# REMARKABLE

PEOPLE
GROWTH
RESULTS

Rentcash Inc.

ANNUAL REPORT 2005

# re•mark•a•ble

## 1. worthy of notice

Rentcash is the largest provider of payday advance services in Canada, as measured by the number of owned and operated brokerage centres, and is the second largest rental-purchase company in Canada. Rentcash operates under three store banners: The Cash Store, Instaloans and Insta-rent.

- The Cash Store and Instaloans act as brokers to facilitate payday advance services to income earning consumers.
- Insta-rent rents brand name furniture, appliances, electronics and computers, with or without an option to purchase.
- At June 30, 2005, Rentcash owned and operated 361 stores in nine provinces and two territories and employed over 1,300 associates.
- Rentcash is listed on the Toronto Stock Exchange under the symbol RCS.
- The Company's mission is to satisfy the needs of consumers in a positive and professional manner and always act as a responsible corporate citizen.
- Rentcash's core values are honesty, integrity, loyalty and teamwork.


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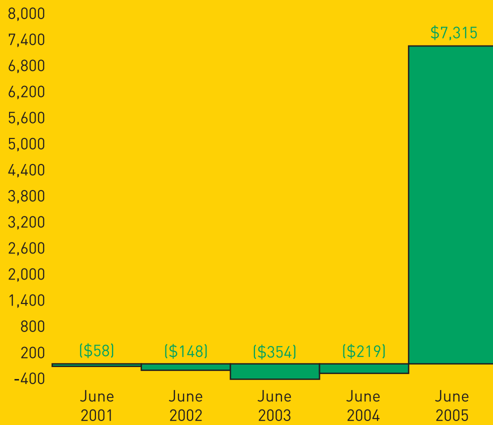
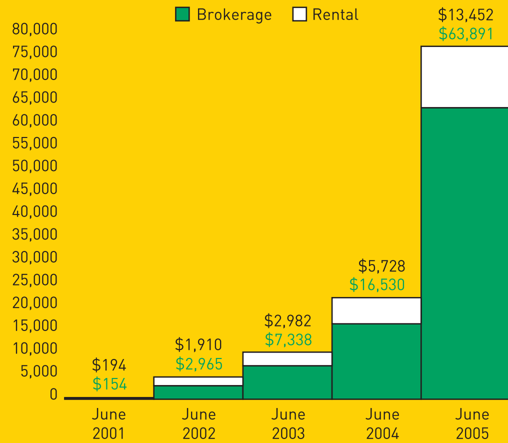
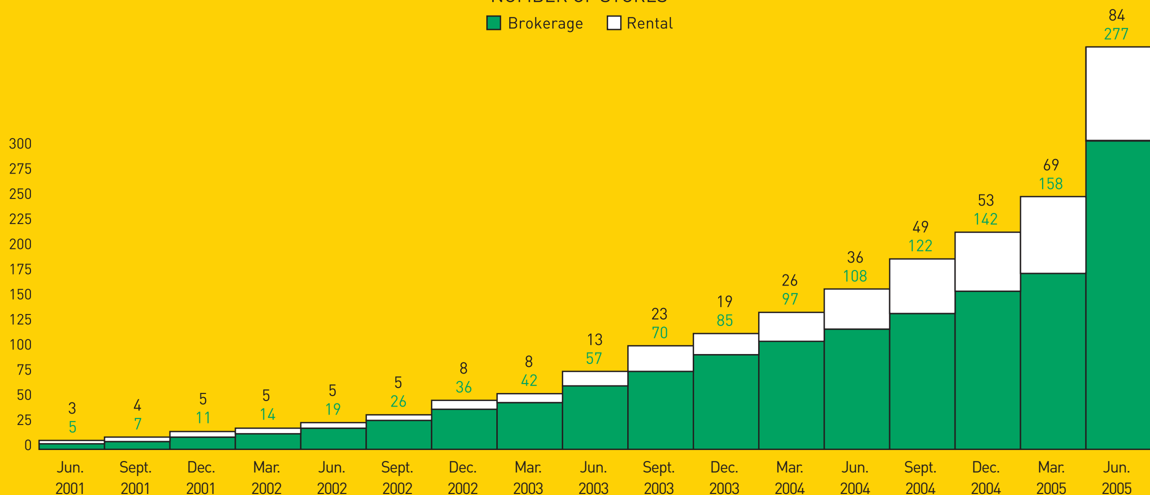
# re•mark•a•ble

## 2. something truly extraordinary

Rentcash success is straightforward. When you've got a good team working on a great idea, you've got a winning proposition. The key is in keeping a team of this size together. Rentcash connects the dots and the thoughts of this profitable and rapidly growing company through the management team. They get the big picture. And the big picture illustrates a corporate story of exciting growth, savvy business practices and great strategy.



# REMARKABLE YEAR

It was a year of remarkable accomplishment. Our goal of opening 300 stores by 2006 was achieved one year ahead of schedule. Rentcash became the largest payday loan provider in Canada, as measured by the number of owned and operated brokerage centres. Looking at every aspect of Rentcash there was growth, development, progress and profits. There were acquisitions, expansion of the management team, and individuals adding to their responsibilities all over the system. All 1,300 plus of us at Rentcash truly believe we are building not just a business but also a great company—a respected institution in Canada and even more importantly, a great place to work. Our associates say that they love to come to work in the morning. Beyond the financial measures, this is what Rentcash is all about. People... people who truly believe in customer service and enjoy what they do. This distinguishes Rentcash from our competitors and it is what has created the outstanding growth and profitability discussed in our fourth annual report since becoming a public company.

# LETTER TO SHAREHOLDERS

Gordon J. Reykdal
Chairman, President and
Chief Executive Officer

We are very proud of the many outstanding measures of growth recorded in the year ended June 30, 2005. Revenue climbed 247%, reaching $77.3 million compared to $22.3 million in the prior year - and $10.3 million in fiscal 2003. Earnings for fiscal 2005 rose to $7.3 million from a net loss of $219,264 in the previous year.

For the fourth quarter ended June 30, 2005, Rentcash's revenue also advanced significantly, rising 286% to $32.3 million compared with $8.4 million for the same period last year. The implementation of a new industry-wide no rollover policy in January 2005, however, impacted fourth quarter net income. For the quarter ended June 30, 2005, net income was $243,532 compared with $588,185 for the same period last year and $3.3 million in the third quarter ended March 31, 2005. Although the no rollover policy has impacted our business we believe it is best for all concerned: Rentcash, the industry, and especially our customers. We have and will continue to implement operational improvements in response to the impact of the no rollover policy.

An important measure of growth is store count, the heart of our business. As of June 30, 2005, Rentcash operated 361 stores in nine provinces and two territories: 277 were in the brokerage division and 84 were in the rental-purchase division. This compares to 144 stores in operation as at June 30, 2004. In fiscal 2005, we acquired 102 established stores and opened an additional 115 new stores. Our more than tripling of revenue year-over-year is to some extent a function of the remarkable and ambitious pace of new store openings, the cost of which were funded primarily by operating cash flows and equity financings. We are very proud of this achievement. In addition to opening new stores we are modernizing the look of many of our older Cash Stores to ensure a more vibrant and recognizable brand image.

In previous reports to Rentcash shareholders, we stated that our bold goal was to reach 300 stores in 2006; a goal that we are pleased to report has been exceeded more than a year in advance. For fiscal 2006, our target is to open eight new loan brokerage outlets per month. In the rental-purchase division we plan to slow down the rate of new openings to focus the division on profitability and allow the 48 new outlets opened in fiscal 2005 to catch up with the profitability of older locations. The rental-purchase division, operating under the Insta-rent banner, benefits from its relationship with The Brick and United Furniture Warehouse stores and its unique business model of being located within those large-scale operations.

Growth by acquisitions proved to be highly successful in fiscal 2005. On April 22, 2005, Rentcash acquired 99 stores from the Instaloans Group of Companies. With this acquisition we became the largest payday loan provider in Canada. We are pleased that the integration of Instaloans stores into the Rentcash system has occurred smoothly. The Instaloans stores have adopted the lender/broker model of The Cash Store and many of the locations are starting to reflect the more open Cash Store style. The financial performance of the Instaloans stores since acquisition has exceeded our expectations, reflecting the benefits of our operating philosophy.

In the fourth quarter of 2005, we also acquired the three-outlet Premiere Financial chain, and subsequent to the year-end, six Payday Financial stores became part of the Rentcash family.

Same store sales, provide a solid measure of store performance. We are happy to report that Rentcash's two operating divisions enjoyed strong increases in same store sales. The same store average revenues for the brokerage division increased 118% to $126,000 per store for the fourth quarter, up from $58,000 per store for the quarter ended June 30, 2004. As for the rental-purchase division there was a 57% increase in same store average revenues to $85,000 per store for the fourth quarter, up from $54,000 per store for the same quarter last year. These results reflect not just consumer acceptance of Rentcash's financial services but also some incredibly hard work by Rentcash associates, whose devotion to their customers and to their financial targets have helped create the excellent growth we are reporting to shareholders.

New products and services will be a contributor to future growth and three promising new services were recently launched. Insta-Mortgages are home-equity based loans of $1,000 to $2,000, which often can be brokered in one day through the brokerage division. Offered through a new subsidiary operating as The Mortgage Company, Insta-Mortgages not only increase the amount of loans to be brokered, they also expand our reach into a broad range of home-owning consumers. We also implemented the Payment Protection Plan (PPP) nationally in our brokerage division. PPP provides consumers with insurance coverage in case of possible income disruption and is offered with each payday loan transaction. Developed in partnership with Trans Global Insurance, a subsidiary of The Brick Group, PPP enhances store revenues while reducing delinquencies and past due account calls at what could be a difficult time for our customers. Another new service launched this year, Western Union® Money Transfer™, allows customers to pay bills and transfer money quickly and reliably.

These new products are another step forward in the development of The Cash Store and Instaloans as neighbourhood financial supermarkets offering a wide range of financial services. Our expanding store network is reaching a wider group of consumers across Canada and new products further enhance our ability to meet consumer needs.

Our management team has been strengthened this year with the addition of Darin R. Coutu, CA, as Executive Vice President and Chief Financial Officer of Rentcash. Darin replaced Gary J. Wooldridge who retired on June 30, 2005. Mr. Wooldridge provided exemplary service since the company's inception by creating financial reporting and control systems that have supported our growth. Darin joined Rentcash from the Canadian Western Bank where he was Senior Assistant Vice President and Chief Accountant. Darin's experience also includes being CFO of a TSX listed company and a number of years with KPMG LLP. His appointment reflects the sharpening of the management roster to include individuals with experience in publicly held financial service organizations and we welcome him to the team.

Subsequent to the year-end, we announced that our board of directors is considering the viability of converting Rentcash into an income trust. Income trusts have swept across the Canadian economy, providing higher yields and cash flows for investors. We will report on this initiative as further developments occur.

In the year past, one of the developments of which I am most proud is that customer service representatives became store managers; store managers became regional managers; and regional managers became directors of operations. To the incredible people in the field, this is what our rapid rise to be the leading company in the field has meant. When revenues more than triple and profits rise while our remarkable expansion unfolds, it is our associates that lead the way. That means significant demands on our people to open new outlets, find and train individuals and motivate them at all levels and they have risen to the challenge. We have a dedicated team of associates who are enthusiastic and committed to this organization and together we are building a great company. We are truly LOUD and PROUD. Thank you to our shareholders, board of directors, associates and customers for their remarkable support in fiscal 2005. It was a fantastic year because of you.

Sincerely,

Gordon J. Reykdal,
Chairman, President and Chief Executive Officer

# UNPRECEDENTED GROWTH

This year Rentcash enjoyed impressive increases in same store revenues. The brokerage division's average same store revenues for the fourth quarter increased by 118% while the rental-purchase division's same store revenues grew by 57%. Two of the people who were instrumental in making this happen were Cory Evanyshyn and Renel Doucet. They have both received top honours as Regional Manager of the Year for creating the most profitable and high growth regions.

## ...BUSINESS MODEL

Cory Evanyshyn believes that the relationship Insta-rent has developed with The Brick Group (The Brick and United Furniture Warehouse) gives Insta-rent a huge advantage over the competition. "The selection of furniture, appliances and electronics available to the consumer is the best in the industry. It generates substantial traffic in the stores and gives us the chance to offer consumers, who may not qualify for programs offered by The Brick Group, the option to rent or rent-to-own." When speaking of some of the other advantages Evanyshyn says, "Being inside the Brick or United Furniture Warehouse means we can minimize our operating and store build out costs. We've made the decision to promote this model by ensuring that most new Insta-rent store openings will be in The Brick Group locations." In 2005, Insta-rent more than doubled its store count expanding from 36 stores in the previous year to 84.

Cory Evanyshyn
Insta-rent Regional Manager of the Year 2004 and 2005

## PROMOTING FROM WITHIN...

Evanyshyn is a huge supporter of internal development with seven of his region's customer service representatives becoming store managers this year. "We were able to do this because of our growth and the skilled people we already had on board," he says. When asked to share one of the secrets of his own personal success Evanyshyn says, "I love my job. Getting up in the morning and coming to work to do what I enjoy is so rewarding. I've found something I really love doing and I feel like a part of a very successful company." Looking ahead, Evanyshyn says, "There are great opportunities for Insta-rent associates to advance their careers. When seeking out new associates, I look for those who are energetic, customer-service oriented, driven to succeed and aren't afraid to work hard."

## ...IN NOVA SCOTIA

Renel Doucet has also had his hands full in his region. Doucet opened the first Nova Scotia Cash Store in Halifax, and is proud to plant the Rentcash flag in his native province. His region, which also includes Newfoundland, doubled last year from 7 to 14 stores. Doucet says, "An exciting prospect for me is further expansion in Newfoundland where there are only two stores. This has become a big region with 12 stores in Nova Scotia and two across the strait in Newfoundland."

Renel Doucet
Cash Store Regional Manager of the Year 2005

## COACHING...

The secret to his win as Regional Manager of the Year comes in the form of some advice to his peers, "Manage one day at time, one priority at a time. It's very important to build and then cultivate a climate of satisfaction. Accomplish this, and your associates will perform wonders for you, your region and the company. Master this, and we will produce many record-breaking years."

# PRUDENT ACQUISITION

On April 22, 2005 Rentcash Inc. purchased 99 stores from the Instaloans Group of Companies.

## PURCHASE OF INSTALOANS...

Acquiring the third-largest competitor in the arena of Canadian payday lenders and adding 99 Instaloans stores to the brokerage division, propelled Rentcash to the number one position in the industry. Lynaya Wickstrom, an Instaloans Regional Manager at the time of the acquisition, became one of the newest members of the Rentcash team. She played a major role in the integration of the 11 stores in her northern Ontario region, part of which involved retiring the Instaloans methodology and adapting the Rentcash brokerage philosophy.

Lynaya Wickstrom
Regional Manager Instaloans

## ...COMMUNICATION

"I have a renewed sense of enthusiasm with Rentcash," says Wickstrom. "The people are friendly and honest. There's no guesswork involved in how the company as a whole, my region, or me personally is performing. We're updated regularly, and able to participate in our own success, which is so empowering."

She also adds: "I'm in touch with Cameron Schiffner, the Director of Operations for Instaloans, on a regular basis. We receive daily reports on the brokerage side of the business and can see how each store is progressing. Cameron and I discuss the numbers and determine how we will hit our targets. We encourage each other and I'm motivated to participate in some friendly competition with the Cash Stores in our region!"

## BUILDING RELATIONSHIPS...

When speaking about building relationships with customers she proudly states: "I truly believe in the services we provide to our customers. We strive to be on a first name basis with all of them and it's easy to see they're comfortable with our associates. We've forged a strong relationship with them."

As part of the Rentcash formula for success, Wickstrom travels more now than ever before, and is able to spend additional time with her associates. She sees her widespread store managers at least once a month and talks to each one daily. She mentions one particular trek from Thunder Bay to North Bay and back that added at least 2300 kilometers to her business tripometer. "Next month I will visit Ft. Francis and Kenora," she says, which will add another 1100 kilometers. Wickstrom is definitely prepared to go the distance required to succeed!

# STOREFRONT STRATEGY

Barret Reykdal, Chief Operating Officer and Vice President Operations, was one of the key figures involved in the incredible effort to open 115 stores in the last fiscal year and incorporate the 99 newly acquired Instaloans outlets. In comparison, the entire company operated just 144 stores at the end of the previous fiscal year.

## A NEW LOOK...

In addition to the new openings, some stores also experienced significant improvements. "We have modernized the look of our stores to further enhance our customer service approach and revolutionize the industry," says Barret. "Our consistent look and feel across Canada lets customers know we welcome their business and want to maintain a relationship with them for many years to come." He also adds: "It's a sharper look and an image that brings us more into the future. New counters, lights and posters make our stores very welcoming. We look forward to rolling this out to our entire brokerage network as time goes on."

Barret Reykdal
Chief Operating Officer
and Vice President Operations

## ...NEW PRODUCTS

Diversifying services was another key focus for Barret and his team of Directors, the Cash Store's David McNeil in the East, Chad Watts in the West and Cameron Schiffner at Instaloans. "In pursuit of becoming an alternative one stop neighbourhood financial service provider, we introduced new products to the brokerage division," says Barret. "One of those, Western Union® Money Transfer™, allows customers to pay bills and transfer money quickly and reliably. Another, the Payment Protection Plan (PPP), offers insurance coverage on payday advances. And last, but certainly not least, our mortgage services, which come in two packages, the Insta-Mortgage and the Conventional Mortgage. We are constantly in search of products and services to satisfy the needs of our customers and hope to release a phone reconnect service in the very near future."

## PURPOSE...

Barret remains focused on all aspects of the brokerage division while keeping the company's overall mission at the forefront. "We are here to satisfy the needs of our customers in a positive and professional manner," says Barret. "We work as a team and talk virtually every day about how we can better serve our customers, enhance associate performance, meet our goals and build the business profitably. As long as we remain true to our mission, core values and code of conduct all of this is within our grasp."

Rentcash's values drive its success. Margot Ross-Graham, Vice President & Corporate Secretary, sees her position as a champion of those values, sharing and modeling them for all Rentcash associates, whose numbers, as a point of reference, tripled over the course of the year.

## A TEAM...

With 1,300 plus people across nine provinces, two territories and five and a half time zones it's no wonder that teamwork and communication top Ross-Graham's list of values. "Team is what we are all about. We value our people. We share results openly and offer associates an equitable bonus plan. Our performance expectations are transparent and our customer service practices are rational and honest, reflecting who we are as a company," Ross-Graham says.

Margot Ross-Graham
Vice President
& Corporate Secretary

## ...CONNECTING

In fiscal 2005 Rentcash focused on its managers. "In order to preserve the strong person-to-person nature of the whole Rentcash operation we provided them with new tools and opportunities to connect with their growing teams," Ross-Graham says. "We redesigned our hiring guides to include important interview tips for use during the selection process. We also created store manager training guides to assist managers in the crucial task of developing new associates. To improve upon their own skills, managers have access to professional development initiatives, a human resource advisor and a dedicated training expert at corporate office as well as a training consultant in each region. We are also devoting time and energy to ensuring that all of this valuable information is available online and at the fingertips of our associates." She adds: "Improving on relationships always has a positive outcome and in our case it increases productivity and commitment to the organization."

## ...VALUES

Of course, Ross-Graham points out, a discussion of corporate values is not complete without the recognition of our code of conduct, which is displayed in every store:

**respect your customers**
treat them with dignity and courtesy at all times

**respect your associates**
treat them as you would like to be treated

**respect yourself**
work hard and use good ethical judgment in everything you do

**respect the law**
it is there to protect us and our customers

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2005

The following management's discussion and analysis (MD&A) should be read in conjunction with Rentcash Inc.'s (Rentcash or the Company) fiscal 2005 audited consolidated financial statements and annual information form, both of which are available on SEDAR at www.sedar.com.

Certain statements made in this MD&A and elsewhere in this Annual Report constitute forward-looking statements. These forward-looking statements may relate to our objectives, strategies, operations and targeted financial results. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "belief", "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These forward-looking statements are inherently subject to risks and uncertainties beyond the Company's control, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments and competition. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

This MD&A refers to certain financial measures that are not determined in accordance with generally accepted accounting principles (GAAP) in Canada. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although measures such as 'same store revenue' and 'Earnings Before Interest, Income Taxes, Stock-based Compensation, Amortization of Capital and Intangible Assets' (EBITA) do not have standardized meanings prescribed by GAAP, these measures are used herein or can be determined by reference to the Company's financial statements. These measures are discussed because management believes that they facilitate the understanding of the results of the Company's segmented operations and financial position.

This management's discussion and analysis is dated as of September 28, 2005.

## BUSINESS PROFILE AND STRATEGY

The Company operates under three store banners: The Cash Store, Instaloans and Insta-rent. The Cash Store and Instaloans act as brokers to facilitate payday advance services to income earning consumers. Insta-rent rents brand name furniture, appliances, electronics and computers, with or without an option to purchase. At June 30, 2005, the Company owned and operated 361 stores in nine provinces and two territories and employed over 1,300 associates within Canada. Rentcash is listed on the Toronto Stock Exchange under the symbol RCS.

In the brokerage division, The Cash Store and Instaloans act as brokers on behalf of consumers seeking short term advances with third party lenders without having to provide a credit history or security on the loan, as is generally required by commercial lending institutions. The Company's operating strategy in this segment is based on the recognition that the needs of a segment of the population are not being met by traditional financial institutions. The goal is to establish The Cash Store and Instaloans as neighbourhood financial supermarkets providing a wide range of services, a high level of customer service and convenient hours of operation.

The Company's strategy for Insta-rent is to primarily expand through a strategic arrangement with The Brick Group, building a national chain of outlets while maintaining a high level of customer service.

The Company's mission is to satisfy the needs of customers in a positive and professional manner and always act as a responsible corporate citizen. One way of doing so is to adhere to the Company's core values of honesty, integrity, loyalty and teamwork.

## THREE-YEAR FINANCIAL SUMMARY

**Table - Selected Annual Financial Information**

| | | | Year Ended June 30 | |
|---|---|---|---|---|
| (thousands of dollars, except per share amounts and store figures) | | **2005** | 2004 | 2003 |
| **Consolidated Results** | *No. of stores* | ***361*** | *144* | *70* |
| Revenue - Brokerage fees | | **$ 63,891** | $ 16,530 | $ 7,338 |
| - Rentals | | **13,452** | 5,728 | 2,982 |
| | | **77,343** | 22,258 | 10,320 |
| Expenses | | **48,817** | 19,789 | 9,380 |
| Administrative allowance provision | | **10,301** | 324 | 145 |
| Rental asset amortization | | **4,827** | 1,937 | 1,065 |
| Other amortization | | **1,787** | 538 | 285 |
| EBITA * | | **14,084** | 498 | (185) |
| Net income (loss) | | **$ 7,315** | $ (219) | $ (354) |
| Weighted average number of shares outstanding - basic | | **17,184** | 14,691 | 13,308 |
| Basic earnings (loss) per share | | **$ 0.43** | $ (0.01) | $ (0.03) |
| Diluted earnings (loss) per share | | **$ 0.41** | $ (0.01) | $ (0.03) |
| | | | | |
| **Consolidated Balance Sheet Information** | | | | |
| Total assets | | **$ 83,428** | $ 11,653 | $ 6,859 |
| Total liabilities | | **28,030** | 7,982 | 3,018 |
| Shareholders' equity | | **55,398** | 3,671 | 3,841 |

* EBITA – earnings before interest, income taxes, stock-based compensation, amortization of capital and intangible assets

## OVERALL FINANCIAL PERFORMANCE

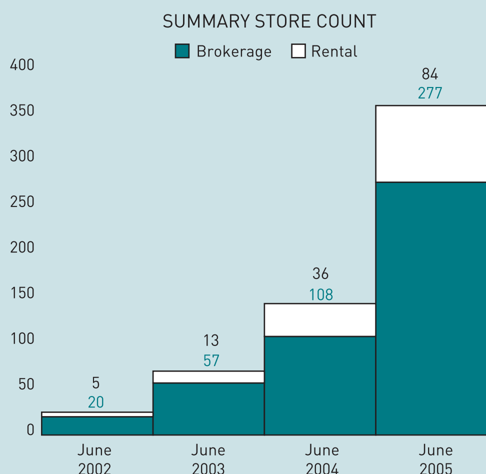
### Highlights of 2005

- Net income improved to $7.3 million from a loss of $219,264 in 2004
- Revenue for fiscal 2005 more than tripled to $77.3 million
- Completed acquisition and integration of 99 Instaloans stores
- 361 stores in operation as of June 30, 2005, up from 144 a year ago
- Tripled the number of associates employed to over 1,300

Net income for the year ended June 30, 2005 increased to $7.3 million from a net loss of $219,264 in the previous year. Diluted earnings per share were $0.41 ($0.43 basic) compared to a loss of $0.01 per share ($0.01 basic) in the prior year. The increased earnings resulted from the Company's continued store expansion program, growth in same store sales, and the acquisition of established stores, partially offset by an increased administrative allowance provision. The financial results for fiscal 2005 also reflect strong earnings growth in the Company's brokerage division, partially offset by higher losses in the rental-purchase division and increased corporate expenses.

The Company's overall EBITA (earnings before interest, income taxes, stock-based compensation, amortization of capital and intangible assets) for the year ended June 30, 2005 was $14.1 million (18% of revenue), which compared to $498,000 (2%) in the prior year. Adding back rental asset amortization, EBITA was 24% of revenue for fiscal 2005 compared to 7% of revenue in 2004.

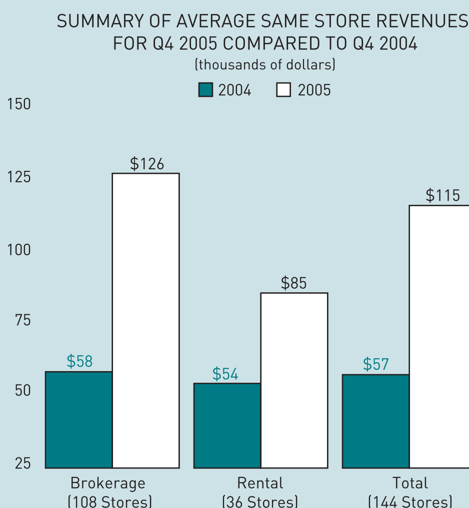
During fiscal 2005, the Company increased its total store count to 361 from 144 at June 30, 2004. The Company opened 115 new stores and acquired an additional 102 established stores, including 99 Instaloans stores purchased on April 22, 2005. Of the 361 stores, 277 were in the brokerage segment and 84 were rental locations.




## Revenue

Revenue for fiscal 2005 increased by $55.0 million or 247% to $77.3 million. Of this increase, $47.4 million was generated by the brokerage division and $8.1 million by the rental-purchase division. The brokerage division generated revenue of $63.9 million in fiscal 2005 compared to $16.5 million in the prior year. Revenue from the rental-purchase division was $13.4 million compared to $5.7 million for the year ended June 30, 2004. The strong growth in both brokerage and rental revenues was due to increased stores in operation and an increase in same store sales.

The Company has reached a level of store development where a meaningful sample of same store revenues year-over-year can be provided. By the end of Q4 2004 the Company had reached a total store count of 144, made up of 108 Cash Store and 36 Insta-rent locations. For the fourth quarter ended June 30, 2005, sales for these same stores increased by 104% over the revenue levels realized in Q4 2004. There continues to be an increase in revenues as stores mature. On a segmented basis, the brokerage division's Q4 2005 revenues increased 118% over the revenue levels realized in the same quarter last year and the rental-purchase division's same store sales increased 57%.



## Expenses

The significant increase in number of stores in operation contributed to expenses, before the administrative allowance provision, increasing to $48.8 million in fiscal 2005 compared to $19.8 million in the prior year. As a percentage of total revenues, expenses improved to 63% in the year from 89% in the prior year. The improvement was due to economies of scale, the continued maturation of new and existing stores and the acquisition of established stores.

## Administrative Allowance Provision

In fiscal 2005, the Company recorded an administrative allowance provision of $10.3 million or 16% of brokerage revenue compared to $324,000 or 2% of brokerage revenue in the prior year. The increased allowance was due in part to the implementation of a no rollover policy in January 2005 and the Company's focus on growth. The no rollover policy was implemented in accordance with the Code of Best Business Practices issued by the Canadian Payday Loan Association. While management anticipated that the implementation of a no rollover policy would have a negative impact on revenue, they did not expect that the new policy would result in a significant increase in loan losses. Given the time lag required for a significant number of loans to be identified as uncollectible and the integration of Instaloans in the fourth quarter, it was not until early September, when preparing the Company's fiscal 2005 financial statements, that management identified the number of loans and amounts of losses for which the Company could be required to account to the lenders under the terms of its agreements with the lenders.

Under the terms of written agreements with the lenders, all risk associated with uncollectible loans rests with the lenders, unless the Company fails to properly perform its duties in accordance with the terms of the agreements. In the periods prior to the implementation of the no rollover policy a majority of the loan losses were absorbed by the lenders. The expense incurred by the Company in prior periods pursuant to its requirements under the agreements with lenders was relatively nominal as reflected in the Company's administrative allowance provision of $324,000 or 2% of brokerage revenue in fiscal 2004 and $145,000 or 1% of brokerage revenue in fiscal 2003. With the recent increase in uncollectible loans, both the expenses incurred by the Company and the losses absorbed by the lenders have increased.

The Company's administrative allowance provision for fiscal 2005 of $10.3 million, which includes an accrual of $7.2 million, reflects management's estimate of the amounts the Company may pay to the lenders taking into account the agreements between the parties and management's estimate of the total amount of loans that have or will likely become uncollectible. The total balance of the lenders' loan portfolio as at June 30, 2005 was approximately $50 million (2004 - $8 million), and at the end of August 2005 it was estimated that approximately $20 million of this loan portfolio remained outstanding. The remaining loans outstanding include amounts that are secured by collateral assets, amounts that will be collected through normal past due account management efforts or by third party collection agents and amounts that based on historical experience will likely become uncollectible. In respect of amounts that may become uncollectible, the Company has accrued an administrative allowance of $7.2 million (2004 - nil).

In the new lending environment, the Company's objective is to maintain the administrative allowance provision between 18% and 24% of brokerage revenue. This objective compares to the Company's actual provision of 22% of brokerage revenue since the no rollover policy was implemented (January to June 2005). The Company will continue to implement policies and procedures to improve operational efficiency. The 18% to 24% objective and accrued administrative allowance of $7.2 million noted above are based upon the existing lender agreements as well as a number of assumptions and estimates. As a result, future provisions could vary significantly.

## Amortization

Amortization of rental assets for the year ended June 30, 2005 increased to $4.8 million from $1.9 million in the prior year, and amounted to 35.9% of rental revenue for the current year compared with 33.8% in fiscal 2004.

Amortization of capital assets increased to $1.6 million in fiscal 2005 from $511,000 in the prior year as a result of the continued store expansion program and a change in the estimated useful life of the Company's capital assets. Effective April 1, 2005, the estimated useful life of most capital assets was decreased to reflect historical experience. In addition, the method of amortization was changed to straight-line from declining balance. These changes increased capital asset amortization by approximately $590,000 in fiscal 2005. Amortization is expected to continue to increase as new stores are opened or acquired.

## Income Taxes

The effective income tax rate for the year ended June 30, 2005 was 37.0% compared to 33.6% in the prior year. The rate increase reflects a significant portion of the Company's growth occurring in higher tax provinces outside of Alberta, and an increase in non-deductible amounts such as stock-based compensation and deferred lease inducements.

## Balance Sheet

As at June 30, 2005, the Company had total assets of $83 million, an increase of $72 million over one year ago. The increase was primarily due to continued business growth and the acquisition of Instaloans. The significant changes on the liability side of the balance sheet, other than general business growth, were a $5.7 million increase in income taxes payable and a $7.2 million administrative allowance accrual. It should also be noted that the Company repaid its outstanding subordinated debt of $3.0 million in July 2005. Shareholders' equity increased $51.7 million as a result of the $7.3 million of earnings generated in fiscal 2005 and the completion of four private placements during the year.

## OPERATING SEGMENT REVIEW

The Company and its subsidiaries are engaged in two lines of business: 1) acting as a broker to customers seeking payday advances (brokerage segment); and 2) renting, with or without an option to purchase, brand name home entertainment products, appliances and household furniture (rental-purchase segment). The corporate segment consists of the Company's administrative functions including accounting and finance, human resources, business development and information systems.

| | | Year Ended June 30 | |
|---|---|---|---|
| | | **2005** | 2004 |
| **Brokerage Operations** | *No. of stores* | ***277*** | *108* |
| Revenues | | **$ 63,891** | $ 16,530 |
| Expenses | | **37,119** | 12,991 |
| Administrative allowance provision | | **10,301** | 324 |
| Other amortization | | **1,136** | 367 |
| EBITA * | | **16,503** | 3,247 |
| Net income | | **$ 9,764** | $ 1,891 |
| **Rental-purchase Operations** | *No. of stores* | ***84*** | *36* |
| Revenues | | **$ 13,452** | $ 5,728 |
| Expenses | | **10,323** | 3,854 |
| Rental asset amortization | | **4,827** | 1,937 |
| Other amortization | | **421** | 91 |
| EBITA * | | **(1,692)** | (20) |
| Net income (loss) | | **$ (848)** | $ (103) |
| **Corporate** | | | |
| Expenses | | **$ 1,374** | $ 2,944 |
| Other amortization | | **231** | 80 |
| EBITA * | | **(727)** | (2,729) |
| Net income (loss) | | **$ (1,601)** | $ (2,007) |

* EBITA - earnings before interest, income taxes, stock-based compensation, amortization of capital and intangible assets

## Brokerage Segment

The brokerage division generated net income of $9.8 million in fiscal 2005 compared to $1.9 million in the prior year. The increased earnings reflect the significant store growth and improved same store sales, partially offset by a higher administrative allowance. The brokerage segment's EBITA was $16.5 million (26% of broker fees) for the year ended June 30, 2005 compared to $3.2 million (20% of broker fees) in the prior year.

Revenue for 2005 of $63.9 million was almost four times greater than the $16.5 million generated in the prior year. The strong revenue growth was due in part to 67 new stores and the acquisition of 102 stores during the year (including 99 Instaloans stores acquired on April 22, 2005) for a total of 277 as at June 30, 2005. In fiscal 2006, the Company plans to open approximately eight brokerage locations per month.

Also contributing to the revenue growth was an increase in same store sales. In Q4 2005, the 108 brokerage stores open as at June 30, 2004 generated average revenues of approximately $126,000 per store, an increase of 118% over $58,000 in Q4 2004. This compares to the Company's oldest 20 brokerage stores, which generated average revenues of approximately $174,000 in Q4 2005 compared to $94,000 in Q4 2004. The average age of the oldest 20 brokerage stores was approximately 3½ years as at June 30, 2005. These statistics demonstrate that stores continue to generate increased revenues as they mature.

Expenses in the brokerage segment improved to 58% of revenue in fiscal 2005 compared to 79% in the prior year. The improvement reflects economies of scale, the continued maturation of new and existing stores and the acquisition of established stores. The brokerage segment's administrative allowance provision increased to $10.3 million (or 16% of broker fees) from $324,000 (2% of broker fees) in fiscal 2004.

### Rental-purchase Segment

The rental-purchase division incurred a net loss of $848,000 in fiscal 2005 compared to $103,000 in the prior year. During the year, there were 48 new rental stores opened for a total of 84 stores at June 30, 2005, which compared to 36 stores one year ago. EBITA for the rental-purchase division was a negative $1.7 million compared to a negative $20,000 in the prior year.

The increased number of stores contributed to revenue for fiscal 2005 more than doubling to $13.5 million from $5.7 million in the prior year. Also contributing to the revenue growth was an increase in same store sales. In Q4 2005, the 37 rental stores open as at June 30, 2004 generated average revenues of approximately $83,000 per store, an increase of 58% over $53,000 in Q4 2004. This compares to the Company's five oldest rental stores that generated average revenues of approximately $106,000 in Q4 2005 compared to $87,000 in Q4 2004. Average same store sales continue to increase as a store matures.

Expenses in the rental-purchase segment increased to 77% of revenue in fiscal 2005 compared to 67% in the prior year reflecting the significant increase in new stores. The Company estimates that on average a new rental store takes approximately twelve months to reach profitability.

The rental-purchase division is expected to continue to show operating losses in fiscal 2006 until such time as the maturity level of the opened stores is reached whereby the new store operating losses can be fully absorbed. In fiscal 2006 the company plans to reduce the number of stores it will open in the division to approximately two to three per month so as to focus the segment on profitability.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities for the year ended June 30, 2005 amounted to $19.4 million up from $546,000 for the year ended in 2004. The $19.4 million operating cash flow primarily resulted from net earnings of $7.3 million plus amortization, stock-based compensation and future income taxes of $5.4 million and working capital changes (accounts payable and accrued liabilities, administrative allowance accrual and income taxes payable) of $16.9 million, offset by rental asset purchases of $10.2 million.

For the year ended June 30, 2005, rental asset purchases increased by $6.7 million over the prior year to $10.2 million, and purchases of capital assets increased by $4.7 million to $6.8 million. The increase in purchases of rental and capital assets is due primarily to continued store expansion throughout the year and corporate office expansion. Of the 361 stores at year-end, there were 115 new stores opened in fiscal 2005 (in addition to the 102 stores acquired) of which 67 were opened in the brokerage segment and 48 in the rental-purchase segment.

Cash received from financing activities amounted to $43.3 million for the year ended June 30, 2005 compared to $1.6 million in the prior year. During the year, 604,085 stock options were exercised for net proceeds of $497,000. The fiscal 2005 financing activities also included four private placements where approximately five million common shares were issued at prices of $2.00, $6.40, $6.80 and $14.50 respectively, for combined proceeds, net of related costs and future income taxes, of $43.2 million. The net proceeds were used for continued store expansion, working capital purposes and the acquisition of the net business assets of the Instaloans Group of Companies and Premiere Financial Group for total cash consideration of $39.8 million. See Note 3 to 2005 audited consolidated financial statements for additional details on the acquisitions.

During the year, the Company repaid its revolving and term bank loans in full and made total payments of $159,000 and $395,000 on its capital leases and promissory notes, respectively. The Company issued an additional $1 million of subordinated debt in fiscal 2005 on the same terms as the $2 million issued in 2004. The proceeds were used for store expansion and working capital needs. Subsequent to June 30, 2005, the Company repaid the $3 million of subordinated debt in full prior to its maturity date of December 2008 without penalty.

At June 30, 2005, the Company's current liabilities of $24.1 million exceeded its current assets of $18.1 million. The Company expects that its ongoing operations will produce sufficient funds to meet liabilities as they come due.

## Contractual Obligations

The Company's contractual obligations over the next five years and thereafter are summarized in the table below. For additional information, see Notes 9, 10 and 14 of the Company's audited consolidated financial statements for the year ended June 30, 2005.

**Table - Contractual Obligations**

| | 1 Year | 2 Years | 3 Years | 4 Years | 5 Years and > | Total |
|---|---|---|---|---|---|---|
| Term debt | $ 74,727 | $ 2,000,000 | $ 1,000,000 | $ - | $ - | $ 3,074,727 |
| Obligation under capital leases | 188,701 | 152,066 | 96,791 | 318 | - | 437,876 |
| Operating leases | 4,811,793 | 4,375,873 | 3,501,999 | 2,489,734 | 2,476,203 | 17,655,602 |
| | $ 5,075,221 | $ 6,527,939 | $ 4,598,790 | $ 2,490,052 | $ 2,476,203 | $ 21,168,205 |

## SUMMARY OF QUARTERLY RESULTS AND FOURTH QUARTER

The financial results for each of the last eight quarters are summarized in the following table. In general, the Company's results reflect a pattern of growth. In the fourth quarter of 2005, the Company experienced significant growth in stores in operation, revenues and expenses due to the acquisition of 99 Instaloans stores on April 22, 2005.

**Table - Quarterly Financial Results**

(in thousands of dollars except earnings per share and no. of stores figures)

| | | 2005 | | | | 2004 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Consolidated Results** | | | | | | | | | |
| Total operations | *No. of stores* | ***361*** | ***227*** | ***195*** | ***171*** | *144* | *123* | *104* | *93* |
| Revenue | | **$ 32,309** | **$ 18,928** | **$ 15,244** | **$ 10,863** | $ 8,368 | $ 5,542 | $ 4,499 | $ 3,848 |
| Expenses | | **19,687** | **11,533** | **9,836** | **7,761** | 6,593 | 5,051 | 4,435 | 3,710 |
| Administrative allowance provision | | **8,948** | **792** | **368** | **193** | 96 | 85 | 74 | 69 |
| Rental asset amortization | | **1,848** | **1,263** | **950** | **766** | 583 | 539 | 429 | 386 |
| Other amortization | | **1,087** | **293** | **217** | **190** | 161 | 140 | 127 | 110 |
| EBITA * | | **2,050** | **5,456** | **4,220** | **2,358** | 1,226 | (35) | (407) | (286) |
| Net income (loss) | | **244** | **3,271** | **2,496** | **1,304** | 589 | (173) | (362) | (273) |
| Basic earnings (loss) per share | | **0.01** | **0.19** | **0.16** | **0.08** | 0.04 | (0.01) | (0.02) | (0.02) |
| Diluted earnings (loss) per share | | **$ 0.01** | **$ 0.18** | **$ 0.15** | **$ 0.08** | $ 0.04 | $ (0.01) | $ (0.02) | $ (0.02) |
| **Segmented Results** | | | | | | | | | |
| Brokerage operations | *No. of stores* | ***277*** | ***158*** | ***142*** | ***122*** | *108* | *97* | *85* | *78* |
| Revenues | | **$ 28,290** | **$ 15,057** | **$ 12,162** | **$ 8,382** | $ 6,396 | $ 4,010 | $ 3,312 | $ 2,812 |
| Expenses | | **16,133** | **8,367** | **7,179** | **5,440** | 4,336 | 3,242 | 2,937 | 2,476 |
| Administrative allowance provision | | **8,948** | **792** | **368** | **193** | 96 | 85 | 74 | 69 |
| Other amortization | | **708** | **168** | **140** | **120** | 129 | 93 | 80 | 65 |
| EBITA * | | **3,233** | **5,891** | **4,622** | **2,757** | 1,970 | 693 | 309 | 276 |
| Net income (loss) | | **$ 1,214** | **$ 3,741** | **$ 2,961** | **$ 1,848** | $ 1,243 | $ 378 | $ 141 | $ 129 |
| Rental-purchase operations | *No. of stores* | ***84*** | ***69*** | ***53*** | ***49*** | *36* | *26* | *19* | *15* |
| Revenues | | **$ 4,019** | **$ 3,871** | **$ 3,082** | **$ 2,481** | $ 1,972 | $ 1,532 | $ 1,187 | $ 1,036 |
| Expenses | | **3,512** | **2,746** | **2,235** | **1,830** | 1,448 | 1,000 | 794 | 612 |
| Rental asset amortization | | **1,848** | **1,263** | **950** | **766** | 583 | 539 | 429 | 386 |
| Other amortization | | **222** | **96** | **54** | **48** | 11 | 26 | 27 | 27 |
| EBITA * | | **(1,345)** | **(137)** | **(102)** | **(108)** | (50) | 4 | (23) | 48 |
| Net income (loss) | | **$ (775)** | **$ (21)** | **$ (20)** | **$ (32)** | $ (50) | $ (20) | $ (40) | $ 7 |
| Corporate | | | | | | | | | |
| Expenses | | **$ 42** | **$ 420** | **$ 422** | **$ 491** | $ 809 | $ 809 | $ 704 | $ 622 |
| Other amortization | | **157** | **29** | **23** | **22** | 21 | 21 | 20 | 18 |
| EBITA * | | **162** | **(298)** | **(300)** | **(291)** | (694) | (732) | (693) | (610) |
| Net income (loss) | | **$ (195)** | **$ (449)** | **$ (445)** | **$ (512)** | $ (604) | $ (531) | $ (463) | $ (409) |

* EBITA – earnings before interest, income taxes, stock-based compensation, amortization of capital and intangible assets

### Q4 2005 compared to Q4 2004

Net income for the fourth quarter ended June 30, 2005 was $244,000 compared to $589,000 in the same quarter last year and diluted earnings per share were $0.01 ($0.01 basic) compared to $0.04 per share ($0.04 basic) in the fourth quarter last year. EBITA for the fourth quarter was $2.1 million compared to $1.3 million in the same quarter last year. The financial results for the fourth quarter reflect the Company's continued store expansion program, growth in same store sales and the acquisition of established stores. The impact of these positive factors however was more than offset by an increased administrative allowance provision.

Revenue for the fourth quarter of 2005 was $32.3 million, an increase of $23.9 or almost three times the $8.4 million generated in the same period last year. The increase was due in part to the 217 stores opened or acquired in fiscal 2005. In the fourth quarter, the Company opened 32 new stores and acquired 102 stores (including the 99 Instaloans stores acquired on April 22, 2005). The increase in revenue also reflects the previously noted 104% increase in same store sales.

Expenses for the fourth quarter increased to $19.7 million from $6.6 million in the same period last year primarily due to the increase in the number of stores in operation. As a percentage of total revenues, expenses improved to 61% in the quarter from 79% in the fourth quarter last year. The improvement was due to economies of scale, the continued maturation of new and existing stores and the acquisition of established stores.

The division's administrative allowance was $8.9 million or 32% of brokerage revenue in fourth quarter of 2005 compared to $96,000 or 2% of brokerage revenue in the same quarter last year. For additional information on the administrative allowance refer to page 7 of this MD&A.

Amortization of rental assets increased to $1.8 million for the quarter ended June 30, 2005 compared to $583,000 in the same quarter last year with the increase directly related to growth in rental revenue. Amortization of capital assets increased to $1.1 million from $161,000 in the fourth quarter last year due to the increased stores in operation as well as changes to the estimated useful life of the Company's capital assets effective April 1, 2005. The estimated useful life of most capital assets was decreased to reflect historical experience and the method of amortization was changed to straight-line from declining balance. These changes increased capital asset amortization by approximately $590,000 in the quarter.

### Q4 2005 compared to Q3 2005

Net income for the quarter decreased to $244,000 from $3.3 million in the third quarter this year, with the decrease primarily due to the administrative allowance provision increasing to $8.9 million from $792,000 in the third quarter. Earnings for the fourth quarter in relation to the third quarter were also impacted by the amortization changes noted above.

In the fourth quarter, the Company opened 32 new stores and acquired 102 stores (including the 99 Instaloans stores acquired on April 22, 2005). This store growth contributed to revenue increasing $13.4 million (71%) and expenses, excluding the administrative allowance provision, increasing $8.2 million (71%) over the third quarter. The acquisition of 102 stores in the quarter accounted for roughly $9.6 million of the increase in revenue in the quarter. The earnings contribution of the acquired stores is expected to improve as they continue to embrace Rentcash's operating philosophy. Expenses in the fourth quarter were consistent with the third quarter at 61% of total revenue.

### Fourth Quarter - Operating Segment Review

The brokerage division experienced significant revenue growth in the fourth quarter. Broker fees increased 88% to $28.3 million from $15.1 million in the third quarter this year. The growth was due to the continued maturation of existing stores, the opening of 17 new stores and the acquisition of 102 established stores in the quarter. Earnings for the brokerage division in the fourth quarter were however negatively impacted by the increased administrative allowance provision as discussed above.

In the fourth quarter, the rental-purchase division opened 15 new stores (48 in total in fiscal 2005), however revenues increased only slightly in the quarter to $4.0 million compared to $3.9 million in the third quarter this year. The division's net loss in the quarter increased $759,000 from $37,000 in the previous quarter. Contributing to the increased loss was expected start-up losses on new stores opened during the year. The Company generally forecasts that new rental stores will incur losses during their first twelve months of operation. During this start-up period, the Company incurs costs to train new store managers and associates and to pay normal operating expenses.

## SUBSEQUENT EVENTS

In July 2005, the Company repaid in full the $3 million of outstanding subordinated debt without penalty.

Effective July 29, 2005, the Company acquired all the business assets of Payday Financial Group of Companies (Payday Financial) for cash consideration of $1,306,500 plus estimated transaction costs of $10,000. All outstanding litigation between the Company and Payday Financial was settled as part of the purchase and sale transaction.

On September 8, 2005, the Company also announced that its board of directors is investigating the viability and method of converting the Company into an income trust. A detailed review of the merits of converting to an income trust structure will be undertaken together with legal, financial and tax advisors.

## RELATED PARTY TRANSACTIONS

A company controlled by the President of the Company provided administrative and payroll services to the Company until December 31, 2003. Salaries and benefits expense includes $nil (2004 - $821,695) relating to these services during the period. These transactions were subject to normal trade terms and were charged at laid down cost without any additional mark-up and are measured at the actual exchange amount. Effective January 1, 2004, the Company maintained its own payrolls and paid all associates directly.

A company, in which a Director of the Company is a partner, has provided consulting services to the Company. Selling, general and administrative expense includes $21,646 (2004 - $90,593) relating to these services for the period. These transactions are subject to normal trade terms and are measured at the actual transaction amount.

## CONTRACTUAL BUSINESS ARRANGEMENT

The Company, through its subsidiary Insta-rent Corporation, has entered into license agreements with The Brick Warehouse LP and its subsidiary United Furniture Warehouse LP (vendors). The license agreements were entered into on October 1, 2004 and are for a term of five years, and at the end of each term the agreements shall automatically renew for a further five years unless terminated by one of the parties. Pursuant to these agreements, a majority of the Company's rental operations are located in the vendor's locations. Accordingly, the absence of these arrangements could have a material impact on the Company's rental operations.

As part of the agreements, the Company has agreed to pay a license fee equal to fifty percent of each stores aggregate operating income. Any losses incurred at a particular location are carried forward into future periods and netted against any future store profits. During fiscal 2005, fifty percent of the aggregate store profit paid or payable to vendor's totalled approximately $638,000 (2004 - $nil), of which approximately $260,000 (2004 - $nil) was outstanding and recorded in accounts payable and accrued liabilities as at June 30, 2005. Also, as at June 30, 2005, the Company has recorded, in deposits and other, approximately $1.1 million (2004 - $116,000) related to the estimated recoverable amount of total aggregate store losses available to offset against future store profits.

## LEGAL PROCEEDINGS

In prior periods, the Company was served with three Statements of Claim on behalf of customers in Alberta, British Columbia and Ontario alleging that the Company is in breach of the Criminal Code and Fair Trading Act. Subsequent to June 30, 2005, the claim in British Columbia was certified by the Supreme Court of British Columbia as a class proceeding pursuant to the Class Proceeding Act. The Company believes that it conducts its business in accordance with applicable law and will defend each of the actions vigorously; however the likelihood of loss if any is not determinable. Accordingly, no provision has been made for these actions in the accounts.

## INDUSTRY CHANGES/REGULATIONS

Pursuant to several media reports, it appears as if the federal government will table amendments to the Criminal Code this fall to give individual provinces the right to set and enforce maximum interest rates and fees charged by, amongst others, payday loan companies. Rentcash has long been a supporter and proponent for regulation in the Canadian payday loan industry. In early 2004, Rentcash took a lead role in the formation of The Canadian Payday Loan Association (CPLA) (formerly known as The Canadian Association of Community Financial Service Providers or CACFS) and continues to be represented on the Board of Directors. The Association represents The Cash Store, Instaloans and other companies providing small short-term loans for Canadians without viable and available alternatives. The CPLA's work has included meetings with government policy staff, stakeholders, and interest groups as well as the preparation of a Code of Best Business Practices as a formal basis of self-regulation within the industry. The likelihood or outcome of any amendments is not determinable.

## CRITICAL ACCOUNTING ESTIMATES

The Company's accounting policies are integral to understanding and interpreting the financial results reported in this MD&A. The significant accounting policies used in preparing the Company's consolidated financial statements are summarized in Note 1 to those statements which are available on SEDAR at www.sedar.com. Certain policies included in Note 1 are considered to be particularly important to the presentation of the Company's financial position and results of operations, because they require management to make difficult, complex or subjective judgments and estimates, often as a result of matters that are inherently uncertain, which may result in materially different results under different assumptions and conditions. The following is a discussion of those critical accounting estimates. These estimates are adjusted in the normal course to reflect changing underlying circumstances. The impact and any associated risks related to these critical accounting estimates on the Company's business may also be discussed elsewhere in this MD&A.

### Revenue Recognition

The Company generates broker fees from the brokering of short-term loans for customers with third party lenders. The Company recognizes revenue once all services have been rendered, including when the loan has been received by the customer from the third party lender and the broker fee has been received from the customer. Pursuant to the terms of Company's agreements with third party lenders, the Company is liable to the lenders if it fails to properly perform its duties under the terms of the agreements. For additional information on the Company's risk exposure see the administrative allowance discussion below.

The Company recognizes revenue in its rental-purchase segment once delivery has occurred, evidence of arrangement exists, the fee is fixed and determinable, collection is probable and there are no significant vendor obligations remaining. Merchandise is rented to the customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with non-refundable rental payments. The rental agreements may be terminated at any time by the customer without further obligation or cost upon return of the merchandise. Revenue from rental agreements is recognized over the rental term. At the end of each weekly or monthly period, the customer has the option of renewing the agreement for an additional period. Other revenue from various services and charges to rental customers include liability waiver, processing and reinstatement fees, which are recognized as collected.

### Administrative Allowance

The Company acts as a broker to facilitate payday advance services to income earning consumers. The Company does not fund the payday advances. All funding is provided by independent third party lenders. The payday cash advances are repayable by the customer solely to the third party lenders and represent assets of the third party lenders; accordingly the Company does not include the related loan receivable and interest revenue in its financial statements. In addition, the relationship between the Company and the third party lenders is such that consolidation of the operations of third party lenders is not required as the Company does not have ownership interests in any of the third party lenders, nor do the third party lenders meet the definition of a variable interest entity.

Under the terms of the agreements with third party lenders, the Company is liable to the third party lenders for losses arising as a result of the Company failing to properly perform its duties under the terms of the agreements. The Company records an administrative allowance provision taking into account several factors including the agreements with the third party lenders, historical loan losses experienced by the third party lenders, an estimate of amounts that can be recovered by a third party collection company, the aging of accounts, underlying security, if any, and amounts to be absorbed by the third party lenders. To the extent that past experience is not indicative of future results or assumptions used by management do not prevail, the Company's future provisions could vary significantly, resulting in either higher or lower provisions. For the year ended June 30, 2005, if the loans losses were, as a percentage of brokerage revenue, 2% higher or lower, the administrative allowance provision would have changed by approximately $1.3 million. For additional information on the administrative allowance, see discussion contained elsewhere in this MD&A and notes 1(e) and 19(c) of the Company's financial statements available on SEDAR at www.sedar.com.

### Amortization Policies and Useful Lives

The Company depreciates the cost of rental assets, capital assets and intangible assets over the estimated useful service lives of the items. These estimates of useful lives involve considerable judgment. In determining these estimates, the Company takes into account industry trends and company-specific factors, including changing technologies and expectations for the in-service period of these assets. On an annual basis, the Company reassesses its existing estimates of useful lives to ensure they match the anticipated life of the asset from a revenue producing perspective. If an in-service period change happens more quickly than the Company has anticipated, the Company might have to shorten the estimated life of certain rental, capital or intangible assets, which could result in higher depreciation expense in future periods or an impairment charge to write down the value of rental, capital or intangible assets.

Effective April 1, 2005 the Company revised the estimated useful life of its depreciable assets. The changes have been applied prospectively. The change in the basis of amortization increased amortization expense for fiscal 2005 by $590,451.

### Goodwill

With the acquisition of the assets and certain liabilities of the Instaloans on April 22, 2005 the Company has a significant amount of goodwill on its balance sheet. The Company will perform a goodwill impairment test on an annual basis and more frequently if events or changes in circumstances indicate that an impairment loss may have been incurred. Impairment is tested at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. The fair values of the reporting units are estimated using a combination of a market approach and discounted cash flows. The process of determining fair values is subjective and requires management to exercise judgment in making assumptions about future results, including revenue and cash flow projections at the reporting unit level, and discount rates. As a result, future goodwill impairment tests could result in significant impairment charges.

### Contingencies

The Company is subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. The Company recognizes liabilities for contingencies and commitments when a loss is probable and capable of being reasonably estimated. Significant changes in assumptions as to the likelihood and estimates of the amount of a loss could result in recognition of an additional liability.

### Income Tax Estimates and Future Income Taxes

As part of the process of preparing the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. This process involves estimating the Company's actual current tax exposure together with assessing temporary differences resulting from differing treatment of items. These differences result in future income tax assets and liabilities, which are included within the Company's balance sheet. The Company must then assess the likelihood that future tax assets will be recovered from future taxable income, and if the Company assesses that recovery is not likely, a valuation allowance must be established. Management judgment is required in determining the Company's provision for income taxes, future tax assets and liabilities and any valuation allowance that may be deemed necessary.

### Purchase Price Allocations

During 2005, the Company acquired the assets and assumed certain liabilities of Instaloans and Premiere Financial Groups. The allocations of the purchase price for these transactions involved judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisitions. The determination of these fair values involved the use of discounted cash flow analyses, estimated future margins, estimated fee revenue, estimated number of customers, estimated future royalty rates and the use of information available in the financial markets. Should the actual rates, cash flow, costs and other items differ from the Company's estimates this may necessitate revisions to the purchase price allocation or the carrying value of the related assets and liabilities acquired, including revisions that may impact net income in future periods. The company hired independent valuators to determine the purchase price allocation for Instaloans. The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets; thus the allocation of the purchase price is subject to refinement.

## CHANGES IN ACCOUNTING POLICIES

### GAAP Hierarchy

In June 2003, the Canadian Institute of Chartered Accountants ("CICA") released Handbook Section 1100, "Generally Accepted Accounting Principles". Previously, there had been no clear definition of the order of authority for sources of GAAP. This section established standards for financial reporting in accordance with Canadian GAAP and applies to the Company's 2005 fiscal year. This section also provides guidance on sources to consult when selecting accounting policies and appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The Company has reviewed this new standard, and the only change is that the Company has now moved to a classified balance sheet to reflect the significance of its brokerage operations.

### Stock-Based Compensation

Effective January 1, 2004, Canadian GAAP requires the Company to estimate the fair value of stock-based compensation granted to associates and directors and to expense the fair value over the vesting period of the stock options. In accordance with the transition rules, the Company determined the fair value of options granted to associates since July 1, 2002, using the Black Scholes Option Pricing Model, and recorded an adjustment to opening retained earnings in the amount of $193,893, representing the expense prior to the current fiscal year. The offset to the retained earnings is an increase in contributed surplus. Stock-based compensation expense related to stock options for the year ended June 30, 2005 was $155,406.

### Asset Retirement Obligations

Effective July 1, 2004, the Company adopted CICA Handbook Section 3110 - Asset Retirement Obligations, which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Asset retirement obligations are legal obligations associated with the retirement of long-lived tangible assets that result from their acquisition or lease. The Company records the estimated fair value of a liability from an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company subsequently allocates the asset retirement cost to expense using a systematic and rational method over the asset's useful life and records the accretion of the liability as a charge to operating expense. In the current year, the fair value of an asset retirement obligation cannot be reasonably estimated given the lack of historical information on these obligations and likelihood of non-enforcement has not yet been determined.

## DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer are required to evaluate the effectiveness of the Company's disclosure controls and procedures to ensure that information required to be disclosed in the Company's annual filings (as this term is defined in Multilateral Instrument 52-109) as of the end of the period covered by the annual filings, is recorded, processed, summarized and reported within the time periods specified in the applicable Canadian securities legislation. The Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures for the Company's annual filings for the year ended June 30, 2005, and concluded that such disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings is recorded, processed, summarized and reported within the time periods specified in the applicable Canadian securities legislation.

## OUTSTANDING SHARE DATA

As at August 31, 2005, the Company had 20,445,195 common shares outstanding. There were also options to purchase 564,583 common shares and warrants exercisable into 122,900 common shares outstanding, which if exercised would provide the Company with proceeds of up to $1.8 million.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

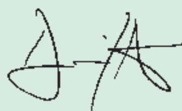
The accompanying consolidated financial statements and the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

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

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

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

Gordon J. Reykdal,
Chairman, President and
Chief Executive Officer



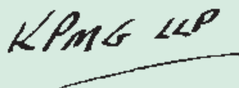
Darin R. Coutu, CA,
Executive Vice-President
Chief Financial Officer

## AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of Rentcash Inc. as at June 30, 2005 and 2004 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Edmonton, Canada
September 2, 2005

# CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended June 30

| | 2005 | 2004 |
|---|---|---|
| **REVENUE** | | |
| Broker fees | **$ 63,890,608** | $ 16,530,266 |
| Rentals | **13,452,509** | 5,727,752 |
| | **77,343,117** | 22,258,018 |
| **EXPENSES** | | |
| Salaries and benefits | **30,061,503** | 11,275,563 |
| Selling, general and administrative | **11,266,786** | 4,794,731 |
| Administrative allowance provision - Note 19 (c) | **10,301,163** | 324,279 |
| Rent | **4,411,857** | 2,396,885 |
| Advertising and promotion | **2,391,007** | 1,032,075 |
| Interest | **530,701** | 289,751 |
| Stock-based compensation - Note 2 (b) | **155,406** | – |
| | **59,118,423** | 20,113,284 |
| **AMORTIZATION** | | |
| Rental assets | **4,827,176** | 1,936,908 |
| Capital assets | **1,607,458** | 510,864 |
| Intangible assets | **179,427** | 27,226 |
| | **6,614,061** | 2,474,998 |
| **TOTAL EXPENSES AND AMORTIZATION** | **65,732,484** | 22,588,282 |
| **INCOME (LOSS) BEFORE INCOME TAXES** | **11,610,633** | (330,264) |
| **PROVISION FOR INCOME TAXES - Note 7** | | |
| Current | **5,700,000** | 93,000 |
| Future (recovery) | **(1,404,000)** | (204,000) |
| | **4,296,000** | (111,000) |
| **NET INCOME (LOSS)** | **$ 7,314,633** | $ (219,264) |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | |
| Basic | **17,183,697** | 14,690,552 |
| Diluted | **17,833,295** | 15,737,280 |
| **EARNINGS (LOSS) PER SHARE** | | |
| Basic earnings (loss) per share | **$ 0.43** | $ (0.01) |
| Diluted earnings (loss) per share | **$ 0.41** | $ (0.01) |

# CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year Ended June 30

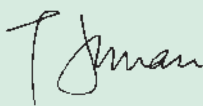
| | 2005 | 2004 |
|---|---|---|
| **RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD** | | |
| Balance as previously reported | **$ (855,852)** | $ (636,588) |
| Retroactive adjustment for stock-based compensation - Note 2 (b) | **(193,893)** | – |
| As restated | **(1,049,745)** | (636,588) |
| **NET INCOME (LOSS) FOR THE PERIOD** | **7,314,633** | (219,264) |
| **RETAINED EARNINGS (DEFICIT), END OF PERIOD** | **$ 6,264,888** | $ (855,852) |

# CONSOLIDATED BALANCE SHEETS

As at June 30

| | 2005 | 2004 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **$ 15,841,067** | $ – |
| Restricted cash | **–** | 423,188 |
| Accounts receivable | **1,266,175** | 373,005 |
| Prepaid expenses and other | **1,001,073** | 325,070 |
| | **18,108,315** | 1,121,263 |
| Deposits and other | **2,032,277** | 326,456 |
| Rental assets - Note 4 | **8,768,493** | 3,416,002 |
| Capital assets - Note 5 | **12,011,063** | 5,171,915 |
| Intangible assets - Note 6 | **6,421,018** | 428,945 |
| Future income taxes - Note 7 | **3,483,000** | 1,001,000 |
| Goodwill - Note 3 (a) | **32,603,398** | 187,119 |
| | **$ 83,427,564** | $ 11,652,700 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Bank indebtedness - Note 8 | **$ –** | $ 415,939 |
| Accounts payable and accrued liabilities - Note 19 (c) | **17,972,769** | 3,919,326 |
| Income taxes payable | **5,700,000** | 93,000 |
| Current portion deferred lease inducement | **190,646** | 108,524 |
| Current portion of obligation under capital leases - Note 9 | **188,701** | 120,859 |
| Current portion of promissory notes payable - Note 10 | **74,727** | 394,544 |
| | **24,126,843** | 5,052,192 |
| Term bank loans - Note 10 | **–** | 410,360 |
| Deferred lease inducement | **603,281** | 265,757 |
| Obligation under capital leases - Note 9 | **249,175** | 178,375 |
| Promissory notes payable - Note 10 | **–** | 74,727 |
| Subordinated debt payable - Note 10 | **3,000,000** | 2,000,000 |
| Future income taxes - Note 7 | **50,000** | – |
| | **28,029,299** | 7,981,411 |
| **Commitments - Note 14** | | |
| **Subsequent Events - Note 15** | | |
| **Contingencies - Note 18** | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital - Note 12 | **48,252,332** | 4,527,141 |
| Contributed surplus - Note 13 | **881,045** | – |
| Retained earnings (deficit) | **6,264,888** | (855,852) |
| | **55,398,265** | 3,671,289 |
| | **$ 83,427,564** | $ 11,652,700 |

Approved by the board:



Gordon J. Reykdal
Director

Timothy J. Ryan
Director

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended June 30

| | 2005 | 2004 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income (loss) for the year | **$ 7,314,633** | $ (219,264) |
| Items not affecting cash: | | |
| Amortization of rental assets | **4,827,176** | 1,936,908 |
| Amortization of capital assets | **1,607,458** | 510,864 |
| Amortization of intangible assets | **179,427** | 27,226 |
| Stock-based compensation | **155,406** | – |
| Future income taxes | **(1,404,000)** | (204,000) |
| Change in non-cash operating items: | | |
| Rental assets | **(10,179,667)** | (3,514,910) |
| Other - Note 11 | **16,873,895** | 2,009,558 |
| Cash flow from operating activities | **19,374,328** | 546,382 |
| **INVESTING ACTIVITIES** | | |
| Restricted cash | **423,188** | 153,997 |
| Acquisitions - Note 3 (a) | **(39,967,855)** | (721,995) |
| Purchase of capital assets | **(6,837,809)** | (2,158,620) |
| Cash flow from investing activities | **(46,382,476)** | (2,726,618) |
| **FINANCING ACTIVITIES** | | |
| Repayment of capital leases | **(158,880)** | (94,929) |
| Repayment of term bank loans | **(410,360)** | (153,900) |
| Repayment of promissory notes | **(394,544)** | (225,024) |
| Proceeds from subordinated debt | **1,000,000** | 2,000,000 |
| Issuance of share capital, net of related costs and future income taxes | **43,228,937** | 50,000 |
| Cash flow from financing activities | **43,265,153** | 1,576,147 |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | **16,257,005** | (604,089) |
| **CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), BEGINNING OF YEAR** | **(415,939)** | 188,150 |
| **CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), END OF YEAR** | **$ 15,841,067** | $ (415,939) |
| | | |
| **Supplemental cash flow information:** | | |
| Interest paid | **$ 530,701** | $ 234,567 |
| Interest received | **84,014** | 9,437 |
| Income taxes paid | **93,000** | – |
| **Supplemental disclosure of non-cash transactions:** | | |
| Capital leases | **$ 297,522** | $ 80,083 |
| Business acquisitions | **–** | 694,295 |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended June 30, 2005 and 2004

## NATURE OF BUSINESS

Rentcash Inc. (the "Company") operates three store banners, The Cash Store and Instaloans act as brokers to facilitate payday advance services to income earning consumers. Insta-rent rents brand name furniture, appliances, electronics and computers, with or without an option to purchase. As at June 30, 2005, the Company operated 277 (2004 - 108) brokerage stores and 84 (2004 - 36) rent-to-own stores across Canada.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiaries, The Cash Store Inc., 1152919 Alberta Ltd. (O/A Instaloans), 1152931 Alberta Ltd. (O/A The Mortgage Company) and Insta-rent Corporation. All significant inter-company balances and transactions have been eliminated.

### (b) Business Combinations

Business combinations are accounted for using the purchase method of accounting. The purchase price for an acquisition is allocated to the related net assets based on their estimated fair market values. The excess of the purchase price over the fair market value of the net assets acquired is attributed to goodwill.

### (c) Use of Estimates

The preparation of financial statements in conformity with such principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the recoverable values of rental assets, capital assets, future tax assets, goodwill and intangible assets, the amortization periods of rental assets, capital assets and intangible assets and the accrued administrative allowance. Actual results could differ from those estimates made by management.

### (d) Revenue Recognition

Fees arising from the brokering of short-term loans for customers are recognized once all services have been rendered, all loan amounts have been received by the customer and the fees are received.

The Company recognizes rental revenue once delivery has occurred, evidence of arrangement exists, the fee is fixed and determinable, collection is probable and there are no significant vendor obligations remaining. Merchandise is rented to customers pursuant to rental-purchase agreements which provide for weekly or monthly rental terms with non-refundable rental payments. The rental agreements may be terminated at any time by the customer without further obligation or cost upon return of the merchandise. Revenue from rental agreements is recognized over the rental term. At the end of each weekly or monthly period, the customer has the option of renewing the agreement for an additional period. Other revenue from various services and charges to rental customers include liability waiver, processing and reinstatement fees, which are recognized as collected.

### (e) Administrative Allowance

The Company acts as a broker to facilitate payday advance services to income earning consumers. The Company does not fund the payday advances. All funding is provided by independent third party lenders. The payday cash advances are repayable by the customer solely to the third party lenders and represent assets of the third party lenders; accordingly they are not included on the Company's balance sheet.

Under the terms of the agreements with third party lenders, the Company is however liable to the third party lenders for losses arising as a result of the Company failing to properly perform its duties under the terms of the agreements. The Company records an administrative allowance provision taking into account several factors including the agreements between the parties, loans written-off during the period, the balance of the third party lenders loan portfolio as at the end of the period, historical loan losses experienced by the third party lenders, the aging of accounts, an estimate of amounts that can be recovered by a third party collection company and amounts to be absorbed by the third party lenders. For additional information see Note 19 (c).

### (f) Cash and Cash Equivalents

Cash and cash equivalents include cash on account and bank overdrafts, net of outstanding cheques, investments in money market instruments and term deposits with maturity of less than 90 days.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Rental Assets

Rental assets consists primarily of residential furniture, consumer electronics, appliances, computers and other merchandise. Rental assets on rent are recorded at the lower of amortized cost and net realizable value. Rental assets are amortized on a straight-line basis over thirty-six (36) months in the month purchased. All rental assets are available for rental or sale. Physical counts of idle rental assets are performed on a weekly basis and appropriate provisions are made for missing, damaged and rental assets not suitable for sale. In addition, management monitors rental asset levels and mix by region and store as well as the average age of rental assets on hand. Rental assets that are not suitable for sale and cannot be returned to the vendors, are adjusted to net realizable value or written off.

### (h) Capital Assets

Capital assets are recorded at cost. Amortization is recorded using the rates and methods outlined in the table below. Effective April 1, 2005 the Company revised the estimated useful life of its depreciable assets given historical information . The changes have been applied prospectively. The change in the basis of amortization increased amortization expense for fiscal 2005 by $590,451.

| | **April 1, 2005 to present** | | **July 1, 2003 to March 31, 2005** | |
|---|---|---|---|---|
| | **Rate** | **Method** | **Rate** | **Method** |
| Computer hardware | 25% | Straight-line | 20% | Declining balance |
| Computer software | 20% | Straight-line | 20% | Declining balance |
| Fixtures and equipment | 20% | Straight-line | 10% | Declining balance |
| Leasehold improvements | | Straight-line over term of lease | | Straight-line over term of lease |
| Signs | 20% | Straight-line | 10% | Declining balance |
| Vehicles | 20% | Straight-line | 20% | Declining balance |

Amortization is recorded at one-half of the above rates in the year of acquisition.

### (i) Organizational Costs

The Company capitalizes organizational costs incurred during the start-up period. These costs are amortized on a straight-line basis over 5 years.

### (j) Intangible Assets

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Recoverability is measured through a process similar to that used for testing the impairment of Goodwill, which is discussed below.

The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

| | |
|---|---|
| Customer list, contracts and relationships | Straight-line - 3 years |
| Non-compete agreements | Term of the agreements |
| Favourable and unfavourable leases | Term of leases |
| Brand name | Indefinite life |

Brand name is not amortized but instead is tested for impairment similar to the process of testing for impairment in Goodwill, which is discussed below.

### (k) Goodwill

Goodwill represents the excess purchase price paid by the Company over the fair value of tangible and identifiable intangible assets and liabilities acquired. Goodwill (and brand name) is not amortized but instead tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting unit exceeds the fair value,

in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

CICA Handbook section 3062 required that a charge to earnings be recorded when the sum of a reporting unit's discounted, estimated future operating cash flows is less than the carrying amount of the related reporting unit's goodwill. As of June 30, 2005, The Company has determined that no impairment of goodwill and brand name has occurred.

### (l) Deferred Lease Inducement

The Company has received various inducements to lease space for its brokerage stores. The inducements are amortized over the remaining terms of the respective leases and recorded as a reduction to rent expense.

### (m) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and measured using the enacted or substantively enacted tax rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax asset if it is not likely that the asset will be fully realized.

### (n) Stock-based Compensation

The Company has a stock-based compensation plan, which is described in Note 12 (c). All stock-based compensation awards and grants on or after July 1, 2002 are measured at the fair value at the date of grant and recognized over the award's vesting period as an expense and an increase in contributed surplus. When options are exercised, the proceeds received and the related amount in contributed surplus are credited to share capital. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings. No expense has been recognized for stock options granted prior to July 1, 2002.

### (o) Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year. Shares issued during the year are weighted for the portion of the year that they are outstanding in accordance with the treasury stock method. Diluted earnings (loss) per share are computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

## 2. CHANGES IN ACCOUNTING POLICIES

### (a) GAAP Hierarchy

In June 2003, the Canadian Institute of Chartered Accountants ("CICA") released Handbook Section 1100, "Generally Accepted Accounting Principles". Previously, there had been no clear definition of the order of authority for sources of GAAP. This section established standards for financial reporting in accordance with Canadian GAAP and applies to our 2005 fiscal year. This section also provides guidance on sources to consult when selecting accounting policies and appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The adoption of this standard did not have a material impact on the consolidated financial statements.

### (b) Stock-based Compensation

The CICA Accounting Standard Board has revised CICA Handbook Section 3870 - Stock-based Compensation and Other Stock-based Payments - to require entities to account for employee stock options using the fair value based method. Under the fair value based method, compensation cost is measured at the fair value at the date of grant and is expensed over the award's vesting period. Effective July 1, 2004 and in accordance with one of the transitional options permitted under revised Section 3870, the Company has selected retroactive application without restatement that results in no stock-based compensation expense being recognized in the consolidated statements of operations prior to July 1, 2004. The Company has applied the fair value based method to all employee stock options granted on or after July 1, 2002. For those employee stock options issued prior to July 1, 2004, the Company recorded a retroactive adjustment to opening retained earnings in the amount of $193,893 with an offset to contributed surplus.

For the year ended June 30, 2005, stock-based compensation expense of $155,406 has been recorded in the statement of operations. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, are credited to share capital.

## 2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) Asset Retirement Obligations

Effective July 1, 2004, the Company adopted CICA Handbook Section 3110 - Asset Retirement Obligations, which establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. Asset retirement obligations are legal obligations associated with the retirement of long-lived tangible assets that result from their acquisition or lease. The Company records the estimated fair value of a liability from an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The Company subsequently allocates the asset retirement cost to expense using a systematic and rational method over the asset's useful life and records the accretion of the liability as a charge to operating expense. In the current year, the fair value of an asset retirement obligation cannot be reasonably estimated given the lack of historical information on these obligations and likelihood of non-enforcement has not yet been determined.

## 3. ACQUISITIONS

### (a) Fiscal 2005 Acquisitions

On April 22, 2005, the Company acquired the business assets and assumed certain liabilities of the Instaloans Group of Companies ("Instaloans") for cash consideration of $39,756,455. Instaloans operates in the payday and short-term loan industry and was established in 1995 to provide alternate sources of financial solutions to individuals. Instaloans has 99 storefronts across Canada, the majority of which are in Western Canada. On May 6, 2005, the Company also acquired the business assets of Premiere Financial Group of Companies ("Premiere") for cash consideration of $211,399. Premiere also operated in the payday and short-term loan industry, with 3 storefronts in Alberta. The operations of both acquisitions are included as part of the Company's brokerage segment. The combined purchase price allocation for the fiscal 2005 acquisitions is detailed in the table below. The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets; thus the allocation of the purchase price is subject to refinement.

| **Net assets acquired at assigned values:** | |
|---|---|
| Prepaid expenses | $ 493,076 |
| Capital assets | 1,311,276 |
| Customer list, contracts and relationships | 628,500 |
| Non-compete agreement | 154,000 |
| Favourable leases | 250,000 |
| Brand name | 5,300,000 |
| Goodwill | 32,416,279 |
| Accrued liabilities | (424,276) |
| Unfavourable leases | (161,000) |
| | **$ 39,967,855** |

### (b) Fiscal 2004 Acquisitions

Effective July 1, 2003, the Company acquired all of the assets of Budget Home of Rent-to-Own (Vic) Ltd. for $245,918, by way of providing a non-interest bearing promissory note, repayable in monthly instalments of $13,662 commencing September 1, 2003. On April 30, 2004, the Company acquired all of the assets of Budget Home of Rent-to-Own Ltd. for $448,377, which included the assumption of accounts payable of $29,126, and provided a non-interest bearing promissory note, repayable in monthly instalments of $24,909 commencing June 1, 2004. On April 23, 2004 the Company acquired all of the assets from a Premiere Cash Advance franchisee for cash consideration of $27,700. The combined purchase price allocation for the fiscal 2004 acquisitions is detailed in the table below.

| **Net assets acquired at assigned values:** | |
|---|---|
| Rental assets | $ 314,131 |
| Capital assets | 20,700 |
| Customer list, contracts and relationships | 401,290 |
| Non-compete agreements | 15,000 |
| Accounts payable | (29,126) |
| | **$ 721,995** |

## 4. RENTAL ASSETS

| | 2005 | 2004 |
|---|---|---|
| Rental assets | $ 11,432,831 | $ 4,740,126 |
| Accumulated amortization | (2,664,338) | (1,324,124) |
| | $ 8,768,493 | $ 3,416,002 |

Amortization expense includes of $2,320,158 (2004 - $944,732) which is the net book value of assets sold, and assets that have been charged off as stolen, lost or no longer suitable for rent.

## 5. CAPITAL ASSETS

| | 2005 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer hardware | $ 800,062 | $ 299,631 | $ 500,431 |
| Computer software | 315,417 | 105,657 | 209,760 |
| Fixtures, furniture and equipment | 3,874,623 | 524,337 | 3,350,286 |
| Leasehold improvements | 6,818,599 | 1,060,824 | 5,757,775 |
| Signs | 2,609,843 | 420,960 | 2,188,883 |
| Vehicles | 7,400 | 3,472 | 3,928 |
| | $ 14,425,944 | $ 2,414,881 | $ 12,011,063 |

| | 2004 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer hardware | $ 537,586 | $ 138,769 | $ 398,817 |
| Computer software | 192,969 | 65,208 | 127,761 |
| Fixtures, furniture and equipment | 1,674,267 | 173,547 | 1,500,720 |
| Leasehold improvements | 2,600,430 | 310,186 | 2,290,244 |
| Signs | 987,382 | 137,919 | 849,463 |
| Vehicles | 7,400 | 2,490 | 4,910 |
| | $ 6,000,034 | $ 828,119 | $ 5,171,915 |

Assets under capital lease included above:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Computer hardware | $ 67,074 | $ 27,321 | $ 67,074 | $ 15,635 |
| Fixtures and equipment | 574,448 | 77,862 | 276,926 | 36,084 |
| Leasehold improvements | 7,227 | 1,806 | 7,227 | 1,084 |
| Signs | 107,665 | 25,974 | 107,665 | 16,897 |
| | $ 756,414 | $ 132,963 | $ 458,892 | $ 69,700 |

During the year, capital assets were acquired at an aggregate cost of $8,446,607 of which $297,522 (2004- $80,073) were acquired by means of capital leases.

Amortization of capital assets includes $58,385 (2004 - $44,766) relating to assets under capital lease.

## 6. INTANGIBLE ASSETS

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated Amortization | | Net Book Value |
| Organizational costs | $ | **114,963** | $ | **91,177** | $ | **23,786** |
| Customer contracts, relationships and lists | | **992,790** | | **156,829** | | **835,961** |
| Non-compete agreement | | **189,000** | | **10,958** | | **178,042** |
| Favourable and unfavourable leases | | **89,000** | | **5,771** | | **83,229** |
| Brand name | | **5,300,000** | | **–** | | **5,300,000** |
| | $ | **6,685,753** | $ | **264,735** | $ | **6,421,018** |

| | 2004 | | | | | |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated Amortization | | Net Book Value |
| Organizational costs | $ | 48,680 | $ | 38,184 | $ | 10,496 |
| Customer relationships and non-compete agreement | | 465,940 | | 47,491 | | 418,449 |
| | $ | 514,620 | $ | 85,675 | $ | 428,945 |

## 7. FUTURE INCOME TAXES

The income tax provision differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 35.5% (2004 - 33.6%) to income (losses) from continuing operations as a result of the following:

| | | 2005 | | 2004 |
|---|---|---|---|---|
| Net income (loss) before income taxes | $ | **11,610,633** | $ | (330,264) |
| Computed tax recovery at statutory income tax rates | | **4,121,775** | | (110,968) |
| Change in enacted tax rates | | **19,019** | | 7,926 |
| Change in valuation allowance and other | | **65,206** | | (9,427) |
| Other and permanent differences | | **90,000** | | 1,469 |
| Total Income Tax Provision | $ | **4,296,000** | $ | (111,000) |

The tax effects that give rise to significant portions of the future income tax assets and liabilities are presented below:

| | | 2005 | | 2004 |
|---|---|---|---|---|
| **Future income tax assets:** | | | | |
| Non-capital losses carried forward | $ | **391,914** | $ | 255,922 |
| Rental, capital and intangible assets - differences between net book value and undepreciated capital cost | | **1,318,748** | | 822,533 |
| Administrative allowance accrual reserve - differences between book value and tax value | | **744,338** | | – |
| Future tax benefit of share issue costs (netted against share issue costs) | | **1,028,000** | | – |
| Valuation allowance | | **–** | | (77,455) |
| | $ | **3,483,000** | $ | 1,001,000 |
| **Future income tax liabilities:** | | | | |
| Goodwill, capital and intangible assets - differences between net book value and undepreciated capital cost/cumulative eligible capital | | **(50,000)** | | – |

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Based upon projections for future taxable income, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the future tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

As at June 30, 2005, the Company had unused non-capital tax loss carry forwards available to reduce taxable income of its rental operations in future years as follows:

| **Year of Origin** | **Year of Expiry** | | **Amount** |
|---|---|---|---|
| 2001 (February 28) | 2006 | $ | 455,526 |
| 2001 (June 30) | 2007 | | 98,578 |
| 2002 (February 28) | 2008 | | 121,535 |
| 2003 | 2010 | | 86,035 |
| 2004 | 2011 | | – |
| 2005 | 2012 | | 341,998 |
| | | $ | 1,103,672 |

## 8. BANK INDEBTEDNESS

The Company's revolving bank loan was paid out in full in fiscal 2005. The interest rate on this loan was set at the bank's prime rate plus 1.50%.

## 9. OBLIGATION UNDER CAPITAL LEASES

The Company has financed certain office furniture and equipment by entering into capital leasing arrangements.

| | **2005** | | | | | |
|---|---|---|---|---|---|---|
| | | **Aggregate Due** | | **Less Imputed Interest** | | **Net** |
| Various leases - repayable in monthly instalments totalling $22,477 including interest ranging from 9.8 - 21.0%; due to mature in 2008; secured by leased assets with an aggregate carrying amount of $623,451 | **$** | **507,606** | **$** | **69,730** | **$** | **437,876** |
| **Less current portion** | | **218,750** | | **30,049** | | **188,701** |
| | **$** | **288,856** | **$** | **39,681** | **$** | **249,175** |

| | 2004 | | | | | |
|---|---|---|---|---|---|---|
| | | Aggregate Due | | Less Imputed Interest | | Net |
| Various leases - repayable in monthly instalments totalling $12,592 including interest ranging from 11.1 - 24.5%; due to mature in 2009; secured by leased assets with an aggregate carrying amount of $389,192 | $ | 364,288 | $ | 65,054 | $ | 299,234 |
| **Less current portion** | | 147,134 | | 26,275 | | 120,859 |
| | $ | 217,154 | $ | 38,779 | $ | 178,375 |

The capital lease repayments are due as follows:

| | | Aggregate Due | | Less Imputed Interest | | Net |
|---|---|---|---|---|---|---|
| 2006 | $ | 218,750 | $ | 30,049 | $ | 188,701 |
| 2007 | | 176,281 | | 24,215 | | 152,066 |
| 2008 | | 112,206 | | 15,415 | | 96,791 |
| 2009 | | 369 | | 51 | | 318 |
| 2010 | | – | | – | | – |
| | $ | 507,606 | $ | 69,730 | $ | 437,876 |

## 10. TERM DEBT

| | 2005 | 2004 |
|---|---|---|
| Promissory note payable, non-interest bearing, related to a fiscal 2004 business acquisition was paid in full in fiscal 2005. | **$ –** | $ 95,636 |
| Promissory note payable related to a fiscal 2004 business acquisition fiscal 2004 is repayable in monthly instalments of $24,909, without interest, due September 30, 2005 and secured by assets purchased. | **74,727** | 373,635 |
| **Total Promissory Notes Payable** | **74,727** | 469,271 |
| Term bank loan, bearing interest at the Bank's prime rate plus 0.50%, was paid in full in fiscal 2005. | **–** | 410,360 |
| Subordinated debt for store expansion and working capital, due December 2008, monthly payments payable at 12% interest per annum and is secured by a general security agreement. Subsequent to year-end, in July 2005, this subordinated debt was repaid in full. | **3,000,000** | 2,000,000 |
| | **3,074,727** | 2,879,631 |
| **Less current portion** | **74,727** | 394,544 |
| | **$ 3,000,000** | $ 2,485,087 |

| The estimated principal repayments due to maturity are as follows: | |
|---|---|
| 2006 | **74,727** |
| 2007 | **2,000,000** |
| 2008 | **1,000,000** |
| | **$ 3,074,727** |

## 11. CHANGE IN NON-CASH OPERATING ITEMS

| | 2005 | 2004 |
|---|---|---|
| Accounts receivable | **$ (893,170)** | $ 97,259 |
| Prepaid expenses and deposits | **(1,888,748)** | (171,903) |
| Accounts payable and accrued liabilities | **13,629,167** | 1,749,464 |
| Deferred lease inducement | **419,646** | 241,738 |
| Income taxes payable | **5,607,000** | 93,000 |
| | **$ 16,873,895** | $ 2,009,558 |

## 12. SHARE CAPITAL

| | **2005** | | 2004 | |
|---|---|---|---|---|
| | **Number of Shares** | **$** | Number of Shares | $ |
| Authorized: | | | | |
| Unlimited common shares with no par value | | | | |
| Issued: | | | | |
| Balance, beginning of year | **14,693,612** | **$ 4,527,141** | 14,623,612 | $ 4,477,141 |
| Cash consideration | **4,985,000** | **45,858,000** | – | – |
| Issue costs net of future tax benefits | **–** | **(2,097,847)** | – | – |
| Issue costs - warrants | **–** | **(684,731)** | – | – |
| Transfer from contributed surplus for stock options exercised (Note 13) | **–** | **152,985** | – | – |
| Options exercised | **604,085** | **496,784** | 70,000 | 50,000 |
| Balance, end of year | **20,282,697** | **$ 48,252,332** | 14,693,612 | $ 4,527,141 |

### (a) Share Offerings

In August 2004, the Company completed a broker assisted private placement for the issuance of 1.25 million shares at a price of $2.00 per share for gross proceeds of $2.5 million and net proceeds of $2.3 million. The funds were raised for continued store expansion and working capital purposes. As part of their compensation, the broker received warrants to purchase 87,500 shares, exercisable for 12 months and expire on August 31, 2005, at a price of $2.00 per share.

In December 2004, the Company completed a broker assisted private placement for the issuance of 1.3 million shares at a price of $6.40 each for gross proceeds of $8.32 million and net proceeds of $7.75 million. The funds were raised for continued store expansion and working capital purposes. As part of their compensation, the broker received warrants to purchase 84,500 shares at a price of $6.40 per share. The warrants are exercisable for 12 months and expire on December 14, 2005.

In January 2005, the Company completed a non-broker assisted private placement with associates of the Company for the issuance of 35,000 shares at a price of $6.80 each for net proceeds of $238,000. The funds were raised for continued store expansion and working capital purposes.

In April 2005, the Company completed a broker assisted private placement for the issuance of 2.4 million shares at a price of $14.50 each for gross proceeds of $34.8 million. The net proceeds of $32.67 million were used to purchase Instaloans (see Note 3 (a)). As part of their compensation, the broker received warrants at the close of the private placement and acquisition to purchase 38,400 shares at a price of $15.136 per share. The warrants are exercisable for 12 months and expire on April 21, 2006.

### (b) Shares in Escrow

Share capital included 4,000,000 shares held in escrow, subject to conditions for release set by the escrow agreement at the time of issue. All escrowed shares were released as at June 30, 2005, with 2,800,000 released as at June 30, 2004.

### (c) Stock Option Plan

The Company's stock option plan provides senior associates, officers and directors an incentive to acquire an equity ownership interest in the Company over a period of time and, as a result, reinforces their attention on the long term interest of the Company and its shareholders. The current stock option plan limits the maximum number of options that can be outstanding at one time to 10% of the issued common shares. The maximum term of the options issued is five years with the vesting period ranging from immediately to three years. The grant price may not be lower than the market price as defined by the TSX.

### (d) Options to Employees and Directors

| | **2005** | | | 2004 | | |
|---|---|---|---|---|---|---|
| | **Total Options for Shares** | | **Weighted Average Price** | Total Options for Shares | | Weighted Average Price |
| **Outstanding, beginning of year** | **1,043,668 shares** | **$** | **0.77** | 836,667 shares | $ | 0.60 |
| Granted | **200,000 shares** | **$** | **2.00** | 320,000 shares | $ | 1.18 |
| Exercised | **(604,085) shares** | **$** | **0.85** | (70,000) shares | $ | 0.71 |
| Forfeited | **0 shares** | | **nil** | (42,999) shares | $ | 0.60 |
| **Outstanding, end of year** | **639,583 shares** | **$** | **1.10** | 1,043,668 shares | $ | 0.77 |
| **Exercisable, end of year** | **516,250 shares** | **$** | **0.86** | 896,168 shares | $ | 0.78 |

At June 30, 2005, the range of exercise prices, the weighted average exercise price and weighted average remaining contractual life are as follows:

| | Number Outstanding | Term | | Weighted Average Exercise Price | Number Exercisable |
|---|---|---|---|---|---|
| Option Plan 2002 | 306,250 | 19 mos. | $ | 0.60 | 306,250 |
| Option Plan 2003 | 50,000 | 23 mos. | $ | 0.60 | 50,000 |
| Option Plan 2004 | 100,000 | 42 mos. | $ | 1.23 | 100,000 |
| Option Plan 2005 | 183,333 | 26 mos. | $ | 2.00 | 50,000 |
| | 639,583 | 23 mos. | $ | 1.10 | 506,250 |

## 12. SHARE CAPITAL (CONTINUED)

### (d) Options to Employees and Directors (continued)

The fair value of common share options is estimated at the grant date using the Black-Scholes pricing model based on the following weighted average assumptions:

| | **2005** | 2004 |
|---|---|---|
| Risk free interest rate | **3.51%** | 3.66% |
| Expected life (years) | **3** | 5 |
| Expected volatility | **101%** | 110% |
| Expected dividends | **Nil** | Nil |

### (e) Warrants to Outside Agents

| | **2005** | | 2004 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Weighted Average Exercise Price** | Number of Warrants | Weighted Average Exercise Price |
| **Balance, beginning of year** | **-** | **nil** | - | nil |
| Issued | **210,400** | **$ 6.16** | - | nil |
| Exercised | **-** | **nil** | - | nil |
| Expired | **-** | **nil** | - | nil |
| **Balance, end of year** | **210,400** | **$ 6.16** | - | nil |
| **Exercisable for shares, end of year** | **-** | **nil** | - | nil |

The fair value of the broker warrants issued in fiscal 2005 of $684,731 was recorded as a share issue cost with an offset to contributed surplus. The fair value of the warrants was estimated on the date of issuance using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

| | August 2004 | December 2004 | April 2005 |
|---|---|---|---|
| Risk free interest rate | 3.51% | 2.88% | 2.83% |
| Expected life (years) | 1 | 1 | 1 |
| Expected volatility | 101% | 74% | 63% |
| Expected dividends | Nil | Nil | Nil |

## 13. CONTRIBUTED SURPLUS

For stock options granted to officers and directors after July 1, 2002, the Company records compensation expense using the fair value method as outlined in Note 2 (b) to the financial statements. The fair value of common share options is determined at the grant date using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital. Contributed surplus has been restated as indicated below:

| | **2005** | 2004 |
|---|---|---|
| Balance at beginning of period, as previously stated | **$ –** | $ – |
| Appropriated from retained earnings - Note 2 (b) | **193,893** | – |
| As restated | **193,893** | – |
| Agency warrants on private placement - Note 12 (e) | **684,731** | – |
| Stock options exercised | **(152,985)** | – |
| Stock-based compensation expense | **155,406** | – |
| | **$ 881,045** | $ – |

## 14. COMMITMENTS

The Company is committed to future minimum annual operating lease payments for office and store premises, which expire through 2010.

| | | Aggregate Lease Payments |
|---|---|---|
| 2006 | $ | 4,811,793 |
| 2007 | | 4,375,873 |
| 2008 | | 3,501,999 |
| 2009 | | 2,489,734 |
| 2010 | | 1,220,095 |
| | $ | 16,399,494 |

In addition to the future minimum annual lease payments, the Company is responsible for its proportionate share of common area costs.

## 15. SUBSEQUENT EVENTS

### (a) Subordinated Debt

Subsequent to June 30, 2005, the Company repaid the $3 million of outstanding subordinated debt.

### (b) New Store Openings and Additional Lease Commitments

Subsequently, the Company has committed to leases for eleven (11) additional Cash Store locations. The additional minimum annual lease payments required for the next five years are as follows:

| | | Additional Lease Payments | | Aggregate Lease Payments |
|---|---|---|---|---|
| 2006 | $ | 171,518 | $ | 4,983,311 |
| 2007 | | 262,293 | | 4,638,166 |
| 2008 | | 276,330 | | 3,778,329 |
| 2009 | | 278,375 | | 2,768,109 |
| 2010 | | 278,546 | | 1,498,641 |
| | $ | 1,267,062 | $ | 17,666,556 |

### (c) Acquisitions

Effective July 29, 2005, the Company acquired all the business assets of Payday Financial Group of Companies (Payday Financial) for cash consideration of $1,306,500 plus estimated transaction costs of $10,000. Payday Financial operates in the payday and short-term loan industry. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Company is in the process of finalizing its valuation of the net assets acquired, including goodwill and other intangible assets; thus, the allocation of the purchase price is subject to refinement.

| **Net assets acquired at assigned values:** | | |
|---|---|---|
| Capital assets | **$** | **100,000** |
| Customer contracts and relationships | | **50,000** |
| Non-compete agreement | | **65,000** |
| Goodwill | | **1,101,500** |
| Net assets acquired | **$** | **1,316,500** |

As at June 30, 2005 and the date of acquisition, both the Company and Payday Financial had filed statement of claims against the other party. These claims were settled as part of the purchase agreement and are included in the purchase price.

## 16. RELATED PARTY TRANSACTIONS

### (a) Administrative and Payroll Services

A company controlled by the President of the Company provided administrative and payroll services to the Company until December 31, 2003. Salaries and benefits expense includes $nil (2004 - $821,695) relating to these services during the period. These transactions were subject to normal trade terms and were charged at laid down cost without any additional mark-up and are measured at the actual exchange amount.

Effective January 1, 2004, the Company maintained its own payrolls and paid all associates directly.

### (b) Consulting Services

A company, in which a Director of the Company is a partner, provided consulting services to the Company. Selling, general and administrative expense includes $21,646 (2004 - $90,593) relating to these services for the period. These transactions are subject to normal trade terms and are measured at the actual exchange amount.

## 17. CONTRACTUAL BUSINESS ARRANGEMENT

The Company, through its subsidiary Insta-Rent Corporation, has entered into license agreements with The Brick Warehouse LP and its subsidiary United Furniture Warehouse LP (vendors). The license agreements were entered into on October 1, 2004 and are for a term of five years, and at the end of each term the agreements shall automatically renew for a further five years unless terminated by one of the parties. Pursuant to these agreements, a majority of the Company's rental operations are located in the vendor's locations. Accordingly, the absence of these arrangements could have a material impact on the Company's rental operations.

As part of the agreements, the Company has agreed to pay a license fee equal to fifty percent of each stores aggregate operating income. Any losses incurred at a particular location are carried forward into future periods and netted against any future store profits. During fiscal 2005, fifty percent of the aggregate store profit paid or payable to vendor's totalled approximately $638,000 (2004 - nil), of which approximately $260,000 (2004 - nil) was outstanding and recorded in accounts payable and accrued liabilities as at June 30, 2005. Also, as at June 30, 2005, the Company has recorded, in deposits and other, approximately $1.1 million ($116,000) related to the estimated recoverable amount of total aggregate store losses available to offset against future store profits.

## 18. CONTINGENCIES - LEGAL PROCEEDINGS

During fiscal 2004, the Company was served with three Statements of Claim on behalf of customers in Alberta, British Columbia and Ontario alleging that the Company is in breach of the Criminal Code and Fair Trading Act. Subsequent to June 30, 2005, the claim in British Columbia was certified as a class proceeding. The Company believes that it conducts its business in accordance with applicable law and will defend each of the actions vigorously, however the likelihood of loss if any is not determinable. Accordingly, no provision has been made for these actions in the accounts.

## 19. FINANCIAL INSTRUMENTS

### (a) Fair Value

The Company has determined the fair values of its financial instruments as follows:

(i) The fair values in the consolidated balance sheets of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate carrying amounts because of the short-term nature of these instruments.

(ii) The fair value of the subordinated debt and capital lease obligations (collectively "the debt") are based on management estimates which are determined by discounting cash flows required under the debt at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair value of the Company's debt as at June 30, 2005 is not significantly different than its carrying value.

### (b) Interest Rate Risk Management

The Company does not have any revolving credit facilities.

### (c) Credit Risk Management

The maximum exposures to credit risk are represented by the carrying amount of accounts receivable and assets on rent with customers under rental contracts within the rental purchase division. The credit risk related to accounts receivable results from the possibility of default of payment. The Company performs on-going credit evaluations and allows for uncollectible amounts when determinable.

The Company rents products to a number of customers and has no concentration of revenue risk with any particular individual, company or other entity. The credit risk related to assets on rent results from the possibility of customer default of agreed payments. The Company has a standard collection process in place in the event of payment default, which conclude with the recovery of the rented asset if satisfactory payment terms cannot be worked out, as the Company maintains ownership of the rental assets until purchase options are exercised.

The Company acts as a broker to facilitate payday advance services to income earning consumers. The Company does not fund the payday advances. All funding is provided by independent third party lenders. The payday advances are repayable by the customer solely to the third party lenders and are assets of the third party lenders; accordingly they are not included on the Company's balance sheet. Under the terms of the agreements with third party lenders, the Company is however liable to the third party lenders for losses arising as a result of the Company failing to properly perform its duties under the terms of the agreements. The Company manages its risk through the loan application process and through compliance with loan limits and loan criteria set by the third party lenders.

The Company has recorded a total administrative allowance provision for fiscal 2005 of $10,301,163 (2004 - $324,279), which includes an accrual of $7.2 million (2004 – nil). The provision reflects management's estimate of amounts the Company may pay to the third party lenders taking into account the agreements between the parties and management's estimate of the total amount of loans that have or will likely become uncollectible. As at June 30, 2005, the balance of the third party lenders loan portfolio was approximately $50 million (2004 - $8 million), and at the end of August 2005 it was estimated that approximately $20 million of this loan portfolio remained outstanding. The remaining loans outstanding include amounts that are secured by collateral assets, amounts that will be collected through normal collection efforts or by third party collection agents and amounts that based on historical experience will likely become uncollectible. In respect of the amounts that may become uncollectible, the Company has accrued an administrative allowance provision of $7.2 million.

### (d) Indemnities

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

## 20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to presentation adopted for the current year.

## 21. SEGMENT DISCLOSURES

Management has determined that the Company and its subsidiaries are engaged in two lines of business: 1) acting as a broker to consumers seeking payday advances (brokerage segment); and 2) renting, with or without an option to purchase, brand name home entertainment products, appliances and household furniture (rental-purchase segment). The corporate segment consists of the Company's administrative functions including accounting and finance, human resources, business development and information systems.

| | 2005 | | | |
|---|---|---|---|---|
| | **Brokerage** | **Rental** | **Corporate** | **Total** |
| Revenues | **$ 63,890,608** | **$ 13,452,509** | **$ –** | **$ 77,343,117** |
| Direct expenses | **(43,624,907)** | **(9,914,427)** | **(4,892,982)** | **(58,432,316)** |
| Corporate costs | **(3,764,237)** | **(401,562)** | **4,165,799** | **–** |
| Amortization | **(1,135,667)** | **(5,247,536)** | **(230,858)** | **(6,614,061)** |
| Stock-based compensation | **–** | **–** | **(155,406)** | **(155,406)** |
| Interest on term debt | **(31,145)** | **(7,646)** | **(491,910)** | **(530,701)** |
| Income taxes recovery (expense) | **(5,571,000)** | **1,271,000** | **4,000** | **(4,296,000)** |
| Segment profit | **$ 9,763,652** | **$ (847,662)** | **$ (1,601,357)** | **$ 7,314,633** |
| Total assets | **$ 62,057,516** | **$ 15,799,674** | **$ 5,570,374** | **$ 83,427,564** |
| Goodwill | **32,466,279** | **137,119** | **–** | **32,603,398** |
| Intangible assets | **6,128,497** | **287,629** | **4,892** | **6,421,018** |
| Total Expenditures During the Year: | | | | |
| Rental assets | **$ –** | **$ 10,179,667** | **$ –** | **$ 10,179,667** |
| Capital assets | **5,676,667** | **1,684,305** | **1,085,634** | **8,446,607** |
| Intangible assets | **6,240,301** | **–** | **–** | **6,240,301** |
| Goodwill | **32,416,278** | **–** | **–** | **32,416,278** |

| | 2004 | | | |
|---|---|---|---|---|
| | Brokerage | Rental | Corporate | Total |
| Revenues | $ 16,530,266 | $ 5,727,752 | $ – | $ 22,258,018 |
| Direct expenses | (12,298,405) | (3,649,214) | (3,875,914) | (19,823,533) |
| Corporate costs | (984,455) | (161,390) | 1,145,845 | – |
| Amortization | (367,381) | (2,027,719) | (79,898) | (2,474,998) |
| Interest on term debt | (32,205) | (43,956) | (213,590) | (289,751) |
| Income taxes recovery | (957,000) | 52,000 | 1,016,000 | 111,000 |
| Segment profit | $ 1,890,820 | $ (102,527) | $ (2,007,557) | $ (219,264) |
| Total assets | $ 4,299,914 | $ 4,640,271 | $ 2,712,515 | $ 11,652,700 |
| Goodwill | 65,750 | 121,369 | – | 187,119 |
| Intangible assets | 21,016 | 397,357 | 10,572 | 428,945 |
| Total Expenditures During the Year: | | | | |
| Rental assets | $ – | $ 3,829,041 | $ – | $ 3,829,041 |
| Capital assets | 2,162,806 | 567,098 | 224,135 | 2,954,039 |
| Intangible assets | 17,000 | 399,289 | – | 416,289 |
| Goodwill | – | – | – | – |

All operations are carried out in Canada.

## DIRECTORS

**Gordon J. Reykdal**
Chairman, President and
Chief Executive Officer
Rentcash Inc.

**William C. (Mickey) Dunn**
Chairman
True Energy Inc.

**Michael H. Ross**
Managing Partner
Conroy Ross Partners

**Brian W. Hesje**
Chairman
Fountain Tire Ltd.

**Timothy J. Ryan** (until October 7th, 2005)
Chairman and Chief Executive Officer
First General Securities Inc.

## SENIOR OFFICERS

**Gordon J. Reykdal**
Chairman, President and
Chief Executive Officer

**Darin R. Coutu, CA**
Executive Vice President
and Chief Financial Officer

**Barret J. Reykdal**
Chief Operating Officer and
Vice President Operations

**Margot M. Ross-Graham, CHRP**
Vice President
and Corporate Secretary

## BANKERS

**CIBC**
Edmonton, Alberta

**Bank of Montreal**
Edmonton, Alberta

## AUDITORS

**KPMG LLP**
Edmonton, Alberta

## SOLICITORS

**Cassels Brock and Blackwell LLP**
Toronto, Ontario

## TRANSFER AGENT

**Computershare Trust**
**Company of Canada**
Toronto, Ontario

## LISTED

**Toronto Stock Exchange**
Trading Symbol: RCS

## HEAD OFFICE

17631 -103 Avenue
Edmonton, Alberta T5S 1N8
Telephone: (780) 408-5110
Facsimile: (780) 408-5122
Website: www.rentcash.ca

## ANNUAL MEETING

Annual meeting of shareholders
of Rentcash Inc. will be held at
the Fairmont Hotel Macdonald,
10065 - 100th Street
Edmonton, Alberta on
December 14, 2005 at 2:00 pm. (MST)

Rentcash Inc.