. Bank Revolving Credit Facility and Term Loan

(a) Revolving Credit Facility

The Company's bank revolving credit facility relates to a revolving, renewable credit facility. During the year ended December 31, 2010, the Company amended this credit facility arrangement to temporarily extend the revolving, renewable credit facility to $35.0 million to December 31, 2010, returning to $30.0 million thereafter.

($ in 000's)	**December 31, 2010**	**December 31, 2009**
Revolving credit facility	**15,649**	23,764

(b) 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 December 31, 2010, $2.6 million (2009 - $6.1 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.

($ in 000's)	**December 31, 2010**	**December 31, 2009**
Term loan, repayable in equal quarterly instalments of $0.9 million, maturing on December 31, 2011	**2,738**	6,364
Financing costs	**(136)**	(244)
	2,602	6,120

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

The interest expense recorded on the bank credit facilities and term loans during the year was as follows:

($ in 000's)	**December 31, 2010**	**December 31, 2009**
Revolving credit facility	**906**	748
Term loan	**172**	255
Other	**160**	135
	1,238	1,138

The weighted average interest rate on the bank loan for the year ended December 31, 2010 was 3.5% per annum (2009 – 2.9% per annum).

Covenants and conditions for the 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 December 31, 2010, the Company was in compliance with all of its financial covenants under its lending agreement.

As at December 31, 2009, the Company was not in compliance with the fixed charge coverage covenant as defined and required under its lending agreement. The Company's lender agreed to not demand repayment of the bank revolving credit facility and the term loan, to waive the fixed charge coverage covenant for the three months ended December 31, 2009 and to amend the fixed charge coverage covenant.

As a result of the 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.

See note 18 for a discussion of the Company's capital risk management and note 19 for the fair value of these financial liabilities.

10. Commitments and Guarantees

The Company is committed to operating leases for premises, equipment, vehicles and signage. The minimum annual lease payments plus estimated operating costs required for the next five years and thereafter are as follows:

($ in 000's)	**Premises**	**Other**	**Total**
2011	16,195	1,963	18,158
2012	13,121	759	13,880
2013	9,415	421	9,836
2014	6,447	148	6,595
2015	4,152	-	4,152
Thereafter	5,238	-	5,238
	54,568	3,291	57,859

In February 2010, an irrevocable standby letter of credit in the amount of $0.5 million was issued under the Company's credit facilities for the purpose of securing the lease for the new corporate office.

11. 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 Toronto Stock Exchange.

Common Shares Issued and Outstanding

The changes in common shares are summarized as follows:

	Year ended December 31, 2010		Year ended December 31, 2009	
(in 000's)	#	$	#	$
Balance, beginning of year	**10,419**	**48,880**	10,506	49,285
Issued for cash for exercised stock options	**70**	**286**	-	2
Issued for cash on private placement of common shares, net of share issuance costs	**1,353**	**10,908**	-	-
Repurchase of shares	**-**	**-**	(87)	(407)
Balance, end of year	**11,842**	**60,074**	10,419	48,880

During the year the Company repurchased and cancelled none (2009 – 86,700) of its common shares on the open market pursuant to a normal course issuer bid. The normal course issuer bid expired 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 future tax asset of $0.2 million. The Company will use the net proceeds from the financing to fund growth initiatives at its existing easyfinancial services kiosks and for general corporate purposes, including debt repayment.

Dividends on Common Shares

Dividends of $3.6 million were paid and /or declared to common shareholders during 2010 (2009 –$3.6 million). In the fourth quarter of 2010, the Company declared a dividend of $0.085 per share to shareholders on record on December 1, 2010, payable on January 5, 2011. The dividend paid on January 5, 2011 was $892,000.

12. 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.

Year ended	December 31, 2010 Options #	December 31, 2010 Weighted Average Exercise Price $	December 31, 2009 Options #	December 31, 2009 Weighted Average Exercise Price $
	(in 000's)		*(in 000's)*	
Outstanding balance, beginning of year	**664**	**14.24**	691	15.18
Options granted	**169**	**8.59**	90	9.15
Options exercised	**(70)**	**2.20**	-	5.24
Options forfeited or expired	**(132)**	**11.71**	(117)	15.91
Outstanding balance, end of year	**631**	**14.58**	664	14.24
Exercisable balance, end of year	**192**	**16.20**	291	11.65

The Company has issued options to directors, officers and employees at December 31, 2010 as follows:

	Outstanding			Exercisable	
Range of Exercise Prices $	**Options #**	**Weighted Average Remaining Contractual Life in Years**	**Weighted Average Exercise Price $**	**Options #**	**Weighted Average Exercise Price $**
	(in 000's)			*(in 000's)*	
8.00 – 10.99	229	4.48	8.71	12	9.06
11.00 – 14.99	2	3.86	11.00	1	11.00
15.00 – 19.99	379	2.30	17.82	164	16.40
20.00 – 20.33	21	2.33	20.26	15	20.27
8.00 – 20.33	631	3.09	14.58	192	16.20

The Company uses the fair value method of accounting for stock options granted to employees and directors.

During the year ended December 31, 2010, the Company granted 168,982 options (2009 – 90,100). For the year ended December 31, 2010, $262,000 (2009 - $411,000) was recorded as stock-based compensation expenses with respect to stock options in salaries and benefits expense in the consolidated statements of income and comprehensive income, with corresponding increases in contributed surplus.

The estimated fair value of options granted during the year was determined using the Black-Scholes option pricing model with the following assumptions, resulting in a weighted average fair value of $1.78 per option (2009 – $1.64).

	2010	**2009**
Risk-free interest rate (% per annum)	2.82	2.08
Expected hold period to exercise (years)	4.28	3.60
Volatility in the price of the Company's shares (%)	31.77	37.27
Dividend yield (%)	3.94	3.68

Restricted Share Unit Plan

On May 10, 2004, the shareholders approved the implementation of a Restricted Share Unit Plan ("RSU Plan") which permits the awarding of restricted share units ("RSUs") to senior management of the Company and its subsidiaries. Each RSU entitles the employee to receive one common share of the Company. The RSUs vest on the third anniversary of the date of the grant provided certain performance criteria are met. The Company has reserved 225,000 common shares for issuance under the RSU Plan. The purpose of the RSU Plan is to (i) provide long-term incentives to executives of the Company so as to encourage their long-term retention for the success of the Company; (ii) support the objectives of employee share ownership; (iii) foster a responsible balance between short-term and long-term results; and (iv) build and maintain a strong spirit of performance and entrepreneurship.

When cash dividends are paid on the common shares of the Company, additional RSUs of equivalent value are credited to the participant's account. Stock-based compensation expense and dividends with respect to RSUs are recognized over the vesting period with corresponding increases in contributed surplus.

During the year ended December 31, 2010, the Company granted no RSUs (2009 – 29,000) to senior executives of the Company under its RSU Plan. For the year ended December 31, 2010, a credit of $352,000 (2009 - $306,000 credit) was recorded as an offset to stock-based compensation expense under the RSU Plan in salaries and benefits expense in the consolidated statements of income and comprehensive income. Additionally, for the year ended December 31, 2010, an additional 5,259 RSUs (2009 – 4,839) were granted for dividends as a result of dividends payable.

Performance Share Unit Plan

In the second quarter of 2010, the Compensation Committee of the Board authorized a Performance Share Unit Plan ("PSU Plan") for senior management of the Company. Pursuant to the PSU Plan, senior management may be granted a portion of their long-term incentive plan in the form of performance share units ("PSUs"). Each PSU entitles the participant to the cash equivalent of one common share for each PSU granted, at the end of each vesting period if certain performance and vesting criteria have been met. The PSUs vest over a three-year period from the date of grant provided certain performance criteria are met. These units are non-dilutive.

When cash dividends are paid on the common shares of the Company, additional PSUs of equivalent value are credited to the participant's account. Stock-based compensation costs for PSUs granted under the PSU Plan are recorded as a compensation expense measured at the intrinsic value. Changes in the intrinsic value between the grant date and the measurement date result in a change in the measurement of compensation cost for the reporting period.

During the year ended December 31, 2010, the Company granted 260,116 PSUs (2009 – nil) to senior executives of the Company under its PSU Plan. For the year ended December 31, 2010, $450,000 (2009 – nil) was recorded as stock-based compensation expense under the PSU Plan in salaries and benefits expense in the consolidated statements of income and comprehensive income. Additionally, for the year ended December 31, 2010, an additional 4,169 PSUs (2009 – nil) were granted as a result of dividends payable.

Deferred Share Unit Plan

On May 10, 2005, the Board of Directors approved a Deferred Share Unit Plan ("DSU Plan") as an alternative to compensate Canadian Board members. Upon retirement each deferred share unit ("DSU") entitles the Board member to receive either one common share of the Company or the then cash equivalent of one common share of the Company.

When cash dividends are paid on the common shares of the Company, additional DSUs of equivalent value are credited to the participant's account. Compensation costs for DSUs are recognized as earned with a corresponding increase in contributed surplus.

During the year ended December 31, 2010, the Company granted 31,007 DSUs (2009 – 23,168) to Directors under its DSU Plan. For the year ended December 31, 2010, $261,000 (2009 - $227,000) was recorded as stock-based compensation expense under the DSU Plan in salaries and benefits expense in the consolidated statements of income and comprehensive income. Additionally, for the year ended December 31, 2010, an additional 2,529 DSUs (2009 – 1,757) were granted as a result of dividends payable.

Contributed Surplus

The following is a continuity of the activity in the contributed surplus account during the years ended December 31:

($ in 000's)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Contributed surplus, beginning of year	**2,996**	2,665
Stock-based compensation expense		
Stock options	**262**	411
Restricted share units	**(352)**	(306)
Deferred share units	**261**	227
Reduction due to exercise of options	**(133)**	(1)
Contributed surplus, end of year	**3,034**	2,996

13. Income Taxes

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

($ in 000's except percentages)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
		Restated [note 3]
Combined basic federal and provincial income tax rates	**30.2%**	30.3%
Expected income tax expense	**2,777**	2,500
Impact of tax rate changes on future tax assets	**(215)**	448
Non-deductible expense	**95**	137
U.S. losses not tax benefitted	**568**	518
Adjustment as a result of proposed tax reassessments	**(422)**	-
Other	**(467)**	(407)
	2,336	3,196

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

($ in 000's)	**December 31, 2010**	**December 31, 2009**
		Restated [note 3]
Loss carryforwards	**4,134**	2,370
Tax cost of lease assets and property and equipment in excess of net book value	**2,035**	4,575
Amounts receivable and provisions	**772**	385
Lease inducements	**656**	556
Financing fees	**166**	-
Other	**119**	13
	7,882	7,899
Less valuation allowance	**(2,302)**	(2,296)
	5,580	5,603

The Company, its subsidiaries and certain enterprises considered variable interest entities 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	8,289	2,347	2029
U.S. Operations			
Year ended December 31, 2007	1,007	401	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
	3,833	1,529	
Variable Interest Entities			
Year ended December 31, 2010	645	258	2029
	12,767	4,134	

As at December 31, 2010, the benefit of the U.S. tax loss carryforwards in the amount of $1.8 million and the U.S. future tax asset resulting from differences between the financial reporting and tax bases of assets and liabilities have been offset by a valuation allowance of $2.3 million (2009 - $2.3 million) 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.

14. Restructuring and Other Charges

During the third quarter of 2009, the Company initiated a reorganization of its administrative facilities and certain functions. This restructuring was completed in the second quarter of 2010 and consolidated all administrative functions into one central location and promoted more efficient and effective activities. The total cost of this restructuring was $2.6 million. During the year ended December 31, 2010, $0.6 million, (2009 – $2.0 million) was recorded as other charges within operating expenses.

Additionally, during the fourth quarter of 2010, the Company incurred $2.4 million in costs relating to the forensic investigation of the Employee Fraud (note 3).

Liabilities related to the restructuring and the forensic investigation are recorded in accounts payable and accrued liabilities and accrued employee costs as follows.

($ in 000's)	**Restructuring Costs**	**Forensic Investigation Costs**	**Total**
Accrual at January 1, 2010	623	-	**623**
Expenses – year ended December 31, 2010	641	2,428	**3,069**
Payments– year ended December 31, 2010	(1,234)	-	**(1,234)**
Accrual at December 31, 2010	30	2,428	**2,458**

15. Earnings Per Share

The following table sets forth the calculation of both basic and diluted earnings per share:

($ in 000's, except earnings per share, # of shares in 000's)	**Year ended December 31, 2010**	**Year ended December 31, 2009**
		Restated [note 3]
Numerator		
Net income for the year	**6,871**	5,055
Denominator		
Basic weighted average number of shares outstanding	**10,490**	10,489
Dilutive effect of share options	**28**	78
Dilutive weighted average number of shares outstanding	**10,518**	10,567
Earnings per share		
Basic	**$0.65**	$0.48
Diluted	**$0.65**	$0.48

The dilutive effect of share options reflects 85,236 options for the year ended December 31, 2010 (2009 – 162,691). For the year ended December 31, 2010, stock options to acquire 406,750 common shares (2009 – 533,350 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.

16. Net Change in Other Operating Assets and Liabilities

The net change in non-cash operating items, excluding lease assets and consumer loans receivable, is as follows:

($ in 000's)	**2010**	**2009** Restated [note 3]
Amounts receivable	**(587)**	(115)
Income taxes recoverable	**2,987**	(1,870)
Prepaid expenses	**(269)**	946
Accounts payable and accrued liabilities and dividends payable	**5,307**	1,629
Income taxes payable	**65**	-
Accrued employee costs	**695**	404
Deferred lease inducements	**156**	(237)
Unearned revenue	**430**	(284)
	8,784	473

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

($ in 000's)	**2010**	**2009**
Income taxes paid	**2,692**	4,010
Income taxes refunded	**3,545**	569
Interest paid	**1,231**	1,026
Interest received	**7,894**	2,665

17. 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 claims total damages of $15.0 million (including punitive damages of $5.0 million). 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 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.

18. 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:

Financial covenants (ratios)	Requirements	2010 Actual	2009 Actual
			Restated [note 3]
Funded debt to EBITDA ratio	< 2.50	0.89	1.77
Fixed coverage ratio	> 1.00	1.21	1.11
Total capital expenditures excluding lease assets	< $9 million	$5.3 million	$5.1 million

For the year ended December 31, 2010, the Company was in compliance with all of its externally imposed financial covenants.

For the year ended December 31, 2009, the Company met its funded debt to EBITDA ratio and its total capital expenditures as per the Company's lender. The Company, however, breached its fixed coverage ratio and as a result a waiver was obtained from the lender. The circumstances of the Company's arrangement with its lender are disclosed in note 9.

19. Financial Risk Management

Overview

The Company's activities are exposed to a variety of financial risks: credit risk, liquidity risk, interest rate risk and currency risk. 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.

(a) Credit Risk

The maximum exposure to credit risk is represented by the carrying amount of the amounts receivable, consumer loans receivable and assets on lease with customers under merchandise lease agreements. The Company leases products and makes consumer loans to thousands of customers pursuant to policies and procedures that are intended to ensure that there is no concentration of credit risk with any particular individual, company or other entity, although the Company is subject to a higher level of credit risk due to the credit constrained nature of many of the Company's customers and in circumstances where its policies and procedures are not complied with.

The credit risk related to assets on lease with customers results from the possibility of customer default with respect to agreed payments. The Company has a standard collection process in place in the event of payment default, which includes the recovery of the lease asset if satisfactory payment terms cannot be worked out, as the Company maintains ownership of the lease assets until payment options are exercised. Lease asset losses for the year ended December 31, 2010 represented 3.7% (2009 – 4.1%) of total revenue.

The credit risk related to amounts receivable and consumer loans receivable made in accordance with policies and procedures results from the possibility of default on rebate payments, consumer loans, and amounts due from licensee and former related parties. The Company deals with credible companies, performs ongoing credit evaluations of creditors and consumers and allows for uncollectible amounts where determined to be appropriate.

The credit risk on the Company's consumer loans receivable made in accordance with policies and procedures is impacted by both the Company's credit policies and the lending practices which are overseen by the Company's senior management. As at December 31, 2010, the Company's net loan portfolio was $21.8 million (2009 – $8.9 million).

(b) Liquidity Risk

The Company addresses liquidity risk management by maintaining sufficient availability of funding through its committed bank revolving credit facility and term loan, the terms of which expire on June 30, 2011. The Company is required to make quarterly principal repayments of $0.9 million under the term loan until the debt is retired. The Company manages its cash resources based on financial forecasts and anticipated cash flows, which are periodically reviewed with the Company's Board of Directors.

Annual debt repayments on the Company's term loan are as follows:

($ in 000's)	**Term Loan**
2011	2,728
Thereafter	-
Total	**2,728**

(c) Interest Rate Risk

Interest rate risk measures the Company's risk of financial loss due to adverse movements in interest rates. The Company is subject to interest rate risk as all bank facilities bear interest at prime plus 0.75% per annum or banker's acceptance rate plus 2.00% per annum. As at December 31, 2010, this rate was 3.75% per annum (2009 – 3.25% per annum). The Company does not hedge interest rates and future changes in interest rates will affect the amount of interest expense payable by the Company.

As at December 31, 2010, all of the Company's $18.3 million drawn bank facilities are subject to movements in floating interest rates. A 1% movement in the prime interest rate would have increased or decreased net income for the year by approximately $241,000.

(d) Currency Risk

Currency risk measures the Company's risk of financial loss due to adverse movements in currency exchange rates. The Company sources a portion of the furniture it leases in Canada from U.S. suppliers. As a result, the Company has foreign exchange transaction exposure. These purchases are funded using regular spot rate purchases. Pricing to customers can be adjusted to reflect changes in the Canadian dollar landed cost of imported goods and, as such, there is not a material foreign currency transaction exposure.

The Company also has foreign currency transaction exposure through its company-owned, VIE and franchised locations in the U.S. The Company's U.S. subsidiary and VIEs are considered to be fully integrated. Accordingly, monetary assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the consolidated balance sheet dates. Translation gains and losses are recognized in income in the current period. In translating the Company's U.S. monetary assets and liabilities, a 10% change in the U.S./Canadian dollar exchange rate would have increased or decreased net income in the year by approximately $387,000.

The earnings of the Company's U.S. subsidiary and VIEs are translated into Canadian dollars each period. A 10% movement in the Canadian U.S. dollar exchange rate would have increased or decreased net income in the year by approximately $155,000.

20. Financial Instruments

The carrying values of the Company's financial instruments are classified into the following categories:

($ in 000's)	**December 31, 2010**	**December 31, 2009**
		Restated [note 3]
Loans and receivables	**27,700**	14,225
Other financial liabilities	**35,602**	41,413

Loans and receivables include vendor rebates receivable, amounts due from licensee, amounts due from a former related party, other receivables and consumer loans receivable. Other financial liabilities include bank revolving credit facility, term loan, accounts payable and accrued liabilities, income taxes payable and dividends payable.

The estimated fair values of the Company's financial instruments approximate their respective carrying values. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. All of the Company's financial instruments are categorized as Level 3 in the three- level fair value hierarchy.

21. Related Party Transactions

The Company has entered into a number of related party transactions with one of its former officers. These transactions are described in note 4.

During the year ended December 31, 2010, the Company paid professional fees to a firm related to one of its Directors to assist in the investigation of the Employee Fraud (note 3). For the year ended December 31, 2010, $65,000 (2009 - nil) was recorded as professional fees in restructuring and other charges on the consolidated statements of income and comprehensive income.

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 Licence Agreement. The License Agreement has an initial six-year term and allows easygates LLC to set up easyhome franchises in the U.S., excluding the 14 U.S. states that border Canada. The License Agreement provides that, for each franchise store that is opened, Gates LLC and easyhome will split both the initial franchise fee and the ongoing royalty fees. As at December 31, 2010, 26 franchise locations were opened and operated under the License Agreement.

22. Variable Interest Entities

Variable interest entities ("VIEs") are defined under AcG 15, "Consolidation of Variable Interest Entities" ("AcG 15"), as entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support, or where the equity holders lack the overall characteristics of a controlling financial interest. Under AcG 15, VIEs are required to be consolidated with the financial results of the entity deemed to be the primary beneficiary of the VIEs expected losses and its expected residual returns.

For the year ended December 31, 2010, the Company has four (2009 - nil) franchise stores whose franchise agreements result in the Company being deemed the primary beneficiary of the entity according to AcG 15. The results for these entities have been consolidated with the results of the Company.

23. Segmented Reporting

The Company operates in three reportable segments. These segments include the Canadian leasing business, the U.S. leasing business and the consumer lending business (easyfinancial), which operates out of kiosks in certain Canadian stores. Management is continuing to assess the Company's reporting segments as a result of the previously announced restructuring and the Company's corresponding growth strategy.

Accounting policies for each of these business segments are the same as those disclosed in note 2. 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 and interest expense are included in the Canadian leasing segment. There are no significant inter-segment revenues and no significant changes in assets and total assets in each segment from the prior period. Segment contribution represents income before income taxes for each of the Company's business segments. The Company uses segmented income before income taxes as a key measure to analyze the financial performance of its business segments.

Year Ended December 31, 2010 *($ in 000's)*	**Canadian Leasing**	**U.S. Leasing**	**easyfinancial**	**Total**
Revenue	**158,642**	**9,250**	**12,897**	**180,789**
Operating expenses before amortization and restructuring and other charges	**89,890**	**7,715**	**12,498**	**110,103**
Amortization	**53,490**	**3,419**	**263**	**57,172**
Restructuring and other charges	**3,069**	**-**	**-**	**3,069**
Operating income (loss)	**12,193**	**(1,884)**	**136**	**10,445**
Interest expense	**1,238**	**-**	**-**	**1,238**
Income (loss) before income taxes	**10,955**	**(1,884)**	**136**	**9,207**
Total assets	**109,050**	**11,665**	**25, 537**	**146,252**

Year Ended December 31, 2009 *($ in 000's) Restated [note 3]*	**Canadian Leasing**	**U.S. Leasing**	**easyfinancial**	**Total**
Revenue	161,549	7,746	4,051	173,346
Operating expenses before amortization and restructuring and other charges	92,888	6,448	4,389	103,725
Amortization	55,172	3,023	106	58,301
Restructuring and other charges	1,931	-	-	1,931
Operating income (loss)	11,558	(1,725)	(444)	9,389
Interest expense	1,138	-	-	1,138
Income (loss) before income taxes	10,420	(1,725)	(444)	8,251
Total assets	116,563	9,392	10,286	136,241

The Company's goodwill of $17.3 million (2009 - $17.3 million) and restructuring and other charges of $3.1 million (2009 - $1.9 million) are related entirely to its Canadian leasing segment.

The Company's leasing business consists of four major product categories: furniture, electronics, computers and appliances. Lease revenues as a percentage of total lease revenue for the years ended December 31, 2010 and 2009 are as follows:

	2010 %	**2009** %
Furniture	**36**	37
Electronics	**35**	36
Computers	**17**	15
Appliances	**12**	12
	100	100

24. Comparative Figures

Certain of the comparative figures have been reclassified, where necessary, to conform to the current period's presentation.