FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1 Name and Address of Company

Denninghouse Inc. (the "Company")
8200 Jane Street
Concord, ON L4K 5A7

Item 2 Date of Material Change

June 1, 2004

Item 3 News Release

A press release was issued on June 1, 2004 in Toronto, Ontario and disseminated across Canada by Canada Newswire.

Item 4 Summary of Material Change

On June 1, 2004, the Company announced its intention to file with Canadian securities regulatory authorities, amended and restated consolidated financial statements for the nine-months ended October 31, 2003 following discussions with the Ontario Securities Commission under their continuous review program and to implement the retroactive changes resulting from the early adoption of recent accounting standards relating to impairment of long-lived assets, and disposal of long-lived assets and discontinued operations, including costs associated with lease termination and severance.

Item 5 Full Description of Material Change

Please see the press release attached hereto as Schedule “A”.

Item 6 Reliance on subsection 7.1(2) or (3) of National Instrument 51-102

Not applicable.

Item 7 Omitted Information

Not applicable.

Item 8 Executive Officer

For further information, please contact:

Bill Thomas
Executive Vice President and Chief Financial Officer
Tel: (905) 738-3180

Item 9 Date of Report

June 3, 2004

SCHEDULE “A”

DENNINGHOUSE INC. ANNOUNCES INTENTION TO FILE RESTATED INTERIM FINANCIAL STATEMENTS AND ANNOUNCES EARLY ADOPTION OF NEW ACCOUNTING POLICIES

TORONTO, Ontario, June 1, 2004 – Denninghouse Inc. (TSX: DEH), operator of 325 stores under the “**Buck Or Two, and “Dollar Ou Deux”** banners, announced today its intention to file with Canadian securities regulatory authorities, amended and restated consolidated financial statements for the nine-months ended October 31, 2003 following discussions with the Ontario Securities Commission under their continuous review program and to implement the retroactive changes resulting from the early adoption of recent accounting standards relating to impairment of long-lived assets.

Adoption of new accounting policies:

- **Impairment of long-lived assets**
- **Disposal of long-lived assets and discontinued operations**

1. The Company will adopt, in its fourth quarter ended January 31, 2004, the recommendations of new accounting guidelines relating to impairment of long-lived assets. The adoption of this accounting policy change requires the restatement of previously issued interim consolidated financial statements and accordingly will be included in the restated interim consolidated financial statements for the nine-months ended October 31, 2003 with appropriate disclosure of the impact on previously issued quarterly reports.

   Under these new standards, an impairment should be recognized when the carrying value of a long-lived asset is not recoverable and exceeds its fair value, as determined by the discounted future cash flows of the asset or asset group, which is now determined to be each individual store. Historically, the Company, as a franchisor of retail outlets, performed impairment tests on the entire class of assets that were classified as stores for resale, rather than at an individual store level in its assessment of fair value. The Company considered all stores to constitute inventory of stores for resale and available for franchising. With recent additions to senior management and a change in the Company's strategic direction, the Company will own and operate an increasing number of company-owned stores on an ongoing basis and not all stores will be offered for resale to franchisees.

Although the standards relating to impairment of long lived assets are not required until the commencement of the fiscal year beginning after April 1, 2003, early adoption is recommended. The Company has applied the changes retroactively to the start of the current fiscal year ended January 31, 2004 and will disclose the impact of the restatement for each of the quarters in the amended and restated consolidated financial statements for the nine-months ended October 31, 2003. The fair value of each individual store was determined using the discounted cash flow method, including a probability-weighted approach to projected results for each store to determine the potential impairment provision required. As a result, the Company recorded a non-cash impairment charge of $1.5 million (net of amortization adjustments) on its company –owned stores for the nine-months ended October 31, 2003.

In addition, new accounting standards relating to the disposal of long-lived assets and discontinued operations are required for disposal activities initiated after May 1, 2003; the Company has chosen to apply the standard effective February 1, 2003 consistent with its implementation of the standards relating to impairment of long-lived assets. The impact of adopting this standard is that "stores held for resale" was reclassified to "company-owned stores held" as capital assets.

The results of the change in accounting policy arising from the early adoption of these accounting pronouncements are summarized in the table below:

Other adjustments

2. The Company has determined that costs associated with lease termination and severance costs are more appropriately recorded as expenses only as incurred in accordance with recent accounting guidance and accordingly has made the following restatements to the consolidated financial statements for the nine-months ended October 31, 2003.
    a. Estimates of lease termination costs and severance costs in relation to the decision to close the retail outlets operating under "The Incredible Five & Ten" banner amounting to $282,000, which were previously included as part of the $2.5 million retail re-positioning costs in the consolidated financial statements for the nine-months ended October 31, 2003, will now be reflected in the fourth quarter when these costs were incurred. Although there is no impact to earnings for this adjustment by the end of the fourth quarter ended January 31, 2004, it does affect the timing of the recording of the costs between the third and fourth quarters.

b. In addition, lease termination costs amounting to $245,000, which were previously reflected as additions to deferred charges for costs relating to market entry, have now been directly expensed and adjusted accordingly in the restated consolidated financial statements.

The net impact of the above adjustments for the nine-months ended October 31, 2003 is a $64,000 reduction of expenses before tax and after adjusting for amortization of deferred costs.

3. In addition, the remaining components amounting to $2.2 million of the previously recorded retail re-positioning costs of $2.5 million have also been reclassified within the respective operating results of the Company rather than as a single line retail re-positioning cost, with no net impact on the statement of loss. These costs related to inventory provisions that would allow the Company to accelerate the introduction of enhanced merchandise solutions within the Buck Or Two stores as well as to record asset impairment charges and inventory provisions reflecting the impairment of such assets within the Incredible Five & Ten once it was determined that the test concept would not be further developed and that higher even-dollar price points developed in the Incredible Five & Ten would be incorporated into Buck Or Two.

Impact on financial results for the fiscal year-ended January 31, 2004

4. The asset impairment provisions described in (1) above totaling $1.5 million increase by a further $157,000 for stores re-acquired during the quarter ended January 31, 2004, resulting in a total non-cash asset impairment charge for company-owned stores of $1.7 million (net of adjustments to amortization) for the year-ended January 31, 2004. Additional provisions relating to lease termination and other termination costs described in 2(a) above of $282,000 were removed from the results of the nine-months ended October 31, 2003 but were subsequently recorded in the fourth quarter thus increasing the charges to $2.5 million. The total of these combined charges to be reflected in the consolidated financial statements for the year-ended January 31, 2004 total $4.2 million of which approximately $3.9 million are non-cash items.

With the completion of the analysis relating to asset impairment under these new accounting guidelines, and the resulting adjustments to the carrying value of certain assets, the Company expects to release the consolidated financial statements for the year-ended January 31, 2004 early next week.

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For more information, please contact:

William (Bill) Thomas

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Table 1- Reclassification and Restatement of Interim Consolidated Financial Statements for the Nine-months ended October 31, 2003

	Change in Accounting Policy Item 1	Lease & other costs- Incredible Five & Ten Item 2(a)	Lease termination costs- Market entry Item 2(b)	Re-allocation of Re-positioning Costs Item 3	Total Impact
Statement of Income (Loss)	($ thousands)				
Gross profit (inventory provision)				(1,385)	(1,385)
Expenses					
General and administrative			245		245
Store operating and distribution				119	119
Earnings before interest, taxes and amortization			(245)	(1,504)	(1,749)
Amortization	(282)		(27)		(309)
Asset impairment costs	1,786			714	2,500
Net income before unusual items and income taxes	(1,504)		(218)	(2,218)	(3,940)
Retail re-positioning costs		(282)		(2,218)	(2,500)
Income(loss) before income taxes	(1,504)	282	(218)		(1,440)
Provision for (recovery of) income taxes	(617)	116	(89)		(590)
Net income (loss) for the period	(887)	166	(129)		(850)

Balance Sheet

Inventory				(1,385)	(1,385)
Prepaid expenses				(15)	(15)
Income taxes recoverable/future tax liability	617	(116)	89		590
Notes receivable (note 1)	(172)			(103)	(275)
Company-owned stores held (note 2)	(1,468)		104		(1,364)
Capital assets-other	(37)			(352)	(389)

Deferred charges			(321)	(363)	(684)
Accounts payable		282		2,218	2,500
Share Capital (note 1)	(172)				(172)
Retained earnings	(887)	166	(129)		(850)

Note 1- Notes relating to share purchase loans have been deducted from share capital

Note 2- Stores for resale have been reclassified and included as capital assets as company-owned stores held

Table 2-Summary of Reclassifications and Restatement of items within Consolidated Financial Statements for the Nine-months ended October 31, 2003

	Nine-months ended October 31, 2003 Amended and Restated	Nine-months ended October 31, 2003 Originally Reported	Change
Statement of Income (Loss)			
($thousands except net income per share)			
Revenue	40,416	40,416	-
Cost of sales	20,365	18,980	1,385
Gross profit	20,051	21,436	(1,385)
Expenses			
General and administrative	7,739	7,494	245
Store operating and distribution	10,886	10,767	119
Loss before interest, taxes and amortization	1,426	3,175	(1,749)
Interest expense	13	13	-
Amortization	1,547	1,856	(309)
Asset impairment costs	2,500	-	2,500
Net income (loss) before unusual items and income taxes	(2,634)	1,306	(3,940)
Retail re-positioning costs	-	(2,500)	2,500
Loss before income taxes	(2,634)	(1,194)	(1,440)
Recovery of income taxes	(1,080)	(490)	(590)
Net loss for the period	(1,554)	(704)	(850)
Net loss per share	$ (0.30)	$ (0.13)	$ (0.17)

Balance Sheet

Impact of reclassifications and restatement

Inventory	8,272	9,657	(1,385)
Prepaid expenses	517	532	(15)
Income taxes recoverable	2,448	2,755	(307)
Notes receivable (note 1)	1,276	1,551	(275)
Company-owned stores held (note 2)	4,896	6,260	(1,364)
Capital assets-other	4,361	4,750	(389)
Deferred charges	976	1,660	(684)
Accounts payable	9,325	11,825	(2,500)
Future income tax liability	1,934	2,831	(897)
Share capital (note 1)	12,534	12,706	(172)
Retained earnings	5,147	5,997	(850)

Note 1- Notes relating to share purchase loans have been deducted from share capital

Note 2- Stores for resale have been reclassified and included as capital assets as company-owned stores held