Consolidated Financial Statements

easyhome Ltd.

For the Years Ended
December 31, 2012 and 2011

easyhome Ltd.

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 and 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

easyhome Ltd.

CONSOLIDATED STATEMENTS OF INCOME

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

	Years ended December 31, 2012	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

easyhome Ltd.

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

easyhome Ltd.

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

easyhome Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of Canadian dollars)

	Years ended	
	December 31, 2012	**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:

($ in 000's except %)	December 31, 2012 $	December 31, 2012 % of total loans	December 31, 2011 $	December 31, 2011 % 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:

($ in 000's)	Years Ended December 31, 2012	Years Ended 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 and Fixtures	Computer and Office Equipment	Automotive	Signage	Leasehold Improvements	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
Acquisitions (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 December 31	
($ in 000's)	**2012**	**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

	Years ended December 31	
($ in 000's)	**2012**	**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	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	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:

($ in 000's except number of shares and earnings per share)	Years ended December 31 2012	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 December 31	
($ in 000's except number of shares and earnings per share)	**2012**	**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 December 31	
($ in 000's)	**2012**	**2011**
Amounts receivable	**1,722**	(1,387)
Prepaid expenses	**352**	(20)
Accounts payable and accrued liabilities and dividends 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:

($ in 000's)	Years ended December 31 2012	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 December 31	
($ in 000's)	**2012**	**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 (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	
(percentage)	**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.).