easyhome® Ltd.
make life easier

2012 Annual Report

A strong future

We are excited about the achievements we made in 2012 and what that means for our future.

2013 brings a clear vision for the future. With the dedication and drive of our employees, the wisdom and confidence of our Board of Directors and the support of our shareholders, we are poised to create opportunities and capitalize on the needs we see in the market. Together we will continue to build a strong future.

easyhome Ltd. offers its customers alternatives that may not be available from other retailers or financial institutions. *easyhome* operates through three business units: *easyhome* Leasing, *easyhome* Franchising and *easyfinancial* Services.

easyhome® Leasing

easyhome Leasing is Canada's largest merchandise leasing company.

The Company leases, with an option to purchase, brand name home entertainment products, computers, appliances and household furniture.

easyhome Leasing is an accessible, affordable and debt-free solution for consumers who are looking for alternatives.

204 stores
(195 Canada/ 9 consolidated franchises)

70,000
customers

easyhome™ Franchising

easyhome Franchising extends the advantages of *easyhome* Leasing to consumers in new markets.

easyhome Franchising was created to capitalize on the enormous potential for leasing in the United States, which is the largest merchandise leasing market in the world.

Growing through franchising allows *easyhome* to penetrate the market faster and with a lower capital investment.

49 stores
(16 Canada/ 33 U.S.)

17,000
customers

easyfinancial™ services

easyfinancial Services is a lending alternative that provides personal loans as well as other value-added services such as cheque cashing and prepaid MasterCards.

easyfinancial Services fills a gap in the consumer finance market by offering products that are more affordable than payday loans and more accessible than traditional bank loans.

100 locations
(all in Canada)

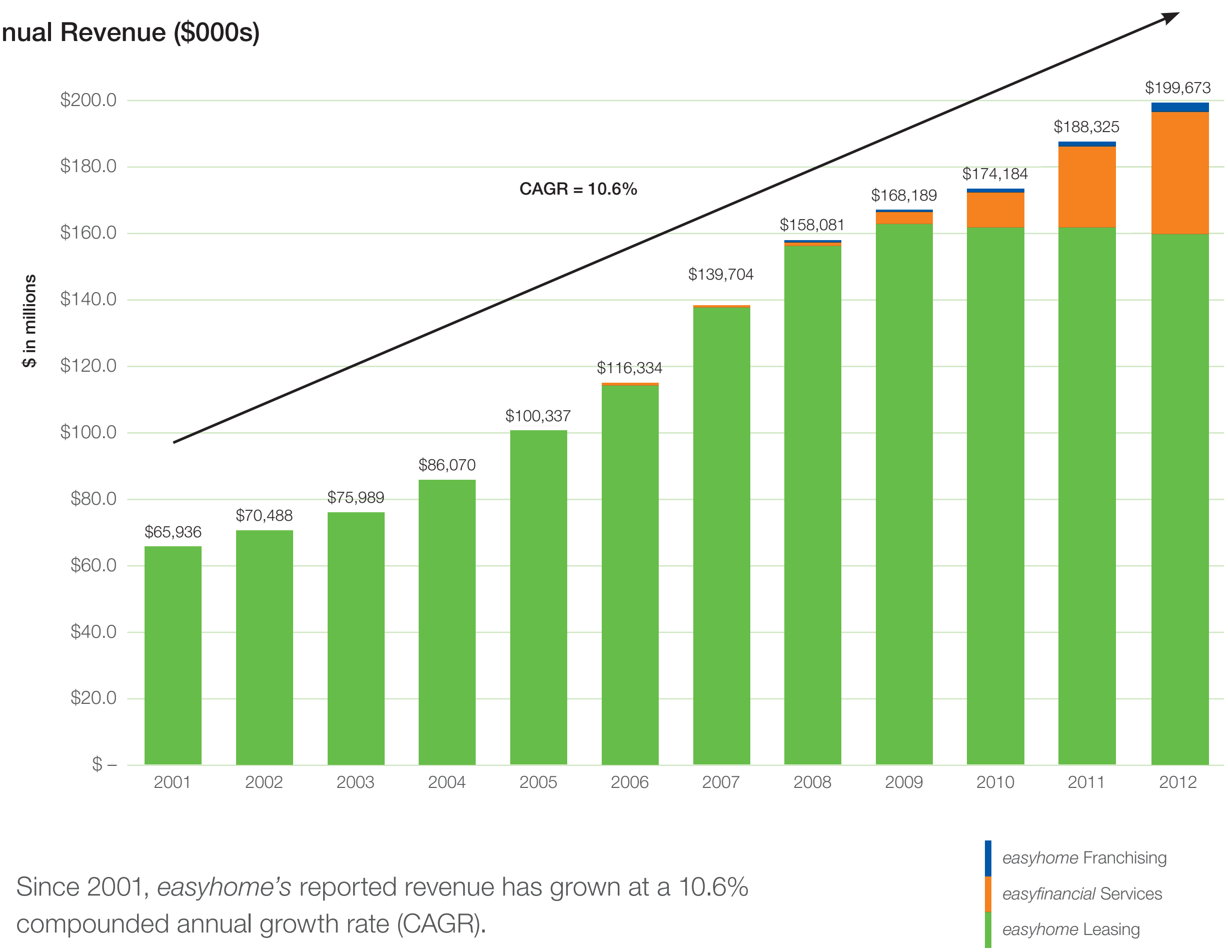
28,000
customers

Scorecard: How did we do?

	2012 Target	2012 Results	2013 Target
Total revenue growth	8-12%	6%	8-12%
New *easyfinancial* Services locations[1]	15-20	20	25-35
New *easyhome* Leasing stores	5-9	6	3-4
New *easyhome* Franchising stores	5-10	3	3-5

[1]2012 results include 13 new store openings and the conversion of 7 kiosks to stand alone branches.

Annual Revenue ($000s)



- Since 2001, *easyhome's* reported revenue has grown at a 10.6% compounded annual growth rate (CAGR).
- During 2012, revenue increased 6.0%, driven by the strong growth of *easyfinancial* Services.

Highlights

Achieved 6.0% total revenue growth and 8.9% same store revenue growth

Completed 11 consecutive years of revenue growth

Achieved 9.0% growth in adjusted earnings and 14.8% growth in earnings per share

Secured $30.0 million in long-term financing to fund the growth of *easyfinancial* Services

Grew *easyfinancial* Services' consumer loans portfolio by 49.0%

Enhanced *easyfinancial* Services' infrastructure through launch of new loan system

Opened 20 new *easyfinancial* Services locations including converting 7 *easyfinancial* Services kiosks to stand-alone locations

Completed exchange of U.S. leasing stores with a large U.S. based merchandise leasing company

Generated $58.2 million in operating cash flows

Financial Summary

(in $000s except per share amounts, employee and location counts and percentages)	2012	2011	2010
Income statement			
Revenue	199,673	188,325	174,184
Operating income	17,709	15,267	9,710
Net income	11,057	9,612	6,072
Earnings per share	0.93	0.81	0.58
Balance sheet			
Lease assets	68,075	66,996	67,692
Gross consumer loans receivable	70,658	47,565	23,800
Total assets	189,927	159,123	139,088
External debt	39,611	33,123	18,251
Shareholders' equity	105,013	97,542	91,511
Cash flow			
Net issuance of consumer loans receivable	31,425	29,398	16,872
Purchase of lease assets	55,446	48,614	47,130
Purchase of property and equipment, intangibles and goodwill	11,630	5,584	6,226
Dividend payments	4,038	3,913	3,562
Key metrics: consolidated			
Adjusted[1] earnings	10,481	9,612	8,844
Adjusted[1] earnings per share	0.87	0.81	0.84
Operating margin (adjusted)[1]	8.7%	8.1%	7.9%
Return on equity (adjusted)[2]	10.3%	10.2%	10.4%
Same store revenue growth	8.9%	8.2%	4.3%
External debt to shareholder's equity	0.38	0.34	0.20
External debt to adjusted EBITDA	1.82	1.72	0.95
Employees	1,241	1,259	1,191

[1]Certain financial statement amounts have been adjusted to exclude unusual and non-recurring items. Further details on such adjustments can be found in the Management Discussion and Analysis.
[2]Return on equity adjusted to exclude unusual and non-recurring items.

David Ingram
President and Chief Executive Officer

In 2012, we delivered on the promises we made to shareholders last year. We expanded *easyfinancial* Services and secured financing for future growth. We increased our leasing customer base and took steps to improve its profitability. We grew our franchising business and successfully migrated our first three *Be-A-Contender* stores to independent financing. We are pleased that our commitment and performance have been rewarded in increased investor confidence and total shareholder returns.

Why We Are Proud

We took a number of significant measures during 2012 to strengthen our business and prepare for future growth.

Within *easyfinancial* Services, one of our most significant accomplishments was the completion of the enhanced business infrastructure. This was a major initiative that was implemented over an 18 month period. While we finished several projects during the year, the final piece was the new loan software, which went live on October 1, 2012. We now have a solid and scalable platform that will support our growth into the foreseeable future.

While we were ensuring that we had the technology, processes and controls in place to grow at a significant pace, we were also securing the funding necessary to achieve our growth objectives. In October, we secured a new $20 million credit facility to support the growth of *easyfinancial* Services with an option for a further $10 million in future periods when required. At the same time, we revised the terms of our existing revolving facility with a syndicate of Canadian banks to extend the revolving facility's maturity date to October 4, 2015.

In our leasing business, we were not happy with the performance achieved in the first half of the year. In response, we restructured our operations to streamline costs and re-focus our priorities. We closed 16 underperforming locations, transferring their lease portfolios and assets to nearby locations, and we reduced senior management and its related costs.

To identify performance gaps, we gathered key personnel and challenged ourselves to identify what really worked and what did not. We discovered that as we grew, administrative burdens overwhelmed our sales staff. What we needed to do was return to a more entrepreneurial approach that would restore the focus on leasing, collecting and customer relationships.

With the belief that empowered employees are happier and better motivated, which results in higher customer satisfaction and stronger operational and financial performance, we encouraged store managers to make decisions that would help them compete more effectively in their markets. We are pleased with the positive impact this has had on our portfolio and the year on year comparison.

Our final action in 2012 was to take a hard look at our U.S. corporate stores. We acknowledged that the journey to profitability was likely to take another two years – too long when we could achieve a better return on investment elsewhere. After exploring our options, at year-end we announced an exchange of stores with a U.S.-based merchandise leasing company. We sold all 15 of our U.S. corporate stores and, in exchange, purchased the assets and operations of 15 of that company's Canadian locations. Eleven of these stores have been merged with existing *easyhome* locations. Four locations remain, and will be fitted with new signage and fixtures by the end of March, 2013.

We continued to pursue our growth plan for *easyhome* Franchising, investing in the proven *Be-A-Contender* program and opening new locations. Our decision to divest our U.S. corporate stores was made possible by the success of our franchise program. We now have a franchise program that is able to stand on its own merit without having to be supported by corporate stores. Franchising will continue to be our channel into the U.S. merchandise leasing market.

During the year, we celebrated the success of the *Be-A-Contender* program (BAC), a contest designed to attract outstanding, entrepreneurial managers and help them become franchise owners by providing a start-up financing package. All three original BAC winners have now obtained independent financing, have repaid their debts to *easyhome* and are now well on their way to opening additional locations. At year end we had 7 stores operating under this financing agreement and we will continue to invest in this channel.

How We Will Advance Our Business

In 2013 we will continue to advance our business through our plan to Evolve, Expand and Execute.

Evolve

Every business must evolve to adapt to changes in the environment and to better serve its customers. In 2013, *easyhome* will evolve its delivery channels to meet the needs of customers who increasingly want to use the internet and mobile technology to shop and transact their business.

While *easyfinancial* has always had an online presence, it has been purely informational. In 2013, we will introduce transactional online lending. This will not only allow us to reach consumers who may not have access to an *easyfinancial* location, it will allow us to reach those customers who are uncomfortable seeking financial assistance, but would do so through the privacy and convenience of the internet. Our credit adjudication strategy for online loans will be robust and consider the risks associated with our customer segment and the new application process.

We also plan to explore indirect lending, creating partnerships with retailers both online and offline. Customers who do not qualify for traditional credit offered by these retailers would be given the option to apply for a loan through *easyfinancial* Services.

The evolution of our delivery channels will not be limited to the *easyfinancial* business. Developing online transaction capabilities for *easyhome* Leasing will create opportunities for customers to select merchandise, obtain approval and arrange for delivery through our *easyhome* website.

Expand

We will expand our physical presence by adding 25 to 35 *easyfinancial* locations and three to five new franchise stores.

While virtual channels are important to the growth of *easyfinancial* Services, developing a substantial bricks-and-mortar operation remains critical to reach customers, promote access and achieve brand recognition. We will respond to the opportunity to bridge the gap in the financial services marketplace by adding new stand-alone locations for *easyfinancial* Services.

Expanding our market presence is the primary goal for *easyhome* Franchising. We are confident that the U.S. market offers tremendous opportunity for *easyhome*. Our concept is well received by U.S. consumers and our franchisees have developed robust businesses. In the current U.S. economy, financing remains a challenge for potential franchisees. This is one reason why *Be-A-Contender*, which provides a start-up financing package for proven operators, has been such a success and will remain a key part of our expansion strategy.

Execute

The key to any business is execution. In 2012 we executed our plans smoothly, efficiently and with solid results. We plan to do the same in 2013. We have a clearly defined strategy for each of our business units and we have the experience to execute those strategies with focus and determination.

For *easyfinancial*, our goal is responsible growth. We have found a gap in the financial services marketplace and we are intent on filling, then dominating it. We have a compelling business model and we understand the target consumer. To be the market leader, we need to be highly visible among our target customers, and we need strong brand recognition. We have done the groundwork for *easyfinancial* Services, now is the time to focus on executing our growth strategy.

easyhome Leasing remains focused on enhancing profitability. After streamlining our operations and re-aligning our priorities in 2012, we will concentrate on executing the basics of our business. As we have said before, the leasing business is straightforward, with three fundamental tasks: selling, delivering and collecting. It is how we execute those tasks that determines our success and maintains our market leadership.

Achieving our goals – to evolve, to expand and to execute – will allow *easyhome* to excel. To excel in our mission to provide consumers with access to household goods and financial services that enhance the quality of their lives. To excel in providing alternatives to those who are cash and credit constrained. To excel in building a business that gives back to the community. To excel in creating a positive work environment for our employees. And, of course, to excel in delivering value to our investors.

We enter 2013 with a clear vision for the future. We are poised to capitalize on the needs we see in the market, to create opportunities and to deliver solid operational and financial performance.

We cannot do this alone, and so I am very thankful for the contributions of our many supporters. From the dedication and drive of our employees, to the wisdom and confidence of our Board of Directors and the support of our shareholders, *easyhome* is a team effort. Together we will continue to build a strong future.

David Ingram
President and Chief Executive Officer

March 11, 2013

easyfinancial Services is *easyhome's* fastest growing business. In response to strong demand for the products and services we offer, we grew the loan portfolio 49% during 2012, increased revenues 54% and added 13 new locations. *easyfinancial* Services contributed 19% of total *easyhome* revenues.

What We Achieved in 2012

One of our most significant accomplishments in 2012 was the completion of all initiatives required to build our operating infrastructure. In particular, we implemented a new loan management system in the third quarter of the year. We now have a stable and scalable platform on which we can grow the *easyfinancial* business. It has the flexibility and capacity to allow for large-scale expansion.

While we prepared for the future, we delivered solid financial results during 2012. We grew revenues while maintaining steady loss rates consistent with expectations. We also passed the milestone of our 100th *easyfinancial* Services location.

We made solid advances in credit risk analytics during the year. We created a proprietary credit score that is now part of our loan decision methodology. Our objective is to balance risk and volume to optimize financial return. To ensure accuracy and consistency in our lending decisions, the loan approval process is centralized, using credit bureau characteristics as well as our proprietary risk management strategy.

To better meet the needs of our customers, we launched an ancillary product called the home and auto protection plan. This is a package that can be purchased at the time of the loan that will cover the customer in the event of unexpected expenses, such as road side assistance. It is not insurance, but provides extra coverage if needed.

Where We are Going in 2013

With the enhancements to the *easyfinancial* Services infrastructure completed, we will accelerate our expansion, adding 25 to 35 new locations in 2013. Along with adding to our retail space, we plan to develop alternative distribution channels.

We expect to make significant inroads into e-commerce with a fully automated online lending tool. We will also explore indirect lending, partnering with both online and offline retailers whose customers need additional financing support.

Our objective for 2013 is to responsibly grow the business, focusing on multiple product distribution channels to capture market share.

easyfinancial Services Key Metrics

(in $000's except store count and percentages)	2012	2011	Change
Revenue	$37,766	$24,463	54.4%
Operating income	$11,594	$6,167	88.0%
Operating margin	30.7%	25.2%	5.5%
Gross consumer loans receivable	$70,658	$47,565	48.6%
easyfinancial locations	100	88	13.6%

easyhome Leasing is the company's largest business unit. It generated $160 million in revenues, or 80% of total revenues, in 2012.

What We Achieved in 2012

During the year, the company made a number of changes within the leasing business to increase operational efficiencies and improve earnings. We streamlined operations, decreased senior management and reduced administrative tasks so that store personnel could focus on sales, deliveries and collections. In addition, we closed 16 stores.

One of our most important changes was to empower our store managers so that they could trade more effectively. Within key parameters, we gave them the authority to make more decisions and to tailor their efforts to reflect their markets. All key metrics are reviewed weekly to ensure performance standards are maintained.

An extension of these efforts was our agreement with a U.S.-based merchandise leasing company, at year-end, to exchange stores. Our corporate stores are now located solely in Canada, increasing our share of the Canadian market and leaving the U.S. to our franchise operators. Of the 15 Canadian stores we gained, 11 were located close to existing *easyhome* locations and were combined with those stores to strengthen their operations, and four will be converted to *easyhome* stores.

2012 Same Store Unit Delivery Growth

	2012 Unit Deliveries	2011 Unit Deliveries	Change
Furniture	105,649.49	99,867.03	5.8%
Electronics	63,250.55	62,704.94	0.9%
Computers	41,626.70	32,988.53	26.2%
Appliances	30,569.25	28,256.49	8.2%
Grand Total	**241,096.00**	**223,817.00**	**7.7%**

Same store unit deliveries increased by 11% compared to the prior year with all major categories showing positive growth. Despite market declines reported by many Canadian retailers and manufacturers in the computer category, *easyhome's* delivery performance was up an impressive 14%. This strong growth can be largely attributed to improved product availability and sharper pricing in the second half of the year. Our largest category, furniture, also performed well, with deliveries up 9%, once again well outpacing the performance of many traditional retailers. Product availability and excellent sell through on promotional buys were the keys to the successful performance.

Where We are Going in 2013

In 2013, we will move forward with plans to improve how we meet the needs of our customers. While we have continuously improved our retail environment and product selection, for the first time we are enhancing our customers' access to products. We will test an online option for leasing that allows customers to browse, get approved, place an order and set up a delivery time – all from the comfort of their home. We expect to have the technology and testing in place for the third quarter so that the organization will be prepared for its rollout in the fourth quarter of 2013.

Our product focus for 2013 will be a continued emphasis on optimizing the performance of our inventory assets through an improved discipline on stock balancing and the implementation of regional pricing.

We expect to allocate our marketing to respond to Canadians' active use of the internet. While we have traditionally relied heavily – and successfully – on flyers and direct mail, we believe that changes in consumer behaviour warrant an increase in the use of social media to heighten brand awareness.

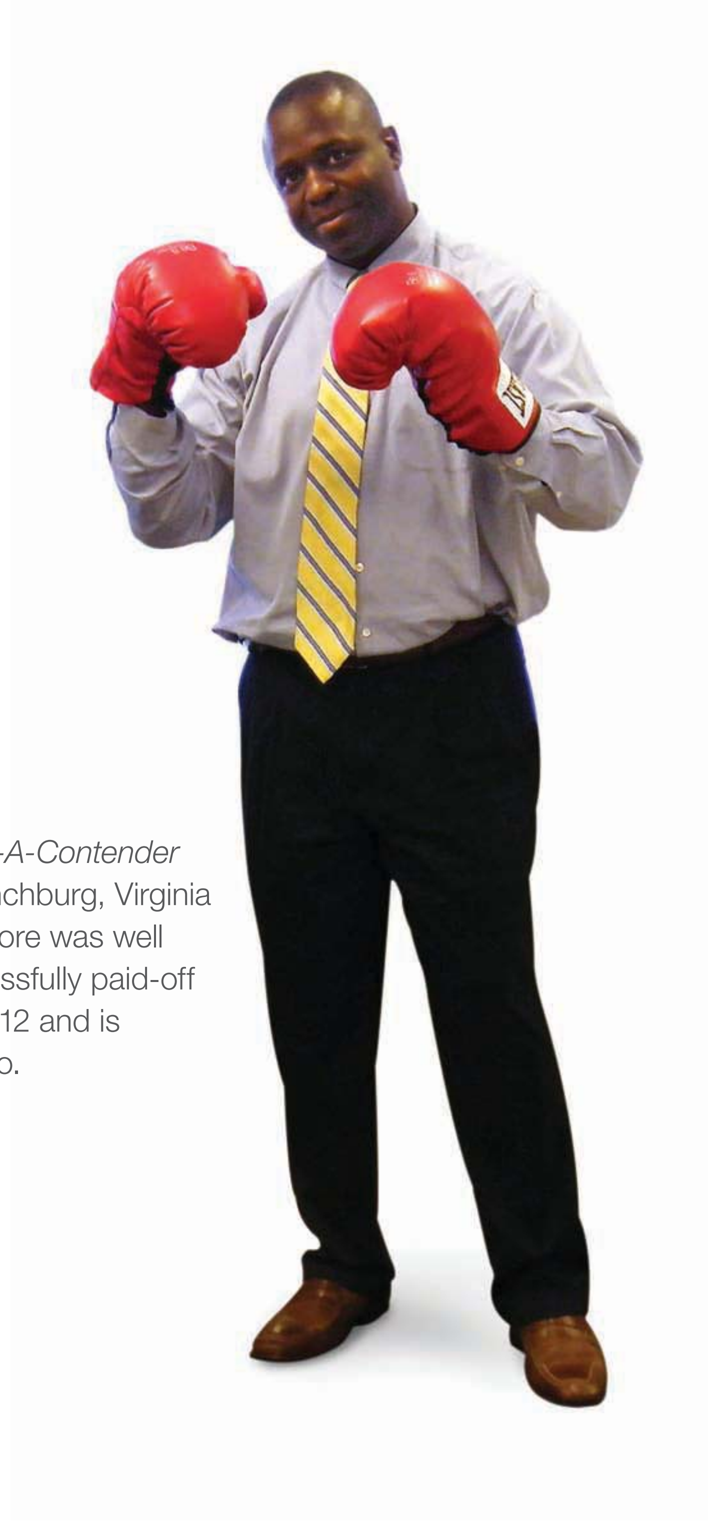
We will continue to reduce our costs, and as part of this, we expect to close or merge between four and six stores in 2013.

easyhome Leasing Key Metrics

(in $000's except store count, units/customer count and percentages)	2012	2011	Change
Revenue	$160,269	$162,464	(1.4%)
Adjusted operating earnings[1]	$22,419	$24,291	(7.7%)
Operating margin (adjusted)[1]	14.0%	14.9%	(0.9%)
Units on lease	209,662	208,727	0.4%
Potential monthly lease revenue	$11,634	$11,694	(0.5%)
Store count	204	218	(6.4%)

[1]Certain financial statement amounts have been adjusted to exclude unusual and non-recurring items. Further details on such adjustments can be found in the Management Discussion and Analysis.

easyhome Franchising is integral to the company's expansion strategy. In 2012, *easyhome* Franchising opened two new locations in the United States and one in Canada. System-wide franchise revenue increased 37%, contributing $1.6 million to total *easyhome* revenue.



Jerry Marshall was one of our first *Be-A-Contender* winners. Jerry opened his store in Lynchburg, Virginia in October, 2010. The growth of his store was well beyond our expectations. Jerry successfully paid-off his loan with *easyhome* in October 2012 and is currently working on store number two.

What We Achieved in 2012

Our unique *Be-A-Contender* program is a clear winner. The program's mandate is to attract the best operators in the U.S. and provide them with the financial and operational support necessary to manage their own business while contributing to our success. By combining entrepreneurial spirit with *easyhome's* proven business strategy, we are able to participate in the large U.S. market for merchandise leasing from a position of experience and strength with a lower capital investment.

We measure the success of the program through the progress and performance of our *Be-A-Contender* candidates. We have now completed three rounds of selection (BAC I, BAC II and BAC III). In aggregate, the *Be-A-Contender* stores are outperforming corporate locations. By year end, all three original candidates had successfully refinanced their loans and repaid their debt to *easyhome*. One of our first winners opened his third store during the year, while the remaining two BAC I winners are scouting locations for their second stores.

Where We are Going in 2013

We are confident that we have the right approach to penetrate the vast U.S. market, and so our strategy for 2013 is unchanged: we will grow steadily and carefully, and we will continue to promote the *Be-A-Contender* program. We expect to add between three and five new franchise locations and 3-4 new BAC stores to our pipeline in 2013.

easyhome Franchising Key Metrics

(in $000's except store count and percentages)	2012	2011	Change
Revenue	$1,638	$1,398	17.2%
Operating income[1]	$931	$739	26.0%
Operating margin[1]	56.8%	52.9%	3.9%
Franchise system wide revenue[1]	$34,149	$24,904	37.1%
Store count[1]	49	43	14.0%

[1] Information relates to all franchisees except those franchisees consolidated for financial statement purposes.

Donald K. Johnson
Chairman of the Board

The Board firmly believes that the Company is well-managed and well-positioned to create value for shareholders.

As Chairman of the Board, my duty is to protect and advance the interests of shareholders. I share this responsibility with my fellow Board members, who are equally diligent about fulfilling our fiduciary commitment.

The board comprises six individuals who contribute a variety of business, financial, and legal experience. Five of the six members are considered independent.

A complete review of *easyhome's* corporate governance practices is contained within the Company's Management Information Circular, which is available on the System for Electronic Document Analysis and Retrieval at www.sedar.com and on the Company's website at www.*easyhome*.ca.

It is very clear to the Board that *easyhome*'s management has a compelling strategy and a sound business plan for executing that strategy. During 2012, the Board provided guidance as the Company strengthened its business and prepared for future growth. We provided support as Management delivered on its commitments and made significant advancements, including restructuring its leasing business and securing the financing necessary for meaningful expansion of its *easyfinancial* Services business.

The Board firmly believes that the Company is well-managed and well-positioned to create value for shareholders. In the near-term, *easyhome* continues to pay a quarterly dividend of 8.5 cents per share, and has seen considerable appreciation in the share price during the past 12 months. We remain confident in *easyhome's* ability to deliver long-term value for its investors, and we thank shareholders for their ongoing support.

Donald K. Johnson
Chairman of the Board

March 11, 2013

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Date: March 11, 2013

The following Management's Discussion and Analysis ["MD&A"] presents an analysis of the financial condition of *easyhome* Ltd. and its subsidiaries [collectively referred to as "*easyhome*" or the "Company"] as at December 31, 2012 compared to December 31, 2011, and the results of operations for the three month period and year ended December 31, 2012 compared with the corresponding periods of 2011. This MD&A should be read in conjunction with the Company's 2012 audited consolidated financial statements and the related notes. The financial information presented herein has been prepared under International Financial Reporting Standards ["IFRS"], unless otherwise noted. All dollar amounts are in thousands of Canadian dollars unless otherwise indicated.

This MD&A is the responsibility of management. The Board of Directors has approved this MD&A after receiving the recommendations of the Company's 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. The Company discusses these measures because it believes that they facilitate the understanding of the results of its operations and financial position.

Additional information is contained in the Company's filings 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*, 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 is Canada's largest merchandise leasing Company offering top quality, brand-name household furnishings, appliances and home electronic products to consumers under weekly or monthly leasing agreements through both corporate and franchise stores. In addition, the Company offers a variety of financial services, including loans and prepaid cards, through its *easyfinancial* Services business [*"easyfinancial"*].

The Company operates three complementary business units: *easyhome* Leasing, *easyfinancial* and *easyhome* Franchising.

Overview of *easyhome* Leasing

The largest segment of *easyhome*'s business is merchandise leasing, with an option to purchase, top-quality, brand name household furnishings, appliances and home electronic products to consumers under weekly or monthly agreements. The Company's programs appeal to a wide variety of consumers who are looking for alternatives to traditional retailers and who may not be able to purchase merchandise because of a lack of credit or insufficient cash resources, who have a short-term or otherwise temporary need for the merchandise, or who simply want to use the merchandise, with no long-term obligation, before making a purchase decision.

The Merchandise Lease Agreement provides that the customer will lease merchandise for a set term and make periodic payments on a weekly or monthly basis. Generally, customers are required to make an initial up-front lease payment and thereafter the periodic payments are collected in advance for each payment period. If the customer makes all of the periodic payments throughout the lease term, he or she will obtain ownership of the merchandise at the end of the lease term. In addition, at specified times during the term of a Merchandise Lease Agreement, customers can exercise an option to purchase the leased merchandise at a predetermined price. *easyhome* maintains ownership of its merchandise unless and until this purchase option is exercised.

easyhome Leasing includes the corporately owned stores operated by *easyhome* and franchise operations where control is achieved on a basis other than through ownership of a majority of voting rights and which are included in the Company's consolidated results ["Consolidated Franchise Locations"].

Overview of *easyfinancial*

easyfinancial is the Company's financial services arm, offering short-term loans and other ancillary financial services. *easyfinancial's* loans occupy a critical niche in the marketplace, bridging the gap between traditional financial institutions and pay-day lenders. *easyfinancial* is a logical complement to *easyhome's* core leasing business, leveraging on the resources of its parent and its expertise in transacting with a similar customer segment.

easyfinancial offers unsecured short term installment loans in amounts from $500 to $5,000 for 6 to 36 month terms with bi-weekly, semi-monthly and monthly repayment options matched to the customer's payroll cycle. Customers can choose to repay the entire loan balance at any time during the term without penalty. As a credit reporting lender, *easyfinancial* positions its loan products as a vehicle to help rebuild credit for the credit constrained consumer.

Overview of *easyhome* Franchising

easyhome Franchising was launched in 2007 with the goal of helping the Company grow faster and to capitalize on the potential for *easyhome* leasing in the United States. The franchising business is built around the same principles of operational excellence as the Company's core leasing business.

easyhome's Franchising business has taken a two pronged approach to expansion. First, in Canada and in the 14 U.S. states that border Canada, *easyhome* acts as a direct franchisor to independent owner/operators that wish to run a merchandise leasing business in these marketplaces under *easyhome's* brand name and standard operating procedures. Second, in the U.S. states that do not border Canada, the Company is expanding through a master franchise agreement with an experienced U.S. merchandise leasing operator.

Corporate Strategy

The Company has three long-term business priorities:

- Evolving the delivery channels to better meet the needs of its customers
- Expanding the retail footprint
- Executing at the store level with efficiency and effectiveness

Evolving the Delivery Channels

Historically, all of *easyhome's* interactions with its leasing customers have occurred at a physical retail location. As at December 31, 2012, *easyhome* leasing operated 195 corporately owned stores across Canada and 9 Consolidated Franchise Locations. Likewise, the *easyfinancial* business was initially developed using a kiosk that was physically located within an existing *easyhome* leasing location. As at December 31, 2012, *easyfinancial* operated 82 such kiosks.

Landlord tenant restrictions included in many of the Company's real estate leases established a maximum limit of approximately 100 *easyfinancial* kiosks located within the *easyhome* Leasing retail stores. By 2011, the Company determined that it would reach capacity due to these restrictions and, as such, the *easyfinancial* business would scale more successfully by operating out of stand-alone locations that were physically separated from the *easyhome* leasing stores. The first *easyfinancial* stand-alone location was opened in July 2011 and as at December 31, 2012, *easyfinancial* operated 17 stand-alone locations.

The internet and mobile technology have changed the way that businesses interact with their customers. Although many customers expect the direct interaction that occurs at a retail storefront, a faster growing number of customers wish to utilize technology to transact instead. As a result, the Company has begun to evolve its delivery channels to meet the demands of this new group of customers. Beginning in 2012 and continuing in 2013, the Company is developing a multi-channel distribution structure for the delivery of financial services and merchandise leasing.

While *easyfinancial* has always had an online presence, it has been purely informational. In 2013, *easyfinancial* will introduce transactional online lending. This will not only allow the Company to reach consumers who may not have access to an *easyfinancial* location, it will allow it to reach those who are uncomfortable seeking financial assistance, but would do so through the privacy and convenience of the internet. The Company is developing an online application process in conjunction with an enhanced credit risk strategy that will enable it to make instant lending decisions for qualified customers. *easyfinancial's* credit risk strategy for online loans will be robust and will consider the risks associated with this customer segment and the new application process, including additional personal security features.

As a further means of responding to consumer demand and capturing growth, *easyfinancial* will also evolve its delivery channel by exploring indirect lending. Indirect lending involves creating partnerships with retailers, both online and offline, to provide financing for their customers who do not qualify for traditional credit offered by these retailers. Under such a delivery channel, these customers will be given the option of applying for a loan through *easyfinancial*.

The Company's evolution of its delivery channels will not be limited to the *easyfinancial* business. The Company is also developing online transaction capabilities for its leasing business. This new channel will create opportunities for customers to select merchandise, obtain approval, and arrange for delivery through an *easyhome* leasing website.

Expanding the Retail Footprint

While the Company intends to evolve its delivery channels, this will not be done at the expense of ignoring its retail footprint. To survive and grow in a competitive retail environment, an organization must continuously renew and expand its physical presence. The Company's expansion strategy is different for each of its business segments, based on their relative level of maturity.

First, within the *easyhome* leasing business, the rate of expansion will continue to be muted. During the period spanning 2001 to 2009 the Company significantly increased the number of stores, achieving a dominant position in the Canadian merchandise leasing industry. This position will be enhanced by relocating stores in markets where the target customer base has shifted, opening stores in new, rapidly growing markets and selectively acquiring stores that offer opportunities for consolidation with existing locations to take advantage of efficiencies. As an example, the Company completed the purchase of 15 Canadian leasing stores on December 31, 2012. Since most of the acquired stores were located in markets already served by *easyhome*, greater efficiencies were gained by merging 11 of the newly acquired stores with existing stores into a single location.

The Company believes that there is significant demand for the products offered by *easyfinancial* in the Canadian marketplace. The Company estimates that the historic Canadian market for unsecured consumer installment loans, consistent with the products offered by *easyfinancial*, was in excess of $1.5 billion and that this market was serviced by over 400 retail locations. Since 2007, many of the largest participants in this market have either closed their operations or dramatically reduced their size, leaving *easyfinancial* as the only national participant with growth aspirations.

Unlike *easyhome* leasing, the retail footprint of *easyfinancial* is not yet mature and requires expansion. The Company estimates that its retail footprint for *easyfinancial* could expand to over 250 locations. The Company is responding to this opportunity by strategically adding new stand alone locations. In addition to providing more convenient access to the customers that wish to transact in a physical retail environment, the critical mass of physical locations will assist with brand recognition, establishing *easyfinancial* as a leader in providing financing solutions to consumers who are looking for an alternative to traditional banks and payday lenders.

Finally, increasing its market presence is the primary goal for *easyhome* franchising. The Company is convinced that the U.S. market offers tremendous opportunity for *easyhome*. The *easyhome* leasing concept is well received by U.S. consumers and franchisees have proven their ability to develop robust businesses. In the current U.S. economy, however, financing remains a challenge for potential franchisees. This is one reason why the *Be-A-Contender* program, which provides a start-up financing package for proven operators, has been such a success. Going forward, the Company intends to continue with this program to further stimulate the growth of its U.S. franchise business.

Executing at the Store Level

The Company believes that the products and services presented to its customers are clearly differentiated from its competitors. *easyhome* Leasing has established itself as the Canadian market leader by providing a more inviting retail experience than its direct competitors, providing consumers with the lowest weekly payment rates guaranteed and employing more engaged and better trained retail associates. *easyfinancial* provides consumers with an alternative that is less costly than payday loans and quicker and more convenient than traditional banks.

To meet the demands of its customers and to maximize the profitability of its retail locations, the Company will continue to focus on local execution at the store level. After streamlining the operations and re-aligning priorities in 2012, the Company will concentrate on executing the basics of its businesses. Both the leasing business and the lending business are straightforward, with only three fundamental tasks: selling, delivering/funding and collecting. It's how these tasks are executed that determines success.

Offer High Levels of Customer Service and Satisfaction

Customer retention is of paramount importance. Frequent and positive customer interactions encourage repeat business and provide high levels of service and satisfaction. As part of its attempt to provide superior customer service, the Company offers quick delivery of its merchandise and rapid loan decisioning and funding. The Company believes that competent, knowledgeable and motivated personnel are necessary in order to achieve high levels of customer service and satisfaction. Accordingly, the Company has intensive employee training programs, as well as performance measurement programs, incentive driven compensation plans and other tools, in order to drive a positive customer experience and ensure customer retention.

Increase Store Level Efficiency

Although the Company will pursue the previously described methods to encourage customer retention and growth, it must also aggressively manage all discretionary spending. Supplier relationships and economies of scale will be leveraged to reduce overall costs. Idle inventory levels within its stores will be maintained at optimum levels, balancing the need to provide customers with the choice and selection they require with the capital committed and management effort required to maintain this inventory. Other costs, especially labour, will be tightly controlled through centrally established thresholds, allowing spending to occur only when it will result in improved revenues.

Outlook

Looking ahead, *easyhome's* strategic focus remains unchanged. The Company will focus on growing *easyfinancial,* increasing the profitability of the leasing business and growing the franchise network.

The additional financing obtained in 2012 will allow the Company to grow its consumer loans receivable portfolio unencumbered during 2013. Additionally, *easyfinancial* expects to open a further 25 to 35 *easyfinancial* locations during 2013 and expects these locations to be stand alone sites. *easyfinancial* will also focus on continuing to grow its consumer loans receivable portfolio at existing locations. The Company anticipates a loan book of between $95.0 and $100.0 million by the end of 2013.

The Company's view of the North American economic situation suggests that 2013 will be another challenging year, particularly impacting the purchasing decisions of consumers. As a result, *easyhome* Leasing is not expecting significant growth and does not intend to significantly grow its leasing footprint. Rather *easyhome* Leasing will continue to drive profitability enhancements across its existing store network. The Company does not plan to open any new corporate stores during 2013 but expects to open 3 to 4 new *Be-A-Contender* franchise stores that are consolidated for financial statement purposes. Of course, should an economic recovery begin to take hold, these expansion plans for the leasing business will be reviewed in the future.

Fortunately, the Company's strategy of developing complementary business units is now somewhat mitigating the impacts of a negative economy on its revenue. While the Company is anticipating low growth within its leasing business, this is more than offset by the strong growth expected from *easyfinancial*. Ultimately, *easyhome* is targeting total revenue growth of between 8% and 12% for 2013. As such, next year is expected to be a record year for both revenues and earnings.

The achievement of these targets by the Company is predicated on a number of factors, including the availability of sufficient capital.

The Company believes that the cash flow provided by operations during 2013, coupled with the available loan facilities will be sufficient in the near term to meet operational requirements, purchase leased assets, meet capital spending requirements and pay dividends. While the Company is able to manage the growth of its consumer loans receivable portfolio based on the amount of financing that is available, in the event that the Company decides to continue to expand its consumer lending business conducted by *easyfinancial*, additional sources of financing over and above the available loan facilities may be required.

Analysis of Results for the Year Ended December 31, 2012

Summary Financial Results and Key Performance Indicators

(in $000's except earnings per share and percentages)	Year Ended Dec 31, 2012	Year Ended Dec 31, 2011	Variance $ / # / %	Variance % Change
Summary Financial Results				
Revenue	**199,673**	188,325	11,348	6.0%
Operating expenses before depreciation and amortization	**129,198**	121,592	7,606	6.3%
EBITDA margin	**11.1%**	10.2%	0.9%	–
Depreciation and amortization expense	**52,766**	51,466	1,300	2.5%
Operating income	**17,709**	15,267	2,442	16.0%
Operating margin	**8.9%**	8.1%	0.8%	–
Interest expense	**2,643**	1,541	1,102	71.5%
Income tax rate	**26.6%**	30.0%	(3.4%)	–
Net income for the period	**11,057**	9,612	1,445	15.0%
Earnings per share	**0.93**	0.81	0.12	14.8%
Adjusted (Normalized) Financial Results				
Adjusted operating earnings[1]	**17,331**	15,267	2,064	13.5%
Adjusted earnings[1]	**10,481**	9,612	869	9.0%
Adjusted earnings per share[1]	**0.87**	0.81	0.06	7.4%
EBITDA margin (adjusted)[1]	**10.9%**	10.2%	0.7%	–
Operating margin (adjusted)[1]	**8.7%**	8.1%	0.6%	–
Key Performance Indicators (Period End)				
Total System Revenue[2]	**233,822**	213,229	20,593	9.7%
Same store revenue growth[1]	**8.9%**	8.2%	0.7%	–
Same store revenue growth excluding *easyfinancial*[1]	**1.3%**	0.2%	1.1%	–
Potential monthly lease revenue[1]	**11,634**	11,694	(60)	(0.5%)
Change in potential monthly lease revenue due to ongoing operations[1]	**290**	239	50	20.9%
Gross consumer loans receivable[1]	**70,658**	47,565	23,093	48.6%
Growth in consumer loans receivable[1]	**23,093**	23,765	(672)	(2.8%)
Bad debt expense as a percentage of *easyfinancial* revenue[1]	**25.8%**	25.7%	0.1%	–
Total franchisee revenue[3]	**34,149**	24,904	9,245	37.1%

[1] See description in section "Key Performance Indicators and Non-IFRS Measures".
[2] Includes revenue per consolidated financial statements as well as revenue from unconsolidated franchises.
[3] Includes revenue from unconsolidated franchise locations.

Financial Highlights and Accomplishments

- The fiscal year ended December 31, 2012 represents the eleventh consecutive year of growing revenues and delivering positive net income. Since 2001, total revenue has seen a compounded annual growth rate of 10.6% while net income has grown from a loss of $1.9 million in 2001 to a profit of $11.1 million in 2012.
- *easyhome* continued to grow revenue during 2012. Revenue for the year increased to $199.7 million from $188.3 million in 2011, an increase of $11.4 million or 6.0%. The growth was driven primarily by the expansion of *easyfinancial* and its loan portfolio. Same store revenue growth for the year, which includes revenue growth from *easyfinancial*, was 8.9%. Excluding the impact of *easyfinancial*, same store revenue growth was 1.3%.
- During 2012, 13 *easyfinancial* locations were added, 7 *easyfinancial* kiosks were converted to stand alone locations and the consumer loans receivable portfolio grew by $23.1 million, compared with growth of $23.8 million in 2011. During 2012, much of this growth was managed to correspond with the available capital. The gross consumer loans receivable as at December 31, 2012 was $70.7 million compared with $47.6 million as at December 31, 2011.
- Total Franchise Revenue in 2012, which includes the revenue generated from unconsolidated franchisees was $34.1 million; an increase of $9.2 million or 37.1% in comparison to 2011. The increase was driven by additional store count and growth of pre existing locations.
- The operating margin for *easyfinancial* was 30.7% for 2012 compared with 25.2% for 2011. During 2012, operating margins were positively impacted by efficiencies gained through a higher average consumer loans receivable portfolio per location and fewer new store openings thereby reducing the negative impact on earnings caused by new stores in their early stages of maturity. Bad debt expense expressed as a percentage of revenue was 25.8% in 2012, relatively consistent with 25.7% in 2011.
- Operating income increased from $15.3 in 2011 to $17.7 million in 2012, an increase of $2.4 million or 16.0%. Excluding the impact of restructuring and other items, operating income was $17.3 million in 2012, an increase of 13.5%.
- Operating income in 2012 was negatively impacted by $1.5 million of higher accrued but not paid stock based incentive compensation expenses included in operating expenses within corporate. Excluding the impact of the stock based incentive compensation plan expenses, which are based on expected performance versus targets and movements in the Company's share price, and excluding the impact of restructuring and other items, operating income increased by $3.6 million or 22.2%.
- Net income for 2012 was $11.1 million or $0.93 per share compared with $9.6 million or $0.81 per share for the prior year. Excluding the impact of restructuring and other items, net income was $10.5 million or $0.87 per share for 2012.
- The Company continued to generate strong cash flows. Cash flows provided by operating activities for the year were $58.2 million. Included in this $58.2 million is a net investment of $31.4 million to increase the *easyfinancial* loan portfolio. If this net investment in the *easyfinancial* loan portfolio was treated as cash flows from investing activities, the cash flows generated by operating activities would be $89.6 million in 2012 compared to $69.0 million in 2011. This cash flow enabled the Company to invest in the lease and loan portfolios to drive future growth and maintain its dividend for the quarter.
- During the second quarter of 2012 and in response to its negative performance, the Company completed a restructuring of its leasing business. Consequently, 13 locations with unsatisfactory performance were closed

and a large portion of their active lease portfolios and assets were transferred to other nearby Company locations. Changes were also made to the leadership of the leasing business and seven senior positions were eliminated. Finally, operating procedures were adjusted to return the focus of field staff from administration processes to leasing, collecting and customer relationships. The Company recorded a $1.4 million charge related to this restructuring.

- On October 2, 2012, the Company entered into a new $20.0 million credit facility to support the growth of *easyfinancial*. In conjunction with this financing, the Company amended the terms and extended the maturity date of its revolving operating credit facility with a syndicate of banks. These actions, when taken together, will provide the Company with the capital necessary to achieve its growth objectives as it continues to build upon positive momentum in *easyfinancial* Services. The new credit facility also allows for up to $10 million of increased borrowings as the consumer loans receivable portfolio grows, subject to lender approval.
- On December 31, 2012, the Company completed an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by *easyhome* in the U.S. and the purchase of the assets and operations of 15 leasing stores in Canada. Since most of the acquired stores were located in markets already served by *easyhome*, greater efficiencies were gained by merging 11 of the newly acquired stores with existing stores into a single location. The Company recorded a gain of $814 on this transaction, net of certain related restructuring costs.
- By December 31, 2012 all of the initial *Be-A-Contender* franchisees had successfully grown their businesses and had obtained independent financing allowing them to repay their loans to the *easyhome*. All three franchisees had or are working towards opening additional stores.

Store Locations Summary

	Locations as at December 31, 2011	Locations opened/acquired during 2012	Locations closed/sold during 2012	Conversions	Locations as at December 31, 2012
Leasing					
Canada	197	17	(16)	(3)	**195**
U.S.	16	–	(16)	–	–
Consolidated Franchise Location	5	4	–	–	**9**
Total	218	21	(32)	(3)	**204**
Franchise					
Canada	14	1	–	1	**16**
U.S.	29	2	–	2	**33**
Total	43	3	–	3	**49**
easyfinancial					
Kiosks (in store)	85	5	(1)	(7)	**82**
Stand-alone locations	2	8	–	7	**17**
National loan office	1	–	–	–	**1**
Total	88	13	(1)	–	**100**

Summary Financial Results by Operating Segment

($ in 000's except earnings per share)	Year ended December 31, 2012				
	Leasing	*easyfinancial*	Franchising	Corporate	Total
Revenue	**160,269**	**37,766**	**1,638**	–	**199,673**
Total operating expenses before depreciation and amortization and restructuring and other items	**86,573**	**25,421**	**514**	**17,068**	**129,576**
Restructuring and other items	**1,296**	–	–	**(1,674)**	**(378)**
Depreciation and amortization	**51,277**	**751**	**193**	**545**	**52,766**
Operating income (loss)	**21,123**	**11,594**	**931**	**(15,939)**	**17,709**
Interest expense					**2,643**
Income before income taxes					**15,066**
Income taxes					**4,009**
Net Income for the period					**11,057**
Diluted earnings per share					**0.92**

($ in 000's except earnings per share)	Year ended December 31, 2011				
	Leasing	*easyfinancial*	Franchising	Corporate	Total
Revenue	162,464	24,463	1,398	–	188,325
Total operating expenses before depreciation and amortization and restructuring and other items	87,642	17,941	570	15,439	121,592
Depreciation and amortization	50,531	355	89	491	51,466
Operating income (loss)	24,291	6,167	739	(15,930)	15,267
Interest expense					1,541
Income before income taxes					13,726
Income taxes					4,114
Net Income for the period					9,612
Diluted earnings per share					0.81

Revenue

Revenue for the year ended December 31, 2012 was $199.7 million compared to $188.3 million in 2011, an increase of $11.4 million or 6.0%.

Leasing – Revenue for the year ended December 31, 2012 was $160.3 million, a decline of $2.2 million or 1.3% from 2011. Revenue declines in the Canadian leasing business were partially offset by increased revenue from the U.S. corporate stores and the Consolidated Franchise Locations. The revenue decline in the Canadian leasing business was related to the closure or sale of 25 locations over the previous 24 months (including 16 closures and 3 sales in 2012). The lease portfolio, as measured by potential monthly lease revenue, was $11.6 million at December 31, 2012 compared with $11.7 million as at December 31, 2011, a decline of $0.1 million over the past 12 months. Changes to the store network during the preceding 12 months, much of it impacting the Canadian leasing business, accounted for a $0.3 million decline in the portfolio. Excluding the impact of the store sales, closures and acquisitions, the portfolio increased by $0.3 million year over year compared with $0.2 million in 2011. The concurrent acquisition of 15 Canadian lease stores and sale of all 15 U.S. corporately owned leasing stores had no impact on revenue during the year as the transaction occurred on December 31, 2012.

easyfinancial – Revenue for the year ended December 31, 2012 was $37.8 million, an increase of $13.3 million or 54% from 2011. The increase was due to the growth of the consumer loans receivable portfolio, which increased from $47.6 million as at December 31, 2011 to $70.7 million as at December 31, 2012. The consumer loans receivable portfolio grew $23.1 million during 2012 compared with growth of $23.8 million during 2011.

Franchising – Revenue increased by $0.2 million for the year ended December 31, 2012, driven by additional franchise locations. The Company had 49 franchise locations as at December 31, 2012 compared with 43 as at December 31, 2011.

Total Operating Expenses before Depreciation and Amortization and Restructuring and Other Items

Total operating expenses before depreciation and amortization and restructuring and other items was $129.6 million for 2012, an increase of $8.0 million or 6.6% from 2011. The increase was driven by the growth of the *easyfinancial* business and higher corporate expenses (principally higher accrued but not paid stock based incentive compensation expenses) and was somewhat offset by lower operating costs in the leasing business. Operating expenses before depreciation and amortization and restructuring and other items represented 64.9% of revenue for 2012 compared with 64.6% last year.

Leasing – Total operating expenses before depreciation and amortization and restructuring and other items was $86.6 million, a decrease of $1.1 million or (1.2)% from 2011. The cost reductions associated with the store closures during the year were partially offset by the increased cost of additional consolidated franchise locations. Store count declined from 218 as at December 31, 2011 to 204 as at December 31, 2012.

easyfinancial – Total operating expenses before depreciation and amortization was $25.4 million for the year ended December 31, 2012, an increase of $7.5 million or 42% from 2011. The 42% increase in expenses was more than offset by the 54% increase in revenues. Excluding bad debt expense, costs increased from $11.7 million in 2011 to $15.7 million in 2012, an increase of $4.0 million or 34%. This increase was driven by the growth in the number of *easyfinancial* locations which grew from 88 as at December 31, 2011 to 100 as at December 31, 2012.

Bad debt expense increased to $9.8 million for the year ended December 31, 2012 from $6.3 million in 2011. The $3.5 million increase was due to the growth of the consumer loans receivable portfolio which increased from $47.6 million at December 31, 2011 to $70.7 million at December 31, 2012. Bad debt expense, expressed as a percentage of revenue, was 25.8% for 2012 compared with 25.7% for 2011.

Franchising – Total operating expenses before depreciation and amortization increased by $0.1 million during the year compared with the prior year.

Corporate – Total operating expenses before depreciation and amortization and restructuring and other items were $17.1 million for the year ended December 31, 2012, an increase of $1.6 million or 10.6% from 2011. The increase was related to higher incentive compensation expense and was somewhat offset by lower salary costs, professional fees and other administrative expenses. Stock based incentive compensation expenses increased by $1.5 million, driven by a 72% increase in the Company's share price during 2012 compared to a decline of 45% in 2011 and the improved financial performance of the Company versus expectations. Excluding the impact of this change in stock based incentive compensation expense, corporate operating expenses before depreciation and amortization and restructuring and other items was in line with 2011.

Restructuring and other items – During the year restructuring and other items resulted in a net gain of $378 and consisted of three elements:

- During the second quarter of 2012, the Company restructured the management and operating procedures of its leasing segment and closed 13 underperforming locations. In 2012, $1.3 million was recorded as restructuring charge against the leasing segment and $0.1 million was recorded against corporate. The total restructuring charge was $1.4 million.
- During the second quarter of 2012, the Company received a reimbursement from its insurers of a portion of the costs related to the forensic investigation of an employee fraud. The net insurance reimbursement of $0.9 million was recorded against Corporate and is net of professional fees related to obtaining this reimbursement.
- On December 31, 2012, the Company completed an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by *easyhome* in the U.S. and the purchase of the assets and operations of 15 leasing stores in Canada. Since most of the acquired stores were located in markets already served by *easyhome*, greater efficiencies were gained by merging 11 of the newly acquired stores with existing stores into a single location. The Company recorded a gain of $814 on this transaction, net of certain related restructuring costs. The gain is recorded in the corporate segment.

Depreciation and Amortization

Depreciation and amortization for the year ended December 31, 2012 was $52.8 million compared to $51.5 million for 2011, an increase of $1.3 million or 2.5%. The increase was driven primarily by the growth of the Consolidated Franchise Locations included in the leasing segment and additional depreciation in *easyfinancial* related to the completed implementation of the new lending system. Also included in depreciation and amortization is impairment charges. During 2012 the Company recorded impairment recoveries of $0.3 million compared with a charge of $0.1 million during 2011. Depreciation and amortization represented 26.4% of revenue for 2012 down from 27.3% in 2011.

Operating Income (Income before Interest Expense and Income Taxes)

Operating income for the year ended December 31, 2012 was $17.7 million. Excluding restructuring and other items, adjusted operating income was $17.3 million. Adjusted operating income for 2012 increased by $2.1 million compared with 2011. Adjusted operating margin was 8.7% for the year compared with 8.1% in 2011. Further, operating income in 2012 was negatively impacted by $1.5 million of higher accrued but not paid stock based incentive compensation expenses included with corporate costs. Excluding the impact of stock based incentive compensation plan expenses, which are based on expected performance versus targets and movements in the Company's share price, operating income increased by $3.6 million or 22.2%.

Leasing – Operating income excluding restructuring and other items was $22.4 million in 2012 compared with $24.2 million in 2011, a decrease of $1.9 million or 7.7%. While operating income in the second half of 2012 improved by $0.6 million, operating income for the first half of 2012 trailed that of 2011 by $2.5 million. This decline in the first half of the year was driven by lower revenue generated by the Canadian leasing business, increased advertising spend and the drag on earnings of new Consolidated Franchise Locations. Operating margin, excluding restructuring and other items, was 14.0% for the year ended December 31, 2012 compared with 15.0% in 2011. Operating margin in the second half of 2012, excluding restructuring and other items, was 14.7% compared with 13.7% in the second half of 2011. This improvement was driven by the closure of underperforming stores in the second quarter of 2012 and impairment recoveries relating to improved leasing performance.

easyfinancial – Operating income was $11.6 million for the year ended December 31, 2012 compared with $6.2 million in 2011, an increase of $5.4 million or 88%. Operating margin for year ended December 31, 2012 was 30.7% compared with 25.2% in 2011. A higher average loan book per location contributed to higher operating margins in 2012.

Franchising – Operating income increased by $0.2 million for the year ended December 31, 2012 compared with 2011, due to additional franchise locations and increased revenue.

Interest Expense

Interest expense for the year ended December 31, 2012 was $2.6 million, up $1.1 million from 2011. The increase related to the higher average debt levels during the period and an increased cost of borrowing compared with prior year. The increased cost of borrowing was driven primarily by the $20.0 million term loan obtained in the fourth quarter of 2012 which bears interest at the Canadian Bankers' Acceptance rate plus 10.5%.

Income Tax Expense

The effective income tax rate for the year ended December 31, 2012 was 26.6% compared to 30.0% in 2011. The decline in the effective rate was due to the improved performance of the U.S. business (taxable income in 2012 compared to a taxable loss in 2011) and a general reduction in income tax rates.

Net Income and EPS

Net income for year ended December 31, 2012 was $11.1 million. Excluding the impact of restructuring and other items, adjusted earnings was $10.5 million ($0.87 diluted earnings per share), up $0.9 million from net income of $9.6 million ($0.81 diluted earnings per share) in 2011.

Selected Annual Information

Operating Results

(in $000's except per share amounts)	2012	2011	2010	2009	2008
Accounting basis	**IFRS**	IFRS	IFRS	C-GAAP	C-GAAP
Revenue	**199,673**	188,325	174,184	173,346	162,493
Net Income	**11,057**	9,612	6,072	5,055	8,972
Dividends declared on common shares	**4,043**	4,029	3,562	3,561	3,572
Cash dividends declared per common share	**0.34**	0.34	0.34	0.34	0.34
Earnings per Share					
Basic	**0.93**	0.81	0.58	0.48	0.86
Diluted	**0.92**	0.81	0.58	0.48	0.85

Assets and Liabilities

(in $000's)	Year Ended Dec 31, 2012	Year Ended Dec 31, 2011	Year Ended Dec 31,2010	Year Ended Dec 31,2009
Accounting basis	**IFRS**	IFRS	IFRS	IFRS
Total Assets	**189,927**	159,123	139,088	130,192
Total Liabilities				
Bank debt	**21,281**	33,123	18,251	29,884
Term loan	**18,330**	–	–	–
Other	**45,303**	28,458	29,326	22,164
	84,914	61,581	47,577	52,048

Analysis of Results for the Three Months Ended December 31, 2012

Summary Financial Results and Key Performance Indicators

(in $000's except earnings per share and percentages)	3 Months Ended Dec 31, 2012	3 Months Ended Dec 31, 2011	Variance $ / # / %	Variance % Change
Summary Financial Results				
Revenue	**51,694**	49,292	2,402	4.9%
Operating expenses before depreciation and amortization	**32,784**	31,763	1,021	3.2%
EBITDA margin	**12.7%**	11.0%	1.7%	–
Depreciation and amortization expense	**13,120**	13,329	(209)	(1.6%)
Operating income	**5,790**	4,200	1,590	37.9%
Operating margin	**11.2%**	8.5%	2.7%	–
Interest expense	**1,215**	485	730	150.5%
Income tax rate	**17.7%**	29.6%	(11.9%)	–
Net income for the period	**3,766**	2,616	1,150	44.0%
Earnings per share	**0.31**	0.22	0.09	40.9%
Adjusted (Normalized) Financial Results				
Adjusted operating earnings[1]	**4,976**	4,200	776	18.5%
Adjusted earnings[1]	**2,885**	2,616	269	10.3%
Adjusted earnings per share[1]	**0.24**	0.22	0.02	9.1%
EBITDA margin (adjusted)[1]	**11.1%**	11.0%	0.1%	–
Operating margin (adjusted)[1]	**9.6%**	8.5%	1.1%	–
Key Performance Indicators (Period End)				
Total System Revenue[2]	**61,057**	56,609	4,448	7.9%
Same store revenue growth[1]	**9.0%**	9.3%	(0.3%)	–
Same store revenue growth excluding *easyfinancial*[1]	**2.7%**	0.1 %	2.6 %	–
Potential monthly lease revenue[1]	**11,634**	11,694	(60)	(0.5%)
Change in potential monthly lease revenue due to ongoing operations[1]	**614**	546	68	12.5%
Gross consumer loans receivable[1]	**70,658**	47,565	23,093	48.6%
Growth in consumer loan receivable[1]	**11,080**	4,881	6,199	127.0%
Bad debt expense as a percentage of *easyfinancial* revenue[1]	**27.6%**	26.2%	1.4%	–
Total franchisee revenue[3]	**9,363**	7,317	2,046	28.0%

[1] See description in section "Key Performance Indicators and Non-IFRS Measures".
[2] Includes revenue per consolidated financial statements as well as revenue from unconsolidated franchises.
[3] Includes revenue from unconsolidated franchise locations.

Financial Highlights

- *easyhome* continued to grow revenue during the fourth quarter of 2012. Revenue for the quarter increased to $51.7 million from $49.3 million in the fourth quarter of 2011, an increase of $2.4 million or 4.9%. The growth was driven primarily by the expansion of *easyfinancial* and its loan portfolio. Same store revenue growth for the quarter, which includes revenue growth from *easyfinancial*, was 9.0%. Excluding the impact of *easyfinancial*, same store revenue growth was 2.7%. Same store revenue growth was positively impacted by the store closures in the second quarter as the portfolio of closed stores was generally transferred to nearby stores.
- During the quarter, after excluding the impact of the store sales, closures and acquisitions the portfolio grew by $0.6 million compared with growth of $0.5 million in the fourth quarter of 2011.
- During the fourth quarter of 2012, the consumer loans receivable portfolio experienced a record level of growth increasing by $11.1 million compared with growth of $4.9 million in the fourth quarter of 2011. The gross consumer loans receivable as at December 31, 2012 was $70.7 million compared with $47.6 million as at December 31, 2011.
- *easyfinancial's* operating margin for the fourth quarter of 2012 was 27.2% compared with 30.4% in the fourth quarter of 2011. While the average loan book per kiosk increased year over year, higher bad debt expense relative to revenue, additional earnings drag of new store openings and relocations, and increased depreciation and amortization related to the new loan system resulted in lower operating margin in the fourth quarter of 2012 compared with the same period in 2011. Bad debt expense expressed as a percentage of revenue was 27.6% in the fourth quarter of 2012 compared with 26.2% in the fourth quarter of 2011.
- Operating income increased from $4.2 million in the fourth quarter of 2011 to $5.8 million in fourth quarter of 2012, an increase of $1.6 million or 37.8%. The increase was driven by the continuing growth of *easyfinancial*, improved operating income from the leasing business and the $0.8 million gain on sale related to the exchange of leasing stores with a large U.S. based rent-to-own company. This was somewhat offset by higher corporate costs, specifically accrued but not paid stock based incentive compensation expense which increased by $1.1 million in the fourth quarter of 2012 compared to the fourth quarter of 2011.
- Operating margin for the fourth quarter of 2012 was 11.2%. Excluding the gain associated with the exchange of leasing store, operating margin was 9.6%. This compares with an operating margin of 8.5% in the fourth quarter of 2011.
- Net income for the fourth quarter of 2012 was $3.8 million or $0.31 per share. Excluding the gain associated with the exchange of leasing stores, adjusted earnings was $2.9 million or $0.24 per share compared with $2.6 million or $0.22 per share in the fourth quarter of 2011.

Store Locations Summary

	Locations as at September 30, 2012	Locations opened/acquired during fourth quarter	Locations closed/ sold during fourth quarter	Conversions	Locations as at December 31, 2012
Leasing					
Canada	183	15	(2)	(1)	**195**
U.S.	15	–	(15)	–	**–**
Consolidated Franchise Location	8	2	–	(1)	**9**
Total	206	17	(17)	(2)	**204**
Franchise					
Canada	15	–	–	1	**16**
U.S.	31	1	–	1	**33**
Total	46	1	–	2	**49**
easyfinancial					
Kiosks (in store)	86	1	(1)	(4)	**82**
Stand-alone locations	13	–	–	4	**17**
National loan office	1	–	–	–	**1**
Total	100	1	(1)	–	**100**

Summary Financial Results by Operating Segment

($ in 000's except earnings per share)	Three Months Ended December 31, 2012				
	Leasing	*easyfinancial*	Franchising	Corporate	Total
Revenue	**40,240**	**10,949**	**505**	–	**51,694**
Total operating expenses before depreciation and amortization and restructuring and other items	**21,602**	**7,634**	**145**	**4,217**	**33,598**
Restructuring and other items	–	–	–	**(814)**	**(814)**
Depreciation and amortization	**12,592**	**331**	**58**	**139**	**13,120**
Operating income (loss)	**6,046**	**2,984**	**302**	**(3,542)**	**5,790**
Interest expense					**1,215**
Income before income taxes					**4,575**
Income taxes					**809**
Net Income for the period					**3,766**
Diluted earnings per share					**0.31**

($ in 000's except earnings per share)	Three Months Ended December 31, 2011				
	Leasing	*easyfinancial*	Franchising	Corporate	Total
Revenue	40,987	7,831	474	–	49,292
Total operating expenses before depreciation and amortization	22,479	5,337	180	3,767	31,763
Depreciation and amortization	13,056	111	29	133	13,329
Operating income (loss)	5,452	2,383	265	(3,900)	4,200
Interest expense					485
Income before income taxes					3,715
Income taxes					1,099
Net Income for the period					2,616
Diluted earnings per share					0.22

Revenue

Revenue for the three months ended December 31, 2012 was $51.7 million compared to $49.3 million in the comparable period in 2011, an increase of $2.4 million or 4.9%.

Leasing – Revenue for the three months ended December 31, 2012 was $40.2 million, a decline of $0.7 million or 1.8% from the comparable period in 2011. The decline in revenue was due to a reduced number of stores operated by the leasing business. During the fourth quarter of 2012, the Company operated an average of 205 leasing stores compared to the fourth quarter of 2011 when the Company operated an average of 220 stores. The concurrent acquisition of 15 Canadian lease stores and sale of all 15 U.S. corporately owned leasing stores had no impact on revenue during the period as the transaction occurred on December 31, 2012.

easyfinancial – Revenue for the three months ended December 31, 2012 was $10.9 million, an increase of $3.1 million or 40% from the comparable period in 2011. The increase was due to the growth of the consumer loans receivable portfolio, which increased from $47.6 million as at December 31, 2011 to $70.7 million as at December 31, 2012. The consumer loans receivable portfolio grew $11.1 million during the fourth quarter of 2012 compared with growth of $4.9 million for the fourth quarter of 2011.

Franchising – Revenue remained flat at $0.5 million for the three months ended December 31, 2012, relatively unchanged from the same quarter last year. The Company had 49 franchise locations as at December 31, 2012 compared with 43 as at December 31, 2011.

Total Operating Expenses before Depreciation and Amortization and Restructuring and Other Items

Total operating expenses before depreciation and amortization and restructuring and other items were $33.6 million for the three months ended December 31, 2012, an increase of $1.8 million or 5.8% from the comparable period in 2011. Operating expenses before depreciation and amortization and restructuring and other items represented 65.0% of revenue for the fourth quarter of 2012 compared with 64.4% last year. The $1.8 million increase in total operating expenses before depreciation and amortization and restructuring and other items was driven primarily by the higher costs associated with an expanded *easyfinancial* business and higher accrued but not paid incentive compensation expenses.

Leasing – Total operating expenses before depreciation and amortization and restructuring and other items for the three months ended December 31, 2012 was $21.6 million, a decrease of $0.9 million or 4% from the comparable period in 2011. This decline was driven primarily by the store closure and sale activity during the year partially offset by the growth of the consolidated franchise locations. Store count declined from 218 as at December 31, 2011 to 204 as at December 31, 2012.

easyfinancial– Total operating expenses before depreciation and amortization were $7.6 million for the three months ended December 31, 2012, an increase of $2.3 million or 43% from the comparable period in 2011. This compared with revenue growth of 40% over the same period. Excluding bad debt expense, costs increased from $3.3 million in the fourth quarter of 2011 to $4.6 million in the current quarter, an increase of $1.3 million or 40% and driven by the increased number of *easyfinancial* locations which grew from 88 as at December 31, 2011 to 100 as at December 31, 2012.

Bad debt expense increased to $3.0 million for the three months ended December 31, 2012 from $2.0 million during the comparable period in 2011. The $1.0 million increase was due to the growth of the consumer loans receivable portfolio which increased from $47.6 million at December 31, 2011 to $70.7 million at December 31, 2012. Bad debt expense, expressed as a percentage of revenue, was 27.6% for the fourth quarter of 2012 compared with 26.2% for the fourth quarter of 2011.

Franchising – Total operating expenses before depreciation and amortization decreased modestly for the three months ended December 31, 2012 compared with prior period.

Corporate – Total operating expenses before depreciation and amortization and restructuring and other items were $4.2 million for the three months ended December 31, 2012, an increase of $0.5 million or 12% from the comparable period in 2011. The increase was driven by higher stock base incentive compensation expenses offset by lower salary and administrative costs and gains on asset sales. Stock based incentive compensation expenses increased by $1.1 million, driven by a 34% increase in the Company's share price during the fourth quarter of 2012 compared to a decline of 27% in the fourth quarter of 2011 and the improved financial performance of the Company versus expectations.

Restructuring and other items – On December 31, 2012, the Company completed an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by *easyhome* in the U.S. and the purchase of the assets and operations of 15 leasing stores in Canada. Since most of the acquired stores were located in markets already served by *easyhome*, greater efficiencies were gained by merging 11 of the newly acquired stores with existing stores into a single location. The Company recorded a gain of $814 on this transaction, net of certain related restructuring costs. The gain is recorded in the corporate segment.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 2012 was $13.1 million compared to $13.3 million for the comparable period in 2011, a decline of $0.2 million or 1.6%. The decline was driven by the leasing business and was due primarily to an impairment recovery of $0.5 million in the current quarter compared with a $0.2 million impairment charge in the fourth quarter of 2011. Depreciation and amortization within the *easyfinancial* business increased by $0.2 million driven by the increased number of locations and amortization of the recently implemented loan system.

Depreciation and amortization represented 25.3% of revenue for the three months ended December 31, 2012 down from 27.0% in the comparable period of 2011.

Operating Income (Income before Interest Expense and Income Taxes)

Operating income for the three months ended December 31, 2012 was $5.8 million compared to $4.2 million for the comparable period in 2011, an increase of $1.6 million or 38%. Operating margin was 11.2% in the quarter compared with 8.5% in the fourth quarter of 2011. Excluding restructuring and other items, adjusted operating income for the quarter was $5.0 million or 9.6% compared with $4.2 million or 8.5% in the fourth quarter of 2011. Further, operating income in the fourth quarter of 2012 was negatively impacted by $1.1 million of higher accrued but not paid stock based incentive compensation expenses included with corporate costs. Excluding the impact of the stock based incentive compensation plan expenses, which are based on expected performance versus targets and movements in the Company's share price, adjusted operating income increased by $1.9 million or 46.3%.

Leasing – Operating income was $6.0 million for the three months ended December 31, 2012, an increase of $0.6 million or 10.9% from the comparable period of 2011. Revenue declines were more than offset by lower operating expenses and impairment recoveries included in depreciation and amortization. Operating margin was 15.0%, up from 13.3% in the same period last year.

easyfinancial – Operating income was $3.0 million for the three months ended December 31, 2012 compared with $2.4 million for the comparable period in 2011, an increase of $0.6 million or 25%. Operating margin for the fourth quarter of 2012 was 27.2% compared with 30.4% in the fourth quarter of 2011. While the average loan book per kiosk increased year over year, higher bad debt expense relative to revenue and increased depreciation and amortization related to the new loan system resulted in lower operating margins in the fourth quarter of 2012 compared with the same period in 2011.

Franchising – Operating income for the three months ended December 31, 2012 grew modestly when compared with the comparable period of 2011.

Interest Expense

Interest expense for the three months ended December 31, 2012 was $1.2 million, up $0.7 million from the same period in 2011. The increase related to the higher average debt levels during the period and an increased cost of borrowing in the fourth quarter of 2012 compared to the same period in 2011. Both increases were driven by the $20.0 million term loan obtained on October 2, 2012 which bears interest at the Canadian Bankers' Acceptance rate plus 10.5%.

Income Tax Expense

The effective income tax rate for the three months ended December 31, 2012 was 17.7% compared to 29.6% in 2011. The decline in the effective rate was due primarily to the gain generated on the sale of the U.S. corporate stores which was not taxable due to the application of tax losses carried forward from prior fiscal periods. Excluding the impact of the gain generated on the sale of the U.S. corporate stores, the effective income tax rate for the three months ended December 31, 2012 was 26.0%.

Net Income and EPS

Net income for the three months ended December 31, 2012 was $3.8 million or $0.31 per share. Net income increased by $1.2 million from the $2.6 million or $0.22 per share reported in the fourth quarter of 2011. Excluding the impact of restructuring and other items, adjusted earnings for the fourth quarter of 2012 was $2.9 million or $0.24 per share.

Selected Quarterly Information

($ in millions except per share amounts and percentages)	Dec 2012	Sept 2012	Jun 2012	Mar 2012	Dec 2011	Sept 2011	Jun 2011	Mar 2011	Dec 2010
Revenue	**51.7**	49.3	48.9	49.8	49.3	46.6	46.3	46.2	45.1
Net Income (loss) for the period	**3.8**	2.6	2.0	2.6	2.6	1.9	2.7	2.4	(0.4)
Net income (loss) as a percentage of revenue	**7.3%**	5.3%	4.1%	5.3%	5.3%	4.1%	5.8%	5.2%	(0.9%)
Earnings (loss) per share[1]									
Basic	**0.32**	0.22	0.17	0.22	0.22	0.16	0.23	0.20	(0.03)
Diluted	**0.31**	0.22	0.17	0.22	0.22	0.16	0.23	0.20	(0.03)

[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 common shares outstanding together with the effects of rounding.

Key Performance Indicators and Non-IFRS Measures

The Company measures the success of its 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.

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 the Company's financial statements. The Company discusses these measures because it believes that they facilitate the understanding of the results of its operations and financial position.

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		Year Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Same store revenue growth	**9.0%**	9.3%	**8.9%**	8.2%
Same store revenue growth excluding *easyfinancial*	**2.7%**	0.1%	**1.3%**	0.2%

Potential Monthly Lease Revenue

Potential monthly lease revenue reflects the revenue that the Company's portfolio of leased merchandise would generate in a month providing it collected all lease payments due in that period. 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 the leased items. The Company believes that its potential monthly lease revenue is an important indicator of how revenue will change in future periods.

	Three Months Ended		Year Ended	
(in $000's)	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Opening balance – Potential monthly lease revenue	**11,133**	11,354	**11,694**	11,600
Change due to store openings or acquisitions during the period	**803**	63	**866**	199
Change due to store closures or sales during the period	**(917)**	(269)	**(1,216)**	(344)
Change due to ongoing operations	**614**	546	**290**	239
Net change	**501**	340	**(60)**	94
Ending balance – Potential monthly lease revenue	**11,634**	11,694	**11,634**	11,694

Gross Consumer Loans Receivable

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

	Three Months Ended		Year Ended	
(in $000's)	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Gross consumer loans receivable	**70,658**	47,565	**70,658**	47,565
Growth in gross consumer loans receivable during period	**11,080**	4,881	**23,093**	23,765

Bad Debt Expense as a 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.

	Three Months Ended		Year Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Bad debt expense as a percentage of *easyfinancial* revenue	**27.6%**	26.2%	**25.8%**	25.7%

Adjusted Operating Earnings, Adjusted Earnings, Adjusted Earnings Per Share

At various times, the Company's 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. The Company defines 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. The Company believes 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 and year ended December 31, 2012 and 2011 include those indicated in the chart below:

(in $000's except earnings per share)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Year Ended December 31, 2012	Year Ended December 31, 2011
Operating income as stated	**5,790**	4,200	**17,709**	15,267
Restructuring charges included in operating expenses[1]	–	–	**1,379**	–
Insurance reimbursement included in operating expenses[2]	–	–	**(943)**	–
Gain on disposal of U.S. leasing stores, net of restructuring costs[3]	**(814)**		**(814)**	
Restructuring and other items	**(814)**	–	**(378)**	–
Adjusted operating earnings	**4,976**	4,200	**17,331**	15,267
Net income as stated	**3,766**	2,616	**11,057**	9,612
Restructuring charges included in operating expenses[1]	–	–	**1,379**	–
Insurance reimbursement included in operating expenses[2]	–	–	**(943)**	–
Gain on disposal of U.S. leasing stores, net of restructuring costs[3]	**(814)**		**(814)**	
Tax impact of above items	**(67)**	–	**(198)**	–
Restructuring and other items	**(881)**	–	**(576)**	–
Adjusted earnings	**2,885**	2,616	**10,481**	9,612
Weighted average number of diluted shares outstanding	**12,050**	11,969	**11,999**	11,934
Diluted earnings per share as stated	**0.31**	0.22	**0.92**	0.81
Per share impact of restructuring and other items	**(0.07)**	–	**(0.05)**	–
Adjusted diluted earnings per share	**0.24**	0.22	**0.87**	0.81

[1]During the year the Company restructured the management and operating procedures of its leasing segment and closed 13 of its underperforming locations incurring incremental charges of $1.4 million (2011 – nil). These charges consisted of the cost of the remaining lease terms of closed locations, lease asset write offs, severance and other charges.

[2]During the fourth quarter of 2010, the Company incurred $2.4 million in costs related to the forensic investigation of an employee fraud. During the second quarter of 2012, the Company received a reimbursement of a portion of these costs from its insurers. The net insurance reimbursement of $0.9 million is net of professional fees related to obtaining this reimbursement.

[3]On December 31, 2012, the Company completed an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by *easyhome* in the U.S. and the purchase of the assets and operations of 15 leasing stores in Canada. Since most of the acquired stores were located in markets already served by *easyhome*, greater efficiencies were gained by merging 11 of the newly acquired stores with existing stores into a single location. The Company recorded a gain of $814 on this transaction, net of certain related restructuring costs. The gain is recorded in the corporate segment.

Operating Expenses Before Depreciation and Amortization

The Company defines operating expenses before depreciation and amortization as total operating expenses excluding depreciation and amortization expenses for the period. The Company believes that operating expenses before depreciation and amortization is an important measure of the cost of operations adjusted for the effects of purchasing decisions that may have been made in prior periods.

	Three Months Ended		Three Months Ended	
(in $000's except percentages)	December 31, 2012	December 31, 2012 (adjusted)	December 31, 2011	December 31, 2011 (adjusted)
Operating expenses before depreciation and amortization	**32,784**	**32,784**	31,763	31,763
Gain on disposal of U.S. leasing stores, net of restructuring costs	–	**814**	–	–
Restructuring and other items	–	**814**	–	–
Adjusted operating expenses before depreciation and amortization	**32,784**	**33,598**	31,763	31,763
Divided by revenue	**51,694**	**51,694**	49,292	49,292
Adjusted operating expenses before depreciation and amortization as % of revenue	**63.4%**	**65.0%**	64.4%	64.4%

	Year Ended		Year Ended	
(in $000's except percentages)	December 31, 2012	December 31, 2012 (adjusted)	December 31, 2011	December 31, 2011 (adjusted)
Operating expenses before depreciation and amortization	**129,198**	**129,198**	121,592	121,592
Restructuring charges included in operating expenses	–	**(1,379)**	–	–
Insurance reimbursement included in operating expenses		**943**		
Gain on disposal of U.S. leasing stores, net of restructuring costs	–	**814**	–	–
Restructuring and other items	–	**378**	–	–
Adjusted operating expenses before depreciation and amortization	**129,198**	**129,576**	121,592	121,592
Divided by revenue	**199,673**	**199,673**	188,325	188,325
Adjusted operating expenses before depreciation and amortization as % of revenue	**64.7%**	**64.9%**	64.6%	64.6%

Operating Margin

The Company defines operating margin as operating income divided by revenue. The Company believes operating margin is an important measure of the profitability of operations which in turn assists it in assessing the Company's ability to generate cash to pay interest on its debt and to pay dividends.

(in $000's except percentages)	Three Months Ended December 31, 2012	Three Months Ended December 31, 2012 (adjusted)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2011 (adjusted)
Operating income	**5,790**	**5,790**	4,200	4,200
Gain on disposal of U.S. leasing stores, net of restructuring costs	**–**	**(814)**		
Restructuring and other items	**–**	**(814)**	–	–
Adjusted operating income	**5,790**	**4,976**	4,200	4,200
Divided by revenue	**51,694**	**51,694**	49,292	49,292
Operating margin	**11.2%**	**9.6%**	8.5%	8.5%

(in $000's except percentages)	Year Ended December 31, 2012	Year Ended December 31, 2012 (adjusted)	Year Ended December 31, 2011	Year Ended December 31, 2011 (adjusted)
Operating income	**17,709**	**17,709**	15,267	15,267
Restructuring charges included in operating expenses	**–**	**1,379**	–	–
Insurance reimbursement included in operating expenses		**(943)**		
Gain on disposal of U.S. leasing stores, net of restructuring costs	**–**	**(814)**	–	–
Restructuring and other items	**–**	**(378)**	–	–
Adjusted operating income	**17,709**	**17,331**	15,267	15,267
Divided by revenue	**199,673**	**199,673**	188,325	188,325
Operating margin	**8.9%**	**8.7%**	8.1%	8.1%

Earnings before Interest, Taxes, Depreciation and Amortization and EBITDA Margin

The Company defines EBITDA as earnings before interest, taxes, depreciation and amortization, excluding depreciation of lease assets. The Company uses EBITDA, among other measures, to assess the operating performance of its ongoing businesses. EBITDA margin is calculated as EBITDA divided by revenues.

	Three Months Ended		Three Months Ended	
(in $000's except percentages)	December 31, 2012	December 31, 2012 (adjusted)	December 31, 2011	December 31, 2011 (adjusted)
Net income as stated	**3,766**	**3,766**	2,616	2,616
Interest Expense	**1,215**	**1,215**	485	485
Income Tax Expense	**809**	**809**	1,099	1,099
Depreciation and amortization, excluding dep. of lease assets	**786**	**786**	1,239	1,239
EBITDA	**6,576**	**6,576**	5,439	5,439
Gain on disposal of U.S. leasing stores, net of restructuring costs	**–**	**(814)**	–	–
Restructuring and other items	**–**	**(814)**	–	–
Adjusted EBITDA	**6,576**	**5,762**	5,439	5,439
Divided by revenue	**51,694**	**51,694**	49,292	49,292
EBITDA margin	**12.7%**	**11.1%**	11.0%	11.0%

	Year Ended		Year Ended	
(in $000's except percentages)	December 31, 2012	December 31, 2012 (adjusted)	December 31, 2011	December 31, 2011 (adjusted)
Net income as stated	**11,057**	**11,057**	9,612	9,612
Interest Expense	**2,643**	**2,643**	1,541	1,541
Income Tax Expense	**4,009**	**4,009**	4,114	4,114
Depreciation and amortization, excluding dep. of lease assets	**4,387**	**4,387**	4,001	4,001
EBITDA	**22,096**	**22,096**	19,268	19,268
Restructuring charges included in operating expenses	**–**	**1,379**	–	–
Insurance reimbursement included in operating expenses		**(943)**	–	–
Gain on disposal of U.S. leasing stores, net of restructuring costs	**–**	**(814)**	–	–
Restructuring and other items	**–**	**(378)**	–	–
Adjusted EBITDA	**22,096**	**21,718**	19,268	19,268
Divided by revenue	**199,673**	**199,673**	188,325	188,325
EBITDA margin	**11.1%**	**10.9%**	10.2%	10.2%

Financial Condition

The following table provides a summary of certain information with respect to the Company's capitalization and financial position as at December 31, 2012 and December 31, 2011.

(in $000's except for ratios)	Dec 31, 2012	Dec 31, 2011
Total assets	**189,927**	159,123
External debt (includes term loan)	**39,611**	33,123
Other liabilities	**45,303**	28,458
Total liabilities	**84,914**	61,581
Shareholders' equity	**105,013**	97,542
Total capitalization (total debt plus total shareholders' equity)	**144,624**	130,665
External debt to shareholders' equity	**0.38**	0.34
External debt to total capitalization	**0.27**	0.25
External debt to Adjusted EBITDA	**1.82**	1.72

Total assets were $189.9 million at December 31, 2012, an increase of $30.8 million or 19.3% over December 31, 2011. The growth in total assets was driven primarily by the increased size of the consumer loans receivable portfolio which increased by $21.6 million from December 31, 2011 to December 31, 2012. Additionally, $3.0 of goodwill was recognized as part of the acquisition of 15 leasing stores in Canada on December 31, 2012. Finally, cash balances increased by $3.6 million year over year.

The growth in total assets has been financed by a $23.3 million increase in total liabilities, which includes a $6.5 million increase in external debt, a payable of $7.0 million related to the acquisition of 15 leasing stores in Canada on December 31, 2012 and a $7.5 million increase in total shareholder's equity. Although the Company has continued to maintain its dividend payments to its shareholders, a large portion of the Company's earnings over the prior 12 months have been retained to fund the growth of *easyfinancial*.

During the first three quarters of 2012, external debt consisted of Canadian dollar loans under a bank revolving credit facility, which bore interest at the lender's prime rate plus 125 bps.

On October 4, 2012 the Company entered into a new $20.0 million credit facility to support the growth of *easyfinancial*. The new five year credit facility is comprised of a $20 million term loan. Borrowings are at 10.50% over the Canadian Bankers' Acceptance rate and are secured by a first charge on the assets of *easyfinancial* and a second charge on substantially all of the other assets of the Company and its subsidiaries.

Concurrently, the Company revised the terms of its existing revolving credit facility and extended its maturity date to October 4, 2015. The revised and extended revolving credit facility has a maximum limit of $35.0 million, reducing to $30.0 million on October 5, 2013, and bears interest at the lead lender's prime rate plus 150 to 250 bps, depending on the Company's total debt to EBITDA ratio. The revolving facility is fully secured by a first charge on substantially all of the assets of the Company and its subsidiaries, excluding *easyfinancial*, and a second charge on the assets of *easyfinancial*.

At December 31, 2012 and December 31, 2011, the Company was in compliance with all of its financial covenants under its lending agreement.

Liquidity and Capital Resources

Summary of Cash Flow Components

(in $000's)	Three Months Ended		Year Ended	
	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011
Cash provided by operating activities before issuance of consumer loans receivable	**29,144**	19,750	**89,581**	69,002
Net issuance of consumer loans receivable	**13,495**	6,512	**31,425**	29,398
Cash provided by operating activities	**15,649**	13,238	**58,156**	39,604
Cash used in investing activities	**18,664**	15,592	**57,349**	50,218
Financing activities	**6,605**	2,735	**2,805**	10,902
Net increase in cash for the period	**3,590**	381	**3,612**	288

The Company continued to generate strong cash flows for the three months ended December 31, 2012. Cash flows provided by operating activities for the three months ended December 31, 2012 were $15.6 million. Included in this $15.6 million is a net investment of $13.5 million to increase the *easyfinancial* consumer loans receivable 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 would be $29.1 million, up $9.4 million from the fourth quarter of 2011.

The cash flows from operating activities in the fourth quarter of 2012, enabled the Company to i) meet the needs of *easyfinancial* as described above, ii) invest $22.3 million in new lease assets, iii) invest $3.3 million in additional property and equipment and intangible assets, and iv) maintain its dividend payments.

The Company continued to generate strong cash flows for the year ended December 31, 2012. Cash flows provided by operating activities for the year ended December 31, 2012 were $58.2 million. Included in this $58.2 million is a net investment of $31.4 million to increase the *easyfinancial* consumer loans receivable 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 would be $89.6 million, up $20.6 million from 2011.

The cash flows from operating activities in 2012, enabled the Company to i) meet the needs of *easyfinancial* as described above, ii) invest $55.4 million in new lease assets, iii) invest $9.0 million in additional property and equipment and intangible assets, and iv) maintain its dividend payments.

The Company believes that the cash flow provided by operations will be sufficient in the near term to meet operational requirements, purchase leased assets, meet capital spending requirements and pay dividends. In addition the incremental financing obtained in the quarter will allow the Company to grow its consumer loan portfolio through 2013. However, for *easyfinancial* to achieve its full long-term growth potential, additional sources of financing over and above the currently available credit facility and term loan are required. There is no certainty that these long term sources of capital will be available or at terms favourable to the Company.

Outstanding Shares and Dividends

As at March 11, 2013 there were 11,940,464 shares, 515,552 options and no warrants outstanding.

For the three months ended December 31, 2012, the Company paid a $0.085 per share quarterly 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 years indicated:

	2012	2011	2010	2009	2008	2007	2006
Dividend per share	**$ 0.085**	$ 0.085	$ 0.085	$ 0.085	$ 0.085	$ 0.070	$ 0.060
Percentage increase	**0.0%**	0.0%	0.0%	0.0%	21.4%	16.7%	50.0%

Commitments, Guarantees and Contingencies

Commitments

The Company is committed to long-term service contracts and operating leases for premises, equipment, vehicles and signage. The minimum annual lease payments plus estimated operating costs and other commitments required for the next 5 years and thereafter are approximately as follows:

(in $000's)	Premises	Other	Total
2013	19,684	2,253	21,937
2014	15,338	1,821	17,159
2015	12,011	1,354	13,365
2016	8,872	862	9,734
2017	4,556	232	4,788
Thereafter	4,958	11	4,969
	65,419	**6,533**	**71,952**

Class Action Lawsuit

The Company and certain of its current and former officers have been named as defendants in a lawsuit filed in the Ontario Superior Court of Justice on October 25, 2010. This lawsuit was commenced by Andrew Sorensen, on behalf of shareholders who acquired the Company's common shares between April 8, 2008 and October 15, 2010. The claim is brought under s. 138 of the Ontario Securities Act. The plaintiff alleges, among other things, that, arising out of an employee fraud discovered in 2010, the Company and certain of its former and current officers made misrepresentations about the Company's financial statements being prepared in accordance with Canadian generally accepted accounting principles. The claim seeks $10 million in general damages. On March 26, 2012, the lawsuit was certified as a class proceeding on consent.

The Company has reached a settlement with the class. The settlement, which is subject to court approval, contemplates a payment by the Company of $2.25 million, which, if approved, will be distributed to class counsel and members of the class. The settlement funds will be paid by the Company's insurer pursuant to the Company's insurance policies. The settlement agreement reached between the Company and the class contains no admissions of liability on the part of the Company or any of its current or former officers or directors.

The settlement reflects an analysis of the facts and law applicable to the issues in this case, and takes into account the extensive burdens, complexity, risks and expense of continued litigation. 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.

Other Legal Actions

The Company is involved in various other 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.

Transactions with Related Parties

The Company, through its wholly-owned subsidiary *easyhome* U.S. Ltd., signed a License/Master Franchise Agreement [the "License Agreement"] with an entity controlled by Walter "Bud" Gates ["easygates LLC"] on March 2, 2007. Mr. Gates was elected to the Company's Board of Directors in April 2010 and was a director until December 21, 2011. Mr. Gates did not participate or vote in any Board of Director discussions relating to the Licence Agreement. The License Agreement has an initial six-year term and allows easygates LLC to set up *easyhome* franchises in the U.S., excluding the 14 U.S. states that border Canada. The License Agreement provides that, for each franchise store that is opened, easygates LLC and *easyhome* will split both the initial franchise fee and the ongoing royalty fees. As at December 31, 2012, 38 franchise locations were opened and operated under the License Agreement.

Risk Factors

Overview

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.

Dependence on Key Personnel

The biggest limiting factor in the Company's performance and expansion plans will be the hiring and retention of the best people for the job. Over the past few years the Company has improved its hiring competencies and its training programs such that employee retention has improved by more than 50% since 2000.

In particular, the Company is dependent on the continued services of its President and Chief Executive Officer and the rest of the senior management team and the loss of these individuals without adequate replacement could materially adversely affect its business and operations.

As a consequence of its growth strategy and relatively high employee turnover at the store level, the Company requires a growing number of qualified managers and other store personnel to operate its stores successfully. There is competition for such personnel and there can be no assurances that the Company will be successful in attracting and retaining such personnel as it may require. If the Company is unable to attract and retain qualified personnel or its costs to do so increase dramatically, its operations would be materially adversely affected.

Government Regulation and Compliance

The Company takes reasonable measures to ensure compliance with governing statutes, regulations or regulatory policies. A failure to comply with such statutes, regulations or regulatory policies, either in Canada or the U.S., could result in sanctions, fines or other settlements that could adversely affect both our earnings and reputation. Changes to laws, statutes, regulations or regulatory policies could also change the economics of our merchandise leasing and consumer lending industries.

Future Capital Needs and Liquidity Risk

The Company believes that the cash flow expected to be provided by operations during 2013, coupled with the available loan facilities will be sufficient in the near term to meet operational requirements, purchase leased assets, meet capital spending requirements and pay dividends. While the Company is able to manage the growth of its consumer loans receivable portfolio based on the amount of financing that is available, in the event that the Company decides to continue to expand its consumer lending business conducted by *easyfinancia*l, additional sources of financing over and above the available loan facility may be required.

The Company intends in the future to significantly expand its operations and it will require substantial funds. The Company may have to obtain additional funding through debt or equity financing. However, there can be no assurance that additional funding will be available when needed or will be available on terms acceptable to the Company. If additional funds are raised by issuing equity securities, shareholders may incur dilution.

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 external debt and shareholders' equity, which comprises issued 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 issuances, share repurchases, the payment of dividends, increasing or decreasing debt or by undertaking other activities as deemed appropriate under the 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 credit 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.

Operational Risk

Operational risk, which is inherent in all business activities, is the potential for loss as a result of external events, human behaviour (including error and fraud or other inappropriate behaviour) or inadequacy or the failure of processes, procedures or controls. The impact may include financial loss, loss of reputation, and loss of competitive position or regulatory or civil penalties. While operational risk cannot be eliminated, the Company continues to take steps to mitigate this risk. The financial measure of operational risk is the actual losses incurred. No material losses occurred as a result of operational risk in 2012.

Litigation

From time to time the Company may be involved in material litigation. There can be no assurance that any litigation in which the Company may become involved in the future will not have a material adverse effect on the Company's business, financial condition or results of operations.

Competition

Competition from U.S. based merchandise leasing companies and others in the Canadian market will increase the competition for customers and employees. Although the Company believes that such competition will stimulate industry growth and is an indication of the significant growth potential that exists in the merchandise leasing industry in Canada, this increased competition could have a material adverse effect on the Company's operational results should the Company not be able to adequately respond to it.

Other factors that may adversely affect the Company's growth are further competition from merchandise rental businesses and, to a lesser extent, rental stores that do not offer a purchase option. The Company also competes with discount stores and other retail outlets that offer an installment sales program or offer comparable products and prices and with financial institutions and payday lenders that offer consumer loans. Furthermore, additional competitors, both domestic and international, may emerge since barriers to entry are relatively low.

The Company's financial services business occupies a market niche between traditional financial institutions and short-term pay day lenders. As such, it competes with companies from each of these sectors. Competition is based primarily on access, flexibility and cost (interest rate). Since the Company's products are more affordable than pay day loans while being more accessible and flexible than banks, the Company offers alternatives to customers that are not being adequately served by the incumbent participants in either of these market sectors. As at December 31, 2012, the Company was not aware of any other significant competitors offering a similar product to a comparable customer set in the Canadian marketplace. However, the Company believes that similar products targeting comparable customers will eventually appear but the potential marketplace is sufficiently large that such introductions will not adversely affect the Company's operational results in the near term.

Future Growth

The Company's growth strategy is focused on *easyfinancial*. The Company's ability to increase its customer and revenue base is contingent, in part, on its ability to secure additional stand alone locations and evolve its delivery channels to access customers through means other than traditional retail locations. Revenue growth could be impacted significantly if the Company is not able to hire and train high quality management and staff to operate the stores and kiosks. The growth in the *easyfinancial* loan book could also be impaired if the Company is unable to secure adequate financing.

Compliance with Financial Covenants

The Company's successful financial and operating performance is required in order for the Company to continue to comply with the covenants in its debt instruments. While the Company was in compliance with all financial covenants as at December 31, 2012, there is no guarantee that in the future the Company will continue to meet these covenants.

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 and has policies and procedures that are intended to ensure that it has 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.

The credit risk related to amounts receivable and consumer loans receivable results principally 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 is also impacted by both the credit policies and the lending practices which are overseen by the Company's senior management.

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 collection process in place in the event of payment default, which concludes with 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.

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 credit facilities bear interest at variable rates. The Company does not hedge interest rates and future changes in interest rates will affect the amount of interest expense payable by the Company.

Foreign Exchange

The Company sources some of its merchandise out of the U.S. and as such, the Company's Canadian operations have U.S. denominated cash and payables balances. As a result, the Company has both foreign exchange transaction and translation risk.

Foreign currency risk was not material in 2012. Although *easyhome* has significant U.S. denominated purchases, the Company has historically been able to price its lease transactions to compensate for the impact of foreign currency fluctuations on its purchases. The Company currently does not actively manage foreign currency risk and transacts in foreign currencies on a spot basis.

Economic Conditions

Current uncertainty in general economic conditions may negatively affect the Company's financial results. A prolonged period of economic decline could have a material adverse effect on its results of operations and financial condition and exacerbate some of the other risk factors described herein. The Company can neither predict the impact current economic conditions will have on its future results, nor predict when the economy will show meaningful improvement.

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 losses
- cost of lease assets
- depreciation of lease assets
- depreciation of property and equipment
- allocation of the purchase price in business combinations
- impairment and recovery 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.

The Company's critical accounting estimates are fully described in the Company's December 31, 2012 Notes to the Financial Statements.

Adoption of New Accounting Standards

No new accounting standards were adopted by the Company during the reporting period. The accounting standards issued but not yet effective that may affect the Company's future financial statements remain as described in the Company's December 31, 2012 Notes to the Financial Statements.

Internal Controls

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 Disclosure in Issuers' Annual and Interim Filings". Based on this evaluation, the CEO and CFO have concluded that the design of the system of disclosure controls and procedures were effective as at December 31, 2012.

Internal Control 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").

In designing and evaluating such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance and may not prevent or detect all misstatements as a result of, among other things, error or fraud. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and/or procedures may deteriorate.

Changes to ICFR During 2012

During 2012, the following is a summary of the material changes in the Company's ICFR that have occurred or were finalized during the year ended December 31, 2012:

- General computer controls, including change management and user access controls, were strengthened through the consistent adherence to the Company's formal policies regarding general computer controls.
- During the fourth quarter of 2012, the Company successfully replaced the information system supporting the *easyfinancial* business. The new information system automates many control processes that were previously performed manually, provides more detailed management and exception reporting and provides a platform that is scalable as *easyfinancial* continues to grow.

Evaluation of ICFR at December 31, 2012

As at December 31, 2012, under the direction and supervision of the CEO and CFO, the Company has evaluated the effectiveness of the Company's ICFR. The evaluation included a review of key controls, testing and evaluation of such test results. Based on this evaluation, the CEO and CFO have concluded that the design and operation of the Company's internal control over financial reporting were effective as at December 31, 2012.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and include some amounts based on management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

easyhome Ltd. maintains a system of internal controls to provide reasonable assurance that transactions are properly authorized, financial records are accurate and reliable, and the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out its responsibility for the financial statements through its Audit Committee. This Committee meets periodically with management and the external auditors to review the financial statements and the annual report and to discuss audit, financial and internal control matters. The Company's external auditors have full and free access to the Audit Committee.

The financial statements have been subject to an audit by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

David Ingram
President and Chief Executive Officer

Steve Goertz
Senior Vice President & Chief Financial Officer

Independent Auditors' Report

To the Shareholders of *easyhome* Ltd.

We have audited the accompanying consolidated financial statements of *easyhome* Ltd., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, comprehensive income, changes in shareholders' equity 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 International Financial Reporting Standards, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, 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, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
March 11, 2013

Consolidated Statements of Financial Position

(expressed in thousands of Canadian dollars)		As at December 31, 2012	As at December 31, 2011
ASSETS			
Current assets			
Cash	Note 5	**4,631**	1,019
Amounts receivable	Note 6	**4,536**	5,893
Income taxes recoverable		**–**	600
Consumer loans receivable	Note 7	**34,425**	32,619
Prepaid expenses		**964**	1,316
Total current assets		**44,556**	41,447
Amounts receivable	Note 6	**1,000**	1,365
Consumer loans receivable	Note 7	**32,159**	12,319
Lease assets	Note 8	**68,075**	66,996
Property and equipment	Note 9	**13,729**	12,612
Deferred tax assets	Note 17	**4,232**	2,933
Intangible assets	Note 10	**6,213**	4,126
Goodwill	Note 10	**19,963**	17,325
TOTAL ASSETS		**189,927**	159,123
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank revolving credit facility	Note 12	**21,281**	33,123
Accounts payable and accrued liabilities		**31,696**	19,504
Income taxes payable		**4,216**	–
Dividends payable	Note 14	**1,012**	1,007
Deferred lease inducements		**564**	598
Unearned revenue		**3,922**	4,562
Provisions	Note 13	**379**	24
Total current liabilities		**63,070**	58,818
Accounts payable and accrued liabilities		**1,459**	727
Deferred lease inducements		**1,898**	1,959
Term loan	Note 12	**18,330**	–
Provisions	Note 13	**157**	77
Total liabilities		**84,914**	61,581
Commitments and contingencies	Notes 20 & 21		
Shareholders' equity			
Share capital	Note 14	**60,885**	60,207
Contributed surplus	Note 15	**3,035**	3,171
Accumulated other comprehensive loss		**(137)**	(52)
Retained earnings		**41,230**	34,216
Total shareholders' equity		**105,013**	97,542
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**189,927**	159,123

See accompanying notes to the consolidated financial statements

On behalf of the Board:

David Ingram, Director

Donald K. Johnson, Director

Consolidated Statements of Income

(expressed in thousands of Canadian dollars except earnings per share)		Years Ended December 31, 2012	Years Ended December 31, 2011
REVENUE			
Lease revenue		**156,049**	159,072
Interest income		**24,701**	15,719
Other		**18,923**	13,534
		199,673	188,325
EXPENSES BEFORE DEPRECIATION AND AMORTIZATION			
Salaries and benefits		**63,515**	60,198
Stock based compensation	Note 15	**2,405**	883
Advertising and promotion		**7,757**	6,829
Bad debts		**9,779**	6,289
Occupancy		**25,832**	25,330
Distribution and travel		**7,300**	7,919
Other		**12,988**	14,144
Restructuring and other items	Note 16	**(378)**	–
		129,198	121,592
DEPRECIATION AND AMORTIZATION			
Depreciation of lease assets	Note 8	**48,379**	47,465
Depreciation of property and equipment	Note 9	**4,019**	3,506
Amortization of intangible assets	Note 10	**621**	434
Impairment, net	Note 9	**(253)**	61
		52,766	51,466
Total operating expenses		**181,964**	173,058
Operating income		**17,709**	15,267
Interest expense		**2,643**	1,541
Income before income taxes		**15,066**	13,726
Income tax expense (recovery)	Note 17		
Current		**5,309**	(1,248)
Deferred		**(1,300)**	5,362
		4,009	4,114
Net income		**11,057**	9,612
Basic earnings per share	Note 18	**0.93**	0.81
Diluted earnings per share	Note 18	**0.92**	0.81

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

(expressed in thousands of Canadian dollars)	Years Ended December 31, 2012	Years Ended December 31, 2011
Net income	**11,057**	9,612
Other comprehensive income (loss)		
Change in foreign currency translation reserve	**(300)**	205
Transfer of realized translation losses	**215**	–
Comprehensive income	**10,972**	9,817

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Shareholders' Equity

(expressed in thousands of Canadian dollars)		Share Capital	Contributed Surplus	Total Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2011		**60,207**	**3,171**	**63,378**	**34,216**	**(52)**	**97,542**
Common shares issued		**678**	–	**678**	–	–	**678**
Stock-based compensation	Note 15	–	**(136)**	**(136)**	–	–	**(136)**
Comprehensive income (loss)		–	–	–	**11,057**	**(85)**	**10,972**
Dividends		–	–	–	**(4,043)**	–	**(4,043)**
Balance, December 31, 2012		**60,885**	**3,035**	**63,920**	**41,230**	**(137)**	**105,013**
Balance, December 31, 2010		60,074	3,061	63,135	28,633	(257)	91,511
Common shares issued		133	(190)	(57)	–	–	(57)
Stock-based compensation	Note 15	–	300	300	–	–	300
Comprehensive income		–	–	–	9,612	205	9,817
Dividends		–	–	–	(4,029)	–	(4,029)
Balance, December 31, 2011		60,207	3,171	63,378	34,216	(52)	97,542

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

(expressed in thousands of Canadian dollars)		Years Ended December 31, 2012	Years Ended December 31, 2011
OPERATING ACTIVITIES			
Net income		**11,057**	9,612
Add (deduct) items not affecting cash			
Depreciation of lease assets		**48,379**	47,465
Depreciation of property and equipment		**4,019**	3,506
Net impairment charge (recovery)		**(253)**	61
Amortization of intangible assets		**621**	434
Stock-based compensation	Note 15	**188**	300
Bad debt expense		**9,779**	6,289
Deferred income tax expense		**(1,300)**	5,362
Gain on sale of property and equipment		**(2,428)**	(1,037)
		70,062	71,992
Net change in other operating assets and liabilities	Note 19	**19,519**	(2,990)
Net issuance of consumer loans receivable		**(31,425)**	(29,398)
Cash provided by operating activities		**58,156**	39,604
INVESTING ACTIVITIES			
Purchase of lease assets		**(55,446)**	(48,614)
Purchase of property and equipment		**(6,145)**	(4,144)
Purchase of intangible assets		**(2,846)**	(1,440)
Purchase of goodwill		**(2,639)**	–
Proceeds on sale of property and equipment		**9,727**	3,980
Cash used in investing activities		**(57,349)**	(50,218)
FINANCING ACTIVITIES			
Advances (repayments) of bank revolving credit facility		**(11,842)**	17,474
Advances (repayments) of term loan		**18,330**	(2,602)
Payment of common share dividends	Note 14	**(4,038)**	(3,913)
Redemption of deferred share units		**(78)**	(57)
Issuance of common shares		**433**	–
Cash provided by financing activities		**2,805**	10,902
Net increase in cash during the period		**3,612**	288
Cash, beginning of period		**1,019**	731
Cash, end of period		**4,631**	1,019

See accompanying notes to the consolidated financial statements

1. Corporate Information

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

The consolidated financial statements include the financial statements of the Parent company, all wholly owned subsidiaries where control is established by the Parent company's ability to determine strategic, operating, investing and financing policies without the cooperation of others, and certain special purposes entities ["SPEs"] where control is achieved on a basis other than through ownership of a majority of voting rights [collectively referred to as "*easyhome*" or the "Company"]. The Parent company's principal subsidiaries are:

- RTO Asset Management Inc.
- *easyfinancial* Services Inc. ["*easyfinancial*"]
- *easyhome* U.S. Ltd.
- Insta-rent Ltd.

The Company's principal operating activities include merchandise leasing of household furnishings, appliances and home electronic products to consumers under weekly or monthly leasing agreements. In addition, the Company offers a variety of financial services, including consumer loans and prepaid cards through *easyfinancial*.

The Company operates in three reportable segments: leasing, *easyfinancial* and franchising. As at December 31, 2012, the Company operated 204 *easyhome* leasing stores (including 9 consolidated SPE franchises) and 100 *easyfinancial* locations and had 49 franchise locations (2011 – 213 *easyhome* leasing stores including 5 consolidated SPE locations, 88 *easyfinancial* locations and 43 franchise locations).

2. Basis of Preparation

The consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2013.

Statement of Compliance with IFRS

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"]. The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as at December 31, 2012.

3. Significant Accounting Policies

Basis of Consolidation

The financial statements of the subsidiaries and SPEs are prepared for the same reporting period as the consolidated financial statements of the Parent company using consistent accounting policies. The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and the SPEs are fully consolidated from the date control is achieved, and both continue to be consolidated until the date that such control ceases.

All intra-group transactions and balances have been eliminated on consolidation.

Presentation Currency

The consolidated financial statements are presented in Canadian dollars ["CAD"], which is the Parent company's functional currency. The functional currency is the currency of the primary economic environment in which a reporting entity operates and is normally the currency in which the entity generates and expends cash. All financial information presented in CAD has been rounded to the nearest thousand, unless noted otherwise.

Foreign Currency Translation

The Parent company's presentation and functional currency is the Canadian dollar. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Company's U.S. subsidiary, *easyhome* U.S. Ltd., is the U.S. dollar. The functional currency of all other entities in the Company is the Canadian dollar.

Foreign currency transactions are initially recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate on the reporting date. All differences are recorded in comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The assets and liabilities of foreign operations are translated into CAD at the rate of exchange prevailing at the reporting date and items in comprehensive income are translated at the average exchange rates prevailing for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of accumulated other comprehensive income relating to that particular foreign operation is recognized in net income.

The Parent company has monetary items that are receivable from foreign operations. A monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the Parent company's net investment in that foreign operation. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation are recognized in income in the separate financial statements of the foreign operation. In the consolidated financial statements such exchange differences are recognized initially in other comprehensive income and reclassified from accumulated other comprehensive income to net income on disposal of the net investment in foreign operations.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding promotional discounts, rebates and sales taxes. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements except for the sale of certain customer protection products where it acts as agent and therefore recognizes such revenue on a net basis.

i) 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.

Lease revenue consists of lease payments, product damage liability waivers and processing and other fees. Revenue from lease agreements is recognized when earned. Lease revenue also consists of revenue from the ultimate sale of goods to customers which represents the culmination of the lease asset life cycle and occurs when title passes to the customer. Such revenue is measured at the fair value of the consideration received or receivable.

ii) Interest Revenue

Interest revenue from consumer loans receivable is recognized when earned using the effective interest rate method.

iii) Other Revenue

Other revenue consists primarily of the sale of customer protection products, revenue generated from franchising including royalties and franchise fees, and other fees, all of which are recognized when earned.

Vendor Rebates

The Company participates in various vendor rebate programs, 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. Vendor advertising incentives that are related to specific advertising programs are accounted for as a reduction of the related expenses.

Cash

Cash is comprised of bank balances, cash on hand, and demand deposits, adjusted for in-transit items such as outstanding cheques and deposits.

Financial Assets

Financial assets consist of amounts receivable and consumer loans receivable, which are stated net of an allowance for loan losses. Financial assets are initially measured at fair value.

Amounts receivable are subsequently measured at amortized cost and are carried at the amount of cash expected to be received.

The Company's consumer loans receivable are subsequently measured at amortized cost. Amortized cost is determined using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the consumer loans receivable to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future loan losses. There are no significant incremental costs incurred in writing consumer loans.

The Company does not have any financial assets that are subsequently measured at fair value.

Financial assets are derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from an asset.

Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the event has a negative impact on the estimated cash flows of the financial asset and the loss can be reliably estimated.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized as a bad debts expense. 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. Loans identified as impaired are written down to the net present value of the expected cash flows using the effective interest rate method.

Financial assets, together with the associated allowances, are written off when there is no realistic prospect of further recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to bad debts expense.

Lease Assets

Lease assets are stated at cost net of accumulated depreciation and accumulated impairment losses, if any.

The cost of lease assets comprises their purchase price and any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management. Vendor volume rebates are recorded as a reduction of the cost of lease assets.

As the leases are effectively cancellable by the customer with a week's notice, and there are no bargain purchase option provided to the customer, the customer leases are considered operating in nature. Lease agreements entitle customers to buy out a lease asset earlier in accordance with conditions stipulated in the lease agreement.

The residual value, useful life and depreciation method of the lease assets are reviewed at each financial year end, and if expectations differ from previous estimates, they are adjusted and the changes are accounted for prospectively as a change in accounting estimates. In the event management determines that the Company can no longer lease or sell certain lease assets, they are written off. The residual value of lease assets is nominal.

Depreciation on lease assets is charged to net income as follows:

- Assets on lease, excluding game stations, computers and related equipment, are depreciated in proportion to the lease payments received to the total expected lease amounts provided over the lease agreement term [the "units of activity method"]. Lease assets that are subject to the units of activity method of depreciation that are not on lease for less than 90 consecutive days are not depreciated during such period. After that they are depreciated on a straight-line basis over 36 months. When an asset goes on lease, depreciation will revert to the units of activity basis.
- Game stations are depreciated on a straight-line basis over 18 months. Computers and related equipment are depreciated on a straight-line basis over 24 months. The depreciation for game stations, computers and related equipment commences at the earlier of the date of the first lease or 90 days after arrival in the store and continues uninterrupted thereafter on a straight-line basis over the periods indicated.
- Depreciation for all lease assets includes the remaining book value at the time of disposition of the lease assets that have been sold and amounts which have been charged off as stolen, lost or no longer suitable for lease.

The Company's lease assets are subject to theft, loss or other damage from its customers. The Company records a provision against the carrying value of lease assets for estimated losses.

Property and Equipment

The cost of property and equipment comprises their purchase price and any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

Property and equipment are stated at cost net of accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other expenses are charged to net income as repairs and maintenance expense when incurred.

Depreciation on property and equipment is charged to net income.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Category	Estimated Useful Lives
Furniture and fixtures	7 Years
Computer and office equipment	5 and 7 Years
Signage	7 Years
Automotive	5 Years
Leasehold improvements	The lesser of 5 years or lease term

Property and equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gains or losses arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) are included in net income in the period the assets are derecognized.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their estimated fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in net income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period for potential impairment indicators. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in net income.

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

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

The Company's trademarks have been assessed to have an indefinite life.

Gains or losses arising from the derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amounts of the asset and are recognized in net income when the assets are derecognized.

Development Costs

Development expenditures, including those related to the development of software, are recognized as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of the expected future benefit. During the period of development, the asset is tested for impairment annually.

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations incurred subsequent to January 1, 2010 are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the date of acquisition, irrespective of the extent of any non-controlling interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the fair values of the assets, liabilities and contingent liabilities can only be calculated on a provisional basis, the business combination is recognized initially using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within twelve months of the date of acquisition.

After initial recognition, goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is not amortized. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's operating segments that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those segments.

Impairment of Non-Financial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset or 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.

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. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case it is determined for the CGU to which the asset belongs. 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 value in use, the estimated future cash flows are 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 or CGU. In determining fair value less costs to sell, an appropriate valuation model is used. In cases where fair value less costs to sell cannot be estimated, value in use is utilized as the basis to determine the recoverable amount. Impairment losses are recognized in net income.

The impairment test calculations are based on detailed budgets and forecasts which are prepared annually for each CGU to which the assets are allocated. These budgets and forecasts generally cover a period of five years with a long term growth rate applied after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset or CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset or CGU does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset or CGU in prior years. Such reversal is recognized in net income.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each group of CGUs to which the goodwill relates. Where the recoverable amount of the CGUs is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level and when circumstances indicate that the carrying value may be impaired.

Financial Liabilities

Financial liabilities are initially recognized at fair value and in the case of loans and borrowings, they are recognized at the fair value of proceeds received, net of directly attributable transaction costs. The Company's financial liabilities include a bank revolving credit facility, interest-bearing loans and borrowings, accounts payable and accrued liabilities.

After initial recognition, the Company's interest bearing debt is subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any fees or costs related to the interest bearing debt. Interest expense is included in net income.

Non-interest bearing financial liabilities such as accounts payable and accrued liabilities are carried at the amount owing.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Any gains or losses are recognized in net income when liabilities are derecognized.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

i) Company as a Lessee

Finance leases which transfer substantially all the risks and rewards incidental to ownership of the leased item are capitalized at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Subsequent lease payments are apportioned between finance charges and a reduction of the lease liability. Finance charges are recognized in net income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term. The Company has not entered into any finance leases.

Operating lease payments (net of any amortization of incentives) are expensed as incurred. Incentives received from the lessor to enter into an operating lease are capitalized and depreciated over the term of the lease.

ii) Company as a Lessor

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. The leasing income is recognized on a straight-line basis over the lease term. Contingent rents are recognized as revenue in the period in which they are earned.

The Company is in the business of leasing assets. As the leases are effectively cancellable by the customer with a week's notice, and there are no bargain purchase option provided to the customer, the customer leases are considered operating in nature.

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 considered probable and measurable by management. Contingent assets are not recognized in the consolidated financial statements even if probable, rather note disclosure is provided. Probable is defined as being more than 50% likely to occur.

Taxes

i) Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the end of the reporting period.

Current income tax assets and liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current income tax relating to items recognized directly in equity is recognized in equity and not in net income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

ii) Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deductible income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The following temporary differences do not result in deferred income tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;
- goodwill; and
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable income will be available to allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

iii) Sales Tax

Revenues, expenses and assets are recognized net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of amounts receivable or accounts payable and accrued liabilities in the consolidated statements of financial position.

Stock-based Payment Transactions

The Company has stock-based compensation plans as described in note 15.

i) Equity-settled Transactions

The Company has stock options, Restricted Share Units ["RSU"] and Deferred Share Units ["DSU"] which are currently accounted for as equity-settled awards. The cost of such equity-settled transactions is measured by reference to the fair value determined using the Black-Scholes option valuation model. The inputs into this model are based on management's judgments and estimates.

The cost of equity-settled transactions is charged to net income, with a corresponding increase in contributed surplus, over the period in which the performance and or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized at the beginning and end of that period and is recognized in salaries and benefits expense.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified and if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they are a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled awards are treated equally.

ii) Cash-settled Transactions

The Company has Performance Share Units ["PSU"] which mirror the value of the Company's publicly-traded common shares and can only be settled in cash ["cash-settled transactions"]. The cost of cash-settled transactions is measured initially at fair value at the grant date. The liability is remeasured to fair value, at each reporting date up to and including the settlement date, based on the value of the Company's publicly-traded common shares and anticipated vesting based on expected earnings per share. Changes in fair value are recognized in salaries and benefits expense.

The cost of cash-settled transactions is charged to net income, with a corresponding increase in liabilities, over the period in which the performance and or service conditions are fulfilled. The cumulative expense recognized for cash-settled transactions at each reporting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of cash-settled instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized during the period and is recognized in salaries and benefits expense.

No expense is recognized for awards that do not ultimately vest.

Earnings Per Share

Basic earnings per share is computed by dividing the net income by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated 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.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make accounting judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods.

These accounting judgments, estimates and assumptions are continuously evaluated and are based on management's historical experience, best knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates, which could materially impact these consolidated financial statements. Changes in estimates will be reflected in the consolidated financial statements in future periods.

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

i) Consumer 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.

ii) 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 amounts the Company believes are probable and reasonably estimable during the term of each rebate program.

iii) Depreciation of Lease Assets

Assets on lease, (excluding game stations, computers and related equipment) are depreciated in the proportion of lease payments received to total expected lease amounts provided over the lease agreement term, which are estimated by management for each product category.

iv) Depreciation of Property and Equipment

Property and equipment are recorded at cost, including freight, and are depreciated on a straight-line basis over their estimated useful lives, which are estimated by management for each class of asset.

v) Allocation of the Purchase Price in Business Combinations

The value of acquired assets and liabilities on the acquisition date require 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.

vi) Impairment on Non-Financial Assets

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 estimates the asset's 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 generally cover a period of three years with a long term growth rate applied after the third year. Key areas of management judgment involve the three-year cash flow forecast, the growth rate applied to cash flows subsequent to the three years and the discount rate.

vii) Impairment of Goodwill and Indefinite Life Intangibles

In assessing the 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 involve the three-year cash flow forecast, the growth rate applied to cash flows subsequent to the three years and the discount rate.

viii) Fair Value of Stock-based Compensation

The fair value of the options granted are measured at the grant date using the Black-Scholes option valuation model. The Black-Scholes option 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. The Company's share options have characteristics significantly different from those of freely traded options and because changes in subjective input assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a single reliable measure of the fair value of the unit options granted.

The vesting of the Company's stock-based compensation plans is based on the expected achievement of long-term earnings per share targets, the assessment of which is subject to management's judgment.

ix) 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, as determined by management.

x) 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 in the consolidated financial statements even if probable; rather note disclosure is provided. Probable is defined as being more than 50% likely to occur as determined by management.

xi) Taxation amounts

Income tax provisions, including current and deferred 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 the Company's specific situation. Therefore, it is possible that the ultimate value of the tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on the Company's consolidated financial statements.

4. Standards Issued But Not Yet Effective

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items within other comprehensive income that may be reclassified to net income or loss will be separated from items that will not. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012, and are effective for the Company beginning January 1, 2013. The Company will adopt this standard prospectively. These amendments are not expected to impact the Company's current disclosures.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments become effective for annual periods beginning on or after January 1, 2014. Based on a preliminary assessment, the Company expects the impact to be limited.

IFRS 7 Financial Instruments: Disclosures

The amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The new disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The new disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments become effective for annual periods beginning on or after January 1, 2013. Based on a preliminary assessment, the Company expects the impact to be limited.

IFRS 10 Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements ["IFRS 10"], is effective for annual periods beginning on or after January 1, 2013 and will replace portions of IAS 27 Consolidated and Separate Financial Statements ["IAS 27"] and interpretation SIC-12, Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on a preliminary assessment, the Company expects the impact to be limited.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities ["IFRS 12"] includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 28 and IAS 31 while others are new. This standard is effective for the Company as of January 1, 2013. Based on a preliminary assessment, the Company expects the impact to be limited.

IFRS 13 Fair Value Measurement

IFRS 13, Fair Value Measurement ["IFRS 13"] establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after January 1, 2013. Based on a preliminary assessment, the Company expects the impact to be limited.

5. Cash

(in $000's)	December 31, 2012	December 31, 2011
Cash on hand and at banks	**4,631**	1,019

6. Amounts Receivable

(in $000's)	December 31, 2012	December 31, 2011
Vendor rebate receivable	**1,075**	1,383
Due from franchisees	**1,736**	2,386
Other	**2,725**	3,489
	5,536	7,258
Current	**4,536**	5,893
Non-current	**1,000**	1,365
	5,536	7,258

Other amounts receivable consist of amounts due from customers, employees, loan interest, indirect tax and other items.

7. Consumer Loans Receivable

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

(in $000's)	December 31, 2012	December 31, 2011
Consumer loans receivable	**70,658**	47,565
Allowance for loan losses	**(4,074)**	(2,627)
	66,584	44,938
Current	**34,425**	32,619
Non-current	**32,159**	12,319
	66,584	44,938

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

	December 31, 2012		December 31, 2011	
(in $000's except %)	$	% of total loans	$	% of total loans
1 – 30 days	**2,822**	**4.0%**	2,438	5.1%
31 – 44 days	**543**	**0.8%**	400	0.8%
45 – 60 days	**589**	**0.8%**	358	0.8%
61 – 90 days	**796**	**1.1%**	519	1.1%
	4,750	**6.7%**	3,715	7.8%

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

	Years Ended	
(in $000's)	December 31, 2012	December 31, 2011
Balance, beginning of year	**2,627**	1,971
Amounts written off against allowance	**(8,293)**	(5,046)
Increase due to normal lending and collection activities	**9,740**	6,301
Amounts written off against provision due to employee fraud	–	(599)
Balance, end of year	**4,074**	2,627

During the year ended December 31, 2010, a material employee fraud was detected by the Company. The consumer loans receivable allowance was increased in 2010 to provide for the risk of non-collection of customer accounts due to fraudulent loans or the non-compliance of the Company's standard underwriting procedures. During 2011, $599 of consumer loans were written off which related to the fraud and for which a provision was created in 2010.

8. Lease Assets

(in $000's)	Total
Cost	
As at December 31, 2010	**120,312**
Additions	**48,614**
Disposals	**(57,159)**
Foreign exchange differences	**75**
As at December 31, 2011	**111,842**
Additions	**51,887**
Acquisitions (note 11)	**3,559**
Disposals	**(65,348)**
Foreign exchange differences	**119**
As at December 31, 2012	**102,059**
Accumulated Depreciation	
As at December 31, 2010	**(52,620)**
Depreciation for the year	**(47,465)**
Disposals	**55,383**
Foreign exchange differences	**(144)**
As at December 31, 2011	**(44,846)**
Depreciation for the year	**(48,379)**
Disposals	**59,281**
Foreign exchange differences	**(40)**
As at December 31, 2012	**(33,984)**
Net Book Value	
As at December 31, 2011	**66,996**
As at December 31, 2012	**68,075**

9. Property and Equipment

(in $000's)	Furniture & Fixtures	Computer and Office Equipment	Automotive	Signage	Leasehold Improvement	Total
Cost						
As at December 31, 2010	9,475	9,567	469	5,087	13,308	37,906
Additions	1,335	1,088	33	292	1,396	4,144
Disposals	(352)	(339)	(42)	(405)	(344)	(1,482)
Foreign exchange differences	(71)	(14)	1	(14)	(2)	(100)
As at December 31, 2011	10,387	10,302	461	4,960	14,358	40,468
Additions	1,735	858	–	472	2,367	5,432
Acquisitions (note 11)	156	5	–	–	552	713
Disposals	(1,303)	(1,852)	(4)	(677)	(1,747)	(5,583)
Foreign exchange differences	6	2	–	2	9	19
As at December 31, 2012	**10,981**	**9,315**	**457**	**4,757**	**15,539**	**41,049**
Accumulated Depreciation and Provision for Impairment						
As at December 31, 2010	(5,413)	(6,131)	(196)	(3,542)	(9,671)	(24,953)
Depreciation	(816)	(877)	(78)	(291)	(1,444)	(3,506)
Provision for impairment	(285)	(81)	–	(55)	(235)	(656)
Recovery of impairment	140	79	–	112	264	595
Disposals	160	88	15	92	209	564
Foreign exchange differences	22	24	1	11	42	100
As at December 31, 2011	(6,192)	(6,898)	(258)	(3,673)	(10,835)	(27,856)
Depreciation	(1,029)	(1,014)	(76)	(364)	(1,536)	(4,019)
Provision for impairment	(263)	(114)	–	(142)	(415)	(934)
Recovery of impairment	305	162	–	220	500	1,187
Disposals	794	1,649	2	441	1,421	4,307
Foreign exchange differences	(2)	(1)	–	–	(2)	(5)
As at December 31, 2012	**(6,387)**	**(6,216)**	**(332)**	**(3,518)**	**(10,867)**	**(27,320)**
Net Book Value						
As at December 31, 2011	4,195	3,404	203	1,287	3,523	12,612
As at December 31, 2012	**4,594**	**3,099**	**125**	**1,239**	**4,668**	**13,729**

The amount of property and equipment classified as under construction or development and not being amortized was $0.1 million as at December 31, 2012 (2011 – nil).

Various impairment indicators were used to determine the need to test a CGU for impairment. Examples of these indicators include a significant decline in revenue, performance significantly below budget and expectations 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 CGU's value in use. When determining the value in use of a CGU, the Company developed a discounted cash flow model for the individual CGU. Sales and cost forecasts were based on actual operating results, three-year operating budgets consistent with strategic plans presented to the Company's Board of Directors and a 3% long term growth rate consistent with industry practice. The pre-tax discount rate used on the forecasted cash flows is 17%. 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 lease 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.

For the year ended December 31, 2012, the Company recorded an impairment charge of $934 (2011 – $656) offset by an impairment recovery of $1,187 (2011 – $595). The net impairment recovery for 2012 was $253 (2011 – charge of $61). All impairment charges and recoveries relate solely to the leasing segment.

10. Intangible Assets and Goodwill

	Intangible Assets			
(in $000's)	Trademarks	Customer Lists	Software	Total
Cost				
As at December 31, 2010	1,764	246	2,304	4,314
Additions	38	–	1,402	1,440
Disposals	–	–	(16)	(16)
Foreign exchange differences	(80)	(11)	(4)	(95)
As at December 31, 2011	1,722	235	3,686	5,643
Additions	–	–	2,519	2,519
Aquisitions (note 11)	–	327	–	327
Disposals	–	(224)	(132)	(356)
Foreign exchange differences	(13)	(11)	–	(24)
As at December 31, 2012	**1,709**	**327**	**6,073**	**8,109**
Accumulated Amortization and Provision for Impairment				
As at December 31, 2010	–	(69)	(1,152)	(1,221)
Amortization for the year	–	(44)	(390)	(434)
Disposals	–	(4)	5	1
Foreign exchange differences	–	12	125	137
As at December 31, 2011	–	(105)	(1,412)	(1,517)
Amortization for the year	–	(45)	(576)	(621)
Disposals	–	151	92	243
Foreign exchange differences	–	(1)	–	(1)
As at December 31, 2012	**–**	**–**	**(1,896)**	**(1,896)**
Net Book Value				
As at December 31, 2011	1,722	130	2,274	4,126
As at December 31, 2012	**1,709**	**327**	**4,179**	**6,213**

The Company acquired $327 of customer lists and $2,639 of goodwill in the current year resulting from the acquisition of 15 leasing stores in Canada (see note 11).

Trademarks are considered indefinite life intangible assets as there is no foreseeable limit to the period over which the assets are expected to generate net cash flows. Trademarks were purchased and were not internally generated.

Included in software additions for the year ended December 31, 2012 are $2.3 million (2011 – $1.3 million) of internally developed software application and website costs to support *easyfinancial*.

Software and customer lists are amortized over its estimated useful life of five years.

Goodwill was $20.0 million as at December 31, 2012 (2011 – $17.3 million). There were no disposals or impairments applied to goodwill during the years ended December 31, 2012 and 2011.

Goodwill and indefinite life intangible assets are allocated to the appropriate group of CGUs to which they relate. The carrying value of goodwill is fully allocated to the Canadian leasing CGUs, and the carrying value of indefinite life intangible assets, or trademarks, are fully allocated to the U.S. leasing CGUs. Impairment testing is performed annually and was performed as at December 31, 2012 and December 31, 2011. The impairment test consisted of comparing the carrying value of assets within the aforementioned grouping of CGUs to the recoverable amount of that grouping as measured by discounting the expected future cash flows. The discounted cash flow model was based on historical operating results, detailed sales and cost forecasts over a five-year period and long term growth rates consistent with industry averages, all of which were consistent with the strategic plans presented to the Company's Board of Directors.

Based on the analysis performed by management, no impairment charge was required on goodwill or the intangible assets.

11. Business Combination

Effective December 31, 2012, the Company entered into an exchange of stores with a large U.S. based rent-to-own company. The exchange consisted of the concurrent sale of the assets and operations of 15 leasing stores owned by the Company in the United States and the purchase of the assets and operations of 15 leasing stores in Canada. Subsequent to this transaction, the Company no longer operated any corporately owned stores in the U.S. The impact of the sale of the assets and operations of the 15 leasing stores owned by the Company in the U.S. is described in note 16. The acquisition of the 15 leasing stores in Canada meets the definition of a business combination as defined by IFRS 3.

The total consideration of $7.0 million was paid in cash. Acquisition costs of $0.1 million have been expensed and are included as part of restructuring and other items. The fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date were as follows:

(in $000's)	Fair value recognized on acquisition
Assets	
Amounts receivable	29
Property, plant and equipment	713
Lease assets, net	3,559
Intangible assets	327
Liabilities	
Unearned revenue	216
Accrued liabilities	23
Total identifiable net assets at fair value	4,389
Goodwill arising on acquisition	2,639
Cash consideration	**7,028**

Goodwill arising on acquisition of $2,639 related to the Company's future ability to generate revenues from existing and newly acquired customers, expected synergies generated by merging certain stores and expected future growth. The goodwill arising on acquisition was allocated entirely to the Canadian leasing segment.

12. Bank Revolving Credit Facility and Term Loan

On October 4, 2012, The Company entered into a new $20.0 million term loan to support the growth of *easyfinancial*. Concurrently, the Company revised the terms of its existing bank revolving credit facility and extended its maturity date to October 4, 2015. The revised and extended bank revolving credit facility has a maximum limit of $35.0 million, reducing to $30.0 million on October 5, 2013.

Bank Revolving Credit Facility

(in $000's)	December 31, 2012	December 31, 2011
Bank revolving credit facility	**21,281**	33,123

Canadian dollar loans under the bank revolving credit facility bear interest at the lead lenders prime rate plus 150 to 250 bps, depending on the Company's total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio. The bank revolving credit facility is fully secured by a first charge on substantially all of the assets of the Company and its subsidiaries, excluding *easyfinancial*, and a second charge on the assets of *easyfinancial*. The Company's interest rate under the facility as at December 31, 2012 was 4.50%.

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

Financial Covenant	Requirements	December 31, 2012
Total debt to EBITDA ratio	< 2.75	**1.84**
Total debt to tangible net worth ratio	< 1.00	**0.51**
Total active leased assets to total leased assets ratio	> 0.65	**0.80**
EBITDA for preceding 12 months ($ in 000's)	minimum levels are established by fiscal quarter	**13,868**

Term Loan

(in $000's)	December 31, 2012	December 31, 2011
Term loan	**18,330**	–

Borrowings under the term loan bear interest at 10.50% over the Canadian Bankers' Acceptance rate and are secured by a first charge on the assets of *easyfinancial* and a second charge on substantially all of the other assets of the Company and its subsidiaries. The term loan matures on October 4, 2017.

The Company's interest rate under the term loan as at December 31, 2012 was 11.69%.

The financial covenants of the new term loan are as follows:

Financial Covenant	Requirements	December 31, 2012
Total debt to EBITDA ratio (consolidated)	< 2.75	**1.84**
Total debt to EBITDA ratio (*easyfinancial* only)	< 2.25, reducing to 2.00 in the quarter ending Mar. 31, 2014, reducing to 1.75 in the quarter ending Sept. 30, 2014 and reducing to 1.50 in the quarter ending Sept. 30, 2015	**1.18**
Total debt to tangible net worth ratio (consolidated)	< 1.00	**0.51**
Total debt to tangible net worth ratio (*easyfinancial* only)	< 0.55	**0.26**
Total active leased assets to total leased assets ratio	> 0.65	**0.80**
EBITDA for preceding 12 months (*easyfinancial* only) ($ in 000's)	minimum levels are established by fiscal quarter	**12,350**

As at December 31, 2012 and December 31, 2011, the Company was in compliance with all of its financial covenants under its credit facility agreements.

See note 22 for a discussion of the Company's capital risk management.

13. Provisions

(in $000's)	Onerous leases due to impairment	Other onerous leases	Total
As at December 31, 2010	629	199	828
Utilized during the year	(533)	(194)	(727)
As at December 31, 2011	96	5	101
Incurred during the year	84	935	1,019
Utilized during the year	(10)	(313)	(323)
Unused amounts reversed	(102)	(159)	(261)
As at December 31, 2012	**68**	**468**	**536**

(in $000's)	December 31, 2012	December 31, 2011
Current	**379**	24
Non-current	**157**	77
	536	101

14. 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.

Each common share represents a shareholder's proportionate undivided interest in the Company. Each common share confers to its holder the right to one vote at any meeting of shareholders and to participate equally and rateably in any dividends of the Company.

The common shares are listed for trading on the TSX.

Common shares issued and outstanding

The changes in common shares are summarized as follows:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
($ in 000's except number of shares in 000's)	# of shares	$	# of shares	$
Balance, beginning of the year	**11,849**	**60,207**	11,842	60,074
Issued for cash for redemption of Deferred Share Units	**25**	**245**	7	133
Issued under Dividend Reinvestment Plan	**66**	**433**	–	–
Balance, end of the year	**11,940**	**60,885**	11,849	60,207

Dividends on common shares

For the year ended December 31, 2012, the Company paid dividends of $4.0 million (2011 – $3.9 million), or $0.34 per share (2011 – $0.34 per share). The Company declared a dividend of $0.085 per share on November 12, 2012 to shareholders of record on December 1, 2012, payable on January 9, 2013. The dividend paid on January 9, 2013 was $1.0 million.

15. 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, or vest based on earnings per share, and have exercise lives ranging from five to ten 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.

(number of options in 000's)	Year Ended December 31, 2012 Options #	Year Ended December 31, 2012 Weighted Average Exercise Price $	Year Ended December 31, 2011 Options #	Year Ended December 31, 2011 Weighted Average Exercise Price $
Outstanding balance, beginning of year	**715**	**13.80**	631	14.58
Options granted	–	–	95	8.69
Options forfeited or expired	**(197)**	**15.79**	(11)	14.17
Outstanding balance, end of year	**518**	**13.05**	715	13.80
Exercisable balance, end of year	**95**	**14.50**	255	15.69

Outstanding options to directors, officers and employees as at December 31, 2012 as follows:

	Outstanding			Exercisable	
Range of Exercise Prices $	Options # (in 000's)	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price $	Options # (in 000's)	Weighted Average Exercise Price $
8.00 – 10.99	305	2.71	8.69	40	9.15
11.00 – 14.99	2	1.86	11.00	2	11.00
15.00 – 19.99	197	1.06	19.31	39	18.03
20.00 – 20.33	14	0.70	20.23	14	20.23
8.00 – 20.33	518	2.03	13.05	95	14.50

The Company uses the fair value method of accounting for stock options granted to employees and directors. During the year ended December 31, 2012, the Company granted nil options (2011 – 95,530). For the year ended December 31, 2012, an expense of $126 (2011 – credit of $16) was recorded as stock-based compensation expenses with respect to stock options in stock-based compensation expense in the consolidated statements of income, with a corresponding adjustment to contributed surplus.

In 2011, options granted were determined using the Black-Scholes option pricing model with the following assumptions, resulting in a weighted average fair value of $2.03 per option.

	2012	2011
Risk-free interest rate (% per annum)	–	2.40
Expected hold period to exercise (years)	–	4.29
Volatility in the price of the Company's shares (%)	–	35.77
Dividend yield (%)	–	4.39

Restricted Share Unit Plan

During the year ended December 31, 2012, the Company granted no RSUs (2011 – nil) to senior executives of the Company under its Restricted Share Unit Plan. RSUs are granted at fair market value at the grant date and vest based on earnings per share. For the year ended December 31, 2012, a credit amount of $51 (2011 – credit of $69) was recorded as a stock-based compensation recovery under the Restricted Share Unit Plan in stock-based compensation expense in the consolidated statements of income. Additionally, for the year ended December 31, 2012, an additional 4,765 RSUs (2011 – 4,478) were granted as a result of dividends payable.

Performance Share Unit Plan

During the year ended December 31, 2012, the Company granted 411,552 PSUs (2011 – 309,356) to senior executives of the Company under its Performance Share Unit Plan. PSUs are granted at fair market value at the grant date and vest based on earnings per share targets. For the year ended December 31, 2012, $1,847 (2011 – $277) was recorded as stock-based compensation expense under the Performance Share Unit Plan in stock-based compensation expense in the consolidated statements of income. Additionally, for the year ended December 31, 2012, an additional 44,464 PSUs (2011 – 17,562) were granted as a result of dividends payable.

The PSU liability as at December 31, 2012 was $2,409 (2011 – $727).

Deferred Share Unit Plan

During the year ended December 31, 2012, the Company granted 12,674 DSUs (2011 – 50,703) to directors under its Deferred Share Unit Plan. DSUs are granted at fair market value at the grant date and vest immediately upon grant date. For the year ended December 31, 2012, $113 (2011 – $385) was recorded as stock-based compensation expense under the Deferred Share Unit Plan in stock-based compensation expense in the consolidated statements of income. Additionally, for the year ended December 31, 2012, an additional 2,655 DSUs (2011 – 4,039) were granted as a result of dividends payable.

For the year ended December 31, 2012, $2,405 (2011 – $883) was recorded as stock-based compensation expense under all stock-based compensation plans including certain cash based director compensation.

Contributed Surplus

The following is a continuity of the activity in the contributed surplus account:

	Years Ended	
($ in 000's)	December 31, 2012	December 31, 2011
Contributed surplus, beginning of year	**3,171**	3,061
Stock-based compensation expense		
Stock options	**126**	(16)
Restricted share units	**(51)**	(69)
Deferred share units	**113**	385
Reduction due to redemption of deferred share units	**(324)**	(190)
Contributed surplus, end of year	**3,035**	3,171

16. Restructuring and Other Items

($ in 000's)	Years Ended December 31, 2012	Years Ended December 31, 2011
Restructuring charges	**1,379**	–
Insurance reimbursement	**(943)**	–
Gain on disposal of U.S. leasing stores	**(814)**	–
	(378)	–

Restructuring Charges

During the second quarter of 2012, the Company restructured the management and operating procedures of its leasing segment and closed 13 underperforming locations. For the year ended December 31, 2012, $1.4 million (2011 – nil) was recorded as restructuring and other charges within operating income. These charges consisted of the cost of remaining lease terms for closed locations, lease asset write offs, severance and other charges. No further related charges are expected in future periods.

As at December 31, 2012, $0.2 million (2011 – nil) of provisions were due to restructuring charges.

Insurance Recovery

During the fourth quarter of 2010, the Company incurred $2.4 million in costs related to the forensic investigation of an employee fraud. During the second quarter of 2012, the Company received a reimbursement of a portion of the costs from its insurers. The insurance reimbursement of $0.9 million is net of professional fees related to obtaining this reimbursement.

Gain on Disposal of U.S. Leasing Stores

As described in note 11, the Company entered into an exchange of stores with a large U.S. based rent-to-own company. Total cash proceeds on the sale of the 15 corporately owned stores were $6.9 million resulting in a gain of $814.

17. Income Taxes

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

(in $000's)	Years Ended December 31, 2012	December 31, 2011
Combined basic federal and provincial income tax rates	**26.9%**	27.1%
Expected income tax expense	**4,053**	3,724
Non-deductible expenses	**76**	156
U.S. and SPE results not tax affected	**(130)**	500
Other	**10**	(266)
	4,009	4,114

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

(in $000's)	Years Ended December 31, 2012	December 31, 2011
Current income tax:		
Current income tax charge	**3,993**	184
Adjustments related to intercompany management fees and other	**1,316**	(1,432)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(1,300)**	5,362
	4,009	4,114

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

(in $000's)	December 31, 2012	December 31, 2011
Loss carryforwards	–	256
Tax cost of lease assets and property and equipment in excess of net book value	**1,494**	929
Amounts receivable and provisions	**1,285**	882
Deferred salary arrangements	**694**	185
Lease inducements	**599**	621
Unearned revenue	**182**	165
Financing fees	**85**	122
Other	**(107)**	(227)
	4,232	2,933

The Company and its subsidiaries have the following tax loss carry-forwards that may be used to reduce taxable income in the future:

(in $000's, except years)	Tax Loss Carryforwards	Benefit of Tax Loss Carryforwards	Year of Expiry
U.S. Operations			
Year ended December 31, 2008	373	149	2027
Year ended December 31, 2009	925	370	2028
Year ended December 31, 2010	1,529	612	2029
Year ended December 31, 2011	1,328	531	2030
	4,155	**1,662**	

At December 31, 2012, the benefit of the U.S. tax loss carry-forwards in the amount of $1.7 million and the U.S. deferred tax asset resulting from differences between the financial reporting and tax bases of assets and liabilities have not been recognized due to the uncertainty of the realization of the benefit of the U.S. operational losses and the reversal of the differences between the financial reporting and tax bases of the assets and liabilities in the foreseeable future. If the Company were to recognize all unrecognized deferred tax assets at December 31, 2012, net income would have increased by $2.1 million (2011 – $3.1 million).

At December 31, 2012, there was no recognized deferred tax liability (2011 – $nil) for taxes that would be payable on the undistributed earnings of the Company's subsidiaries. The Company has determined that undistributed earnings of its subsidiaries would not be distributed in the foreseeable future.

18. Earnings Per Share

Basic earnings per share

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

	Years Ended	
(in $000's except number of shares and earnings per share)	December 31, 2012	December 31, 2011
Net income	**11,057**	9,612
Weighted average number of ordinary shares outstanding	**11,896**	11,849
Basic earnings per ordinary share	**0.93**	0.81

Diluted earnings per share

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

	Years Ended	
(in $000's except number of shares and earnings per share)	December 31, 2012	December 31, 2011
Net income	**11,057**	9,612
Weighted average number of ordinary shares outstanding	**11,896**	11,849
Dilutive effect of stock-based compensation	**103**	85
Weighted average number of diluted shares outstanding	**11,999**	11,934
Dilutive earnings per ordinary share	**0.92**	0.81

The dilutive effect of stock-based compensation reflects 102,754 of DSUs for the year ended December 31, 2012 (2011 – 98,949). For the year ended December 31, 2012, stock options to acquire 518,002 common shares (2011 – 715,362 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 or performance conditions were not met.

19. Net Change in Other Operating Assets and Liabilities

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

	Years Ended	
(in $000's)	December 31, 2012	December 31, 2011
Amounts receivable	**1,722**	(1,387)
Prepaid expenses	**352**	(20)
Accounts payable and accrued liabilities and dividend payable	**12,929**	459
Income taxes (recoverable) payable	**4,816**	(665)
Deferred lease inducements	**(95)**	98
Unearned revenue	**(640)**	(748)
Provisions	**435**	(727)
	19,519	(2,990)

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

	Years Ended	
(in $000's)	December 31, 2012	December 31, 2011
Income taxes paid	**2,135**	1,327
Income taxes refunded	**1,642**	1,883
Interest paid	**2,645**	1,541
Interest received	**24,116**	15,460

20. Commitments and Guarantees

The Company is committed to software maintenance service agreements and 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)	Within 1 Year	After 1 Year but not more than 5 Years	More than 5 Years
Premises	19,684	40,777	4,958
Other operating lease obligations	1,357	2,377	11
Other	896	1,892	–
Total contractual obligations	**21,937**	**45,046**	**4,969**

During the year ended December 31, 2012, $22.4 million (2011 – $21.8 million) was recognized as an expense in the consolidated statements of income in respect of operating leases.

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.

21. Contingencies

Class Action Lawsuit

The Company and certain of its current and former officers have been named as defendants in a lawsuit filed in the Ontario Superior Court of Justice on October 25, 2010. This lawsuit was commenced by Andrew Sorensen, on behalf of shareholders who acquired the Company's common shares between April 8, 2008 and October 15, 2010. The claim is brought under section 138 of the Ontario Securities Act. The plaintiff alleges, among other things, that, arising out of an employee fraud discovered in 2010, the Company and certain of its former and current officers made misrepresentations about the Company's consolidated financial statements being prepared in accordance with Canadian generally accepted accounting principles. The claim seeks $10 million in general damages. On March 26, 2012, the lawsuit was certified as a class proceeding on consent.

The Company has reached a settlement with the class. The settlement, which is subject to court approval, contemplates a payment by the Company of $2.25 million, which, if approved, will be distributed to class counsel and members of the class. The settlement funds will be paid by the Company's insurer pursuant to the Company's insurance policies. The settlement agreement reached between the Company and the class contains no admissions of liability on the part of the Company or any of its current or former officers or directors.

The settlement reflects an analysis of the facts and law applicable to the issues in this case, and takes into account the extensive burdens, complexity, risks and expense of continued litigation. 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.

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, financial performance or cash flows.

The Company has agreed to indemnify its directors and officers and particular employees in accordance with the Company's policies. The Company maintains insurance policies that may provide coverage against certain claims.

22. 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 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 in the past year.

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 as described in note 12.

For the year ended December 31, 2012, the Company was in compliance with all of its externally imposed financial covenants.

23. 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.

Recognition and Measurement of Financial Instruments

The Company has classified its financial instruments as follows:

(in 000's) Financial Instruments	Measurement	December 31, 2012	December 31, 2011
Cash	Fair value	**4,631**	1,019
Amounts receivable	Amortized cost	**5,536**	7,258
Consumer loans receivable	Amortized cost	**66,584**	44,938
Accounts payable and accrued liabilities	Amortized cost	**33,155**	20,231
Bank revolving credit facility	Amortized cost	**21,281**	33,123
Term loan	Amortized cost	**18,330**	–

The carrying values of these financial instruments approximate their fair values.

Credit Risk

The maximum exposure to credit risk is represented by the carrying amount of the amounts receivable, consumer loans receivable and lease assets 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 lease assets with customer's results from the possibility of customer default with respect to agreed upon 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 with the customer, as the Company maintains ownership of the lease assets until payment options are exercised. Lease asset losses for the year ended December 31, 2012 represented 2.9% (2011 – 2.2%) of total revenue for the leasing segment.

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 franchisees and other amounts receivable. The Company deals with credible companies, performs ongoing credit evaluations of creditors and consumers and allows for uncollectible amounts when 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. Credit quality of the customer is assessed based on a credit rating scorecard and individual credit limits are defined in accordance with this assessment. The consumer loans receivable are unsecured. The Company evaluates the concentration of risk with respect to customer loans receivable as low, as its customers are located in several jurisdictions and operate independently. As at December 31, 2012, the Company's gross loan portfolio was $70.7 million (2011 – $47.6 million).

Liquidity Risk

The Company addresses liquidity risk management by maintaining sufficient availability of funding through its committed bank revolving credit facility and its term loan. 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.

The Company believes that the cash flow provided by operations will be sufficient in the near term to meet operational requirements, purchase lease assets, meet capital spending requirements and pay dividends. In addition, the incremental financing obtained through the term debt will allow the Company to grow its consumer loans receivable portfolio in 2013. In order for the Company to achieve the full growth opportunities available, however, additional sources of financing over and above the currently available credit facility and term loan are required. There is no certainty that these long term sources of capital will be available or at terms favourable to the Company.

Substantially all liabilities are due within 12 months with the exception of the term loan, which is due as disclosed in note 11, and non-current PSU liabilities that are payable in 2015.

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 the bank revolving credit facility bears interest at the lead lenders prime rate plus 150 to 250 bps, depending on the Company's total debt to EBITDA ratio. As at December 31, 2012, this rate was 4.50% per annum (2011 – 4.25% per annum). In addition, the Company's term loan bears interest at 10.50% over the Canadian Bankers' Acceptance rate. As at December 31, 2012, this rate was 11.69% per annum (2011 – not applicable).

The Company does not hedge interest rates. Accordingly, future changes in interest rates will affect the amount of interest expense payable by the Company.

As at December 31, 2012, all of the Company's borrowings are subject to movements in floating interest rates. A 1% movement in the prime interest rate and bankers acceptance rate would have increased or decreased net income for the year by approximately $354.

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 assets 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.

During 2012, the Company had foreign currency transaction exposure through its Company owned, SPEs and franchise locations in the United States.

The earnings of the Company's U.S. subsidiary and SPEs are translated into Canadian dollars each period. A 5% movement in the Canadian and U.S. dollar exchange rate would have increased or decreased net income by approximately $65.

24. Related Party Transactions

The Company, through its wholly owned subsidiary *easyhome* U.S. Ltd., signed a License/Master Franchise Agreement [the "License Agreement"] with an entity controlled by Walter "Bud" Gates ["easygates LLC"] on March 2, 2007. Mr. Gates was elected to the Company's Board of Directors in April 2010 and was a director until December 21, 2011. Mr. Gates did not participate or vote in any Board of Director discussions relating to the Licence Agreement. The License Agreement has an initial six-year term and allows easygates LLC to set up *easyhome* franchises in the U.S., excluding the 14 U.S. states that border Canada. The License Agreement provides that, for each franchise store that is opened, easygates LLC and *easyhome* will split both the initial franchise fee and the ongoing royalty fees. As at December 31, 2012, 38 franchise locations were opened and operated under the License Agreement.

The amounts disclosed in the following table are the amounts recognized as an expense related to key management personnel during the reporting periods.

	Years Ended	
(in $000's)	December 31, 2012	December 31, 2011
Short-term employee benefits including salaries	**2,014**	1,756
Share-based payment transactions	**1,504**	58
	3,518	1,814

25. Segmented Reporting

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

- Leasing
- *easyfinancial*
- Franchising

Accounting policies for each of these business segments are the same as those disclosed in note 3. General and administrative expenses directly related to the Company's business segments are included as operating expenses for those segments. All other general and administrative expenses are reported separately. Management assesses the performance based on pre-tax operating income.

The following tables summarize the relevant information for the years ended December 31, 2012 and 2011:

Year ended December 31, 2012 (in $000's)	Leasing	*easyfinancial*	Franchising	Corporate	Total
Revenue	**160,269**	**37,766**	**1,638**	**–**	**199,673**
Total operating expenses before depreciation and amortization, restructuring and other items	**86,573**	**25,421**	**514**	**17,068**	**129,576**
Restructuring and other items	**1,296**	**–**	**–**	**(1,674)**	**(378)**
Depreciation and amortization	**51,277**	**751**	**193**	**545**	**52,766**
Segment operating income (loss)	**21,123**	**11,594**	**931**	**(15,939)**	**17,709**
Interest expense	**–**	**–**	**–**	**2,643**	**2,643**
Income (loss) before income taxes	**21,125**	**11,594**	**931**	**(18,583)**	**15,066**
Assets	**105,786**	**79,684**	**1,560**	**2,897**	**189,927**
Liabilities	**32,441**	**23,897**	**–**	**28,576**	**84,914**

Year ended December 31, 2011 (in $000's)	Leasing	*easyfinancial*	Franchising	Corporate	Total
Revenue	162,464	24,463	1,398	–	188,325
Total operating expenses before depreciation and amortization, restructuring and other items	87,642	17,941	570	15,439	121,592
Depreciation and amortization	50,531	355	89	491	51,466
Segment operating income (loss)	24,291	6,167	739	(15,930)	15,267
Interest expense	–	–	–	1,541	1,541
Income (loss) before income taxes	24,291	6,167	739	(17,471)	13,726
Assets	101,207	51,152	2,212	4,552	159,123
Liabilities	21,710	2,099	104	37,668	61,581

The Company's goodwill of $20.0 million (December 31, 2011 – $17.3 million) is related entirely to its Canadian leasing segment.

The Company's leasing business consists of four major product categories: furniture, electronics, computers and appliances. Lease revenue as a percentage of total lease revenue for the years ended December 31, 2012 and December 31, 2011 are as follows:

	Years Ended December 31,	
	2012 (%)	2011 (%)
Furniture	**38**	37
Electronics	**33**	33
Computers	**16**	18
Appliances	**13**	12
	100	100

The Company operates across Canada and in certain U.S. states. During the year ended December 31, 2012, 92% or $184.1 million of revenue was generated in Canada and 8% or $15.6 million of revenue was generated in the U.S. (2011 – 93% or $175.5 million of revenue was generated in Canada and 7% or $12.8 million of revenue was generated in the U.S). Additionally, as at December 31, 2012, $181.5 million of the Company's assets were located in Canada and $8.4 million were located in the U.S. (2011 - $145.4 million in Canada and $13.7 million in the U.S.).

Dividend History

Payment Date	Amount
January 9, 2013	$0.085
October 5, 2012	$0.085
July 6, 2012	$0.085
April 16, 2012	$0.085
January 5, 2012	$0.085
October 5, 2011	$0.085
July 5, 2011	$0.085
April 13, 2011	$0.085
January 5, 2011	$0.085
October 4, 2010	$0.085
July 5, 2010	$0.085
April 9, 2010	$0.085
January 5, 2010	$0.085
October 6, 2009	$0.085
July 3, 2009	$0.085
April 13, 2009	$0.085
January 6, 2009	$0.085
October 6, 2008	$0.085
July 3, 2008	$0.085
April 10, 2008	$0.085
January 4, 2008	$0.07
October 4, 2007	$0.07
July 4, 2007	$0.07
April 10, 2007	$0.07
January 4, 2007	$0.06
October 3, 2006	$0.06
July 4, 2006	$0.06
April 7, 2006	$0.06
January 4, 2006	$0.04
October 4, 2005	$0.04
July 4, 2005	$0.04
April 4, 2005	$0.06
January 4, 2005	$0.04
October 1, 2004	$0.04
July 2, 2004	$0.04

Corporate Information

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Chairman of the Board

David Ingram
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David A. Lewis
Corporate Director

David Appel
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Sean Morrison
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Corporate Officers

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Steve Goertz
Senior Vice President & Chief Financial Officer

Rick Atkinson
Senior Vice President, Development

Dave Maries
Senior Vice President, Marketing & Merchandising

Jason Mullins
Senior Vice President Operations, *easyfinancial* Services

Jay Guyatt
Vice President and General Counsel

"We took a number of significant measures during 2012 to strengthen our business and prepare for future growth."

David Ingram
President and Chief Executive Officer

easyhome® Ltd.
make life easier

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