

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36 AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
THE CASH STORE FINANCIAL SERVICES Inc., THE CASH STORE INC., TCS CASH  
STORE INC., INSTALOANS INC., 7252331 CANADA INC., 5515433 MANITOBA INC.,  
1693926 ALBERTA LTD DOING BUSINESS AS "THE TITLE STORE"**

**APPLICANTS**

**MOTION RECORD OF TIMOTHY YEOMAN**

May 9, 2014

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**TABLE OF CONTENTS**

<b>TAB</b>	<b>DESCRIPTION</b>	<b>PAGE NO.</b>
1.	Notice of Motion dated May 9, 2014	1-15
2.	Affidavit of Timothy Yeoman sworn May 9, 2014	16-17
A	Statement of Claim issued on August 1, 2012	19-41
B	Order by Justice Goodman dated August 27, 2013	43-74
C	Fresh as Amended Statement of Claim	76-104
D	Affidavit of Timothy Yeoman (with exhibits) sworn January 29, 2014	106-174
3.	Affidavit of Jonathan Foreman sworn May 9, 2014	175-180
A	Minutes of the Case Conference with Justice Grace on January 20, 2014	182-183
B	Notice of Motion (for certification) dated February 5, 2014 Affidavit of Sarah Bowden (with exhibits) dated February 5, 2014	185-193 194-854
C	Supplementary Affidavit of Sarah Bowden (with exhibits) sworn March 5, 2014	856-877



# TAB 1

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36 AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC., TCS  
CASH STORE INC., INSTALOANS INC., 7252331 CANADA INC., 5515433 MANITOBA  
INC., 1693926 ALBERTA LTD DOING BUSINESS AS "THE TITLE STORE"**

**APPLICANTS**

**NOTICE OF MOTION**

Timothy Yeoman, the plaintiff in the class proceeding *Timothy Yeoman v. The Cash Store Financial Services Inc. et al.*, Ontario Superior Court of Justice Court File No. 7908/12 CP (the "**Class Action**"), will make a motion to a judge presiding over the Commercial List on a day to be set in consultation with the Monitor at 10:00 a.m. or as soon after that time as the motion can be heard at 330 University Avenue, Toronto, Ontario.

**PROPOSED METHOD OF HEARING:** The motion is to be heard orally.

**THE MOTION IS FOR:**

- 1) **AN ORDER** that Timothy Yeoman is appointed as representative in these proceedings for all class members, defined in the Class Action as "All persons in Canada who entered into

“payday loan” transactions with Cash Store Financial in Ontario between September 1, 2001 and the date of judgment” (the “**Class**”).

- 2) **AN ORDER** that Harrison Pensa LLP is appointed as representative counsel to the Class and Koskie Minsky LLP is appointed as agent to Harrison Pensa (collectively “Representative Counsel”).
- 3) **AN ORDER** that Representative Counsel shall represent the interests of the Class in all aspects of these proceedings or any subsequent receivership or bankruptcy of the Applicants, without any obligation to consult or seek instructions from the Class, unless otherwise ordered by the Court.
- 4) **AN ORDER** that the reasonable fees and disbursements of the Class Representative and Representative Counsel in connection with these proceedings shall be paid by the Applicants and that payment of such fees and disbursements shall be payable pursuant to the Administration Charge (as such term is defined in the Initial Order), ranking *pari passu* in priority with all other parties entitled to the benefit of the Administration Charge.
- 5) **AN ORDER** that the Class Representative and Representative Counsel shall not be liable for any act or omission as a result of their appointment or the fulfillment of their duties in carrying out the provisions of this order, save and except for claims based on gross negligence or wilful misconduct on their part, and that no action, application or other proceeding shall be taken, made, or continued against the Class Representative or Representative Counsel without leave of this Court first being obtained.

- 6) **AN ORDER** that the Class Representative and Representative Counsel may seek the advice or direction of this Court at any time in connection with their appointment hereunder, upon notice to the Applicants and the Service List unless otherwise ordered by the Court.
- 7) **AN ORDER** that the Class Representative and Representative Counsel may file a proof of claim on behalf of the Class in any claims process or other applicable process in these proceedings or any subsequent receivership or bankruptcy proceeding of the Applicants.
- 8) **AN ORDER** that Class Representative and Representative Counsel shall be given notice of all motions in these proceedings and that they shall be entitled to represent the Class in all such proceedings without impairing the right of any individual Class member to retain and instruct counsel on his or her own behalf, and without impairing the ability of counsel to the Class to continue to act for the Class in the Class Action and against any other defendants in the Class Action, including the bringing of proceedings to certify the Class Action.
- 9) Such further and other relief as counsel may advise and this Court may deem just.

**THE GROUNDS FOR THE MOTION ARE:**

- 1) On August 1, 2012, Timothy Yeoman filed the Class Action against The Cash Store Financial Services Inc. ("**Cash Store**"), and its subsidiaries, Instaloans Inc. and The Cash Store Inc., all of whom are Applicants in this proceeding. On August 27, 2013, the Class Action was amended to name certain other defendants who are not Applicants in this proceeding. The plaintiff seeks to represent a class consisting of all persons in Canada who entered into "payday loan" transactions with Cash Store and the other defendants in Ontario from September 1, 2011 and onward. There are estimated to be thousands of Class members. The Class Action seeks

damages for the Class members of approximately \$50 million based on publicly available information. Details of the number of Class members and the calculation of damages will be made when the Applicants provide particulars of the Class and the amounts unlawfully charged to them by the Applicants.

2) The Class Action is scheduled for a motion for certification on September 15, 2014 before the Class Action case management judge, Mr. Justice Grace of the Ontario Superior Court of Justice in London, Ontario, as confirmed by Mr. Justice Grace in a case conference with counsel on January 20, 2014.

3) On February 5, 2014, Class Counsel served their motion record for certification upon Cash Store and the other defendants in the Class Action. On March 6, 2014, Class Counsel served supplementary materials to the motion record for certification upon Cash Store and the other defendants in the Class Action.

4) The Class Action readily meets the test for certification in the *Class Proceedings Act*, 1992, S.O. 1992, c.6 (CPA). Numerous similar actions have been certified in Ontario, including another class action against Cash Store, which related to payday loans issued during an earlier time period than those which are the subject of the Class Action:

- *Mortillaro v. Unicash Franchising Inc.*, 2011 ONSC 923;
- *Smith v. National Money Mary Co.* (2007), 37 CPC (6<sup>th</sup>) 171, [2007] O.J. No. 46 (SCJ), leave to appeal to Div. Ct. refused, [2007] O.J. No. 2160 (Div. Ct.);
- *McCutcheon v. The Cash Store Inc.* (2006), 80 O.R. (3d) 644, [2006] O.J. No.1860 (S.C.J.);
- *Joseph v. Quik Payday Inc.* (2006), 38 C.P.C. (6<sup>th</sup>) 106, [2006] O.J. No. 4835 (S.C.J.);

- *Mortillaro v. Cash Money Cheque Cashing Inc.* (2009), 73 C.P.C. (6<sup>th</sup>) 369, [2009] O.J. No. 2904 (S.C.J.); and
- *Bruley v. Instalozans Financial Solution Centres Ltd. et al.* (5 December 2005), Ct. File No. 05-CV-294691CP (Ont. S.C.J.).

5) Similar class actions have also been certified in British Columbia and Alberta, including another class action against Cash Store, which related to payday loans issued during an earlier time period than those which are the subject of the Class Action:

- *MacKinnon v. National Money Mart Co.*, 2007 BCSC 348, [2007] B.C.J. No. 520;
- *Bartolome v. Mr. Payday Easy Loans Inc.*, 2008 BCSC 132, [2008] B.C.J. No. 167;
- *Bartolome v. Nationwide Payday Advance Inc.*, 2010 BCSC 1433, [2010] B.C.J. No. 1994;
- *Bodnar v. The Cash Store Inc.*, 2005 BCSC 1228, [2008] B.C.J. No. 1904, aff'd 2006 BCCA 260, [2006] B.C.J. No. 1171;
- *Bodnar v. Payroll Loans Ltd.*, 2006 BCSC 1132, [2006] B.C.J. No. 1705;
- *Ayrton v. PRL Financial (Alta.) Ltd.*, 2005 ABQB 311, [2005] A.J. No. 466, aff'd 2006 ABCA 88, [2006] A.J. No. 296;
- *Kilroy v. A. OK Payday Loans Inc.*, 2006 BCSC 1213, [2006] O.J. No. 1885;
- *Tracy v. Instalozans Financial Solutions Centres (B.C.) Ltd.*, 2006 BCSC 1018, [2006] B.C.J. No. 1639.

6) The Class Action is arguably a stronger case than the previously certified payday lending class actions in that:

- a) The action is rooted squarely within a relatively new and tailored piece of Ontario legislation which did not exist at the time of the earlier Ontario class actions;

- b) Cash Store has admitted in publicly filed materials that it was unable to comply with the new legislation on account of its business model;
  - c) After a period of contest between the *Payday Loans Act* regulators and Cash Store, Cash Store announced that it would cease to offer payday loans and would allow their payday lending licenses to expire. Cash Store began to instead offer “lines of credit”, and took the position that it would not require a payday lending license to do so;
  - d) The Ontario Superior Court has declared that Cash Store’s previously offered lines of credit constituted payday loans;
  - e) The Ontario Registrar of Payday Loans has refused Cash Store’s recent applications made for payday lender licenses on account of its business model; and
  - f) Cash Store has recently pleaded guilty in Ontario Provincial Offences Court to operating as a payday lender in Ontario without a license.
- 7) On April 14, 2014, the Applicants obtained a court order under the CCAA, which *inter alia*, stays the Class Action against the Applicants, pending further order of the Court (the “**Initial Order**”).

## **The Class Action and the allegations against the Applicants**

8) The Class Action is based on the unlawful business practices of Cash Store and the other defendants as operators in the “payday loan” industry which is subject to the Ontario *Payday Loans Act*, 2008, S.O. 2008 c.9 (the “**PLA**”) and the regulations thereunder.

9) Since 2008, Cash Store (and all other payday loan companies operating in Ontario) has been governed by the PLA. The PLA and its Regulations were passed by the Ontario legislature in June 2008 to ensure that the payday lending industry in Ontario was abiding by the new requirements of the *Criminal Code* with respect to criminal interest rates. At that time, the Ontario government also commissioned the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the “**Advisory Board**”).

10) The Advisory Board delivered its report in February of 2009 and recommended that the Ontario government set the maximum total cost of borrowing for payday loans in Ontario at \$21 per \$100 borrowed. This recommendation was implemented into force in 2009.

11) Ontario Regulation 98/09 (collectively with all other amendments to Ontario Regulation 98/09 enacted pursuant to the PLA, the “**Regulations**”) set out requirements for the content of a payday loan agreement, including the following key elements:

- a) The borrower must only be required to pay a maximum cost of \$21 per \$100 borrowed; and
- b) The maximum cost of borrowing must be stated in the loan agreement as well as in the lender’s business advertisements.



12) Despite the Regulations enacted in 2009, there were continuing complaints and media reports across Ontario of payday lenders requiring borrowers to pay additional fees in place of the higher interest rates they had been charging borrowers.

13) In response to those complaints, an amendment to the Regulations was enacted and brought into force in September of 2011. Ontario Regulation 316/11 (the “**2011 Regulation**”) amended the Regulations by adding the following obligations on payday lenders:

- a) Third party fees and charges are to be included in the cost of borrowing (section 17);
- b) Borrowers must be able to receive their loan in cash (section 22); and
- c) Optional goods and services are prohibited from being sold by a payday loan company (section 27).

14) The purpose of these amendments was to reduce the cost of borrowing for payday loans and to confirm the required immediacy in the delivery of loan principal in liquid form for the benefit of borrowers.

15) Cash Store admitted in materials filed in conjunction with a judicial review application it brought to challenge the 2011 Regulation that in order to comply with the amended Regulations it would “be required to effect significant changes to [its] operations.”

16) Despite the 2011 Regulation being brought into force, Cash Store did not make any such substantive changes to its operations. Rather, Cash Store continued to refuse to make cash payments available to borrowers and has continued to compel borrowers to pay additional fees in

order to facilitate loan payments through various non-cash mechanisms provided by one of its business partners, DirectCash, who, along with its related corporate entities, are non-Applicant defendants in the Class Action. The additional fees charged were for items such as debit cards, credit cards, bank accounts, and insurance.

17) Until February 1, 2013, Cash Store added those fees to the “borrowed” principal amount of the loan and charged the maximum rate of interest under the PLA on those additional fees, as well as the principal amount.

18) In February, 2013, the Ontario Registrar for the PLA brought an application to have Cash Store’s payday lending licenses revoked due to Cash Store’s continued breaches of the PLA.

19) On February 1, 2013, Cash Store announced that it had ceased to offer payday loans and had instead begun to offer “lines of credit”. The Class Action alleges that Cash Store in fact continued to offer payday loans under a different name, and in doing so, charged interest in excess of the maximum rate prescribed for payday loans in Ontario in the PLA on additional fees and principal amounts.

20) On June 7, 2013, the Director of the Ontario Ministry of Consumer and Business Services filed an application to begin legal proceedings against Cash Store in respect of its “lines of credit”. The Application sought the following declarations:

- a) Cash Store’s basic line of credit product is a payday loan and is subject to Ontario’s PLA and its Regulations;

- b) Cash Store must obtain a payday loan broker license, under the PLA, to act as a loan broker of the basic “line of credit”; and
- c) Cash Store cannot act as a loan broker of the basic “line of credit” without the license.

21) On February 12, 2014, the Ontario Superior Court of Justice released the decision of Justice Morgan, which found that Cash Store’s “BLOC [Basic Line of Credit] product constituted a “payday loan” under subsection 1(1) of the PLA.”

22) On February 13, 2014, the Ontario Ministry of Consumer Services released a news bulletin stating that Ontario’s Registrar of Payday Loans “issued a proposal to refuse recent applications made for payday lender licenses from Cash Store and Instalozans”, and referenced past convictions in Ontario Provincial Offences Court against Cash Store for operating as a payday lender in Ontario without a license.

23) Also on February 13, 2014, Cash Store issued a press release stating that “The Company is not currently permitted to sell any payday loan products in Ontario”, and “the Company is no longer offering any of its line of credit products in Ontario”.

24) The Class Action alleges that between September 1, 2011 and February 13, 2014, the structure of Cash Store’s loan business was as follows:

- a) Contrary to the requirements of the Regulations, Cash Store had a policy of not providing cash to borrowers, a fact which required every Class Member to obtain

their payday loan through a device which required the payment of additional charges to DirectCash if they were to obtain their loan on an immediate basis;

- b) The only alternative to using a device was for borrowers to take their loan by way of electronic transfer of funds to a bank account. However, this involved a significant delay in receipt of funds as loans took up to 7 days to transfer, which is another contravention of the PLA and Regulations, as well as prejudicial for persons who need to obtain funds quickly;
- c) According to Cash Store's 2011 Annual Report, 99% of their customers who borrowed a loan also purchased one or more of the financial services products that Cash Store offered on behalf of DirectCash. When those financial services were purchased, additional fees charged by DirectCash were added to the principal of the borrower's loan, and interest was charged on those fees as well as on the principal loan amount. DirectCash collected their fees once the pre-paid debit or credit card was issued. For example, a borrower who requested a loan of \$100 on an immediate basis is required to "borrow" \$100 plus \$17.95 for a debit card, up to \$29.95 for the first monthly fee, plus an \$8.00 activation fee. The total amount borrowed for a \$100 loan would therefore be a minimum of \$155.90 and interest would be charged on that total amount. Additional transaction fees would be subsequently charged as the loan amount was expended. In this example, the total cost of borrowing would be \$55.90, plus interest, when the legal maximum cost was capped by the PLA at \$21.00 per \$100.00; and

- d) Cash Store also offered optional insurance for their credit cards and debit cards, which cost approximately \$1.95 per day. “Bank accounts” were also required for use of the debit card, which involved additional fees.

25) The Class Action alleges that the following sections of the PLA and its Regulations were breached by Cash Store between September 1, 2011 and February 13, 2014:

- a) Section 22(0.1) and (1) of the Regulations, which state in combination that borrowers are entitled to receive the whole of their advances by way of cash, and that borrowers must be informed of that right;
- b) By failing to adhere to the requirements prescribed by the Regulations, Cash Store (and DirectCash) also contravened section 29(1) of the PLA. Section 29(4) states that if the parties enter into a loan agreement which breaches section 29(1) or (2) of the Act, “the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing.”;
- c) By forcing borrowers to obtain their loans through the use of debit cards and credit cards, which have additional fees attached to them, Cash Store breached Section 27(2) of the Regulations which states that “A lender shall not require a borrower to transact in any good or service, other than a payday loan, as a condition of entering into a loan agreement.”;
- d) Section 27(3) of the Regulations further states:

A licensee, acting on the licensee’s own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in

connection with a payday loan agreement, other than the payday loan, whether or not it is provided for consideration.

Cash Store Financial was in breach of section 27(3) of the Regulations as it systematically offered and required that certain goods and services be purchased by its borrowers from DirectCash in order to obtain immediate access to their loans;

- e) Section 27(5) provides that if subsections (2) and (3) of section 27 are breached, “the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing”; and
- f) Cash Store (and DirectCash) is liable to the Class for offering payday loans without a licence. Cash Store did not obtain loan broker licenses which would have permitted it to provide the “lines of credit” which it nevertheless offered, nor did DirectCash ever obtain payday lender or loan broker licenses which would have allowed them to engage in the payday loans business. Offering loans without a license is contrary to sections 6(1) and 6(2) of the PLA, and pursuant to section 6(3), carries a consequence of requiring the borrower to only repay the advance to the lender, and not the cost of borrowing.

26) The Class Action also alleges breaches by the Applicants of the *Competition Act* (R.S.C.), 1985, c. C-34, conspiracy, and unjust enrichment.

27) Since the Class Action has been stayed by the Initial Order obtained by the Applicants, a representation order is necessary and just so that thousands of Class Members whose rights are

not otherwise being protected in the CCAA proceeding will have representation in the CCAA proceeding.

28) Such further and other grounds as counsel may advise and this Court may permit.

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the motion:

- a) The Affidavit of Timothy Yeoman, sworn May 9, 2014.
- b) The Affidavit of Jonathan J. Foreman, sworn May 9, 2014.
- c) Such further material as counsel may advise and this Court may permit.

May 9, 2014

**KOSKIE MINSKY LLP**  
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P.O. Box 52  
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Agent for Harrison Pensa LLP, counsel to Timothy Yeoman (class plaintiff)

TO: SERVICE LIST

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36 AS AMENDED

Court File No. CV-14-10518-00CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE CASH STORE  
FINANCIAL SERVICES Inc., THE CASH STORE INC., TCS CASH STORE INC., INSTALOANS INC.,  
7252331 CANADA INC., 5515433 MANITOBA INC., 1693926 ALBERTA LTD DOING BUSINESS AS "THE  
TITLE STORE"

Applicants

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
Proceeding commenced at TORONTO

**NOTICE OF MOTION**

**KOSKIE MINSKY LLP**

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Toronto, ON M5H 3R3

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Agent for Harrison Pensa LLP, counsel to  
Timothy Yeoman (class plaintiff)



# TAB 2

Court File No. CV-14-10518-00CL

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36 AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
THE CASH STORE FINANCIAL SERVICES Inc., THE CASH STORE INC., TCS CASH  
STORE INC., INSTALOANS INC., 7252331 CANADA INC., 5515433 MANITOBA INC.,  
1693926 ALBERTA LTD DOING BUSINESS AS "THE TITLE STORE"**

**APPLICANTS**

**AFFIDAVIT OF TIMOTHY YEOMAN**

(Sworn May 9, 2014)

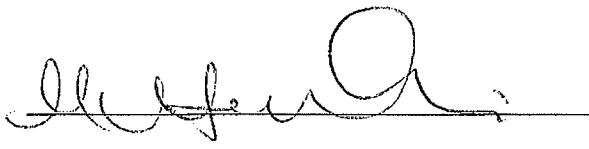
I, TIMOTHY YEOMAN, of the Town of Strathroy, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the plaintiff in the class proceeding *Timothy Yeoman v. The Cash Store Financial Services Inc., et al.*, Ontario Superior Court of Justice Court File No. 7908/12 CP (the "Class Action").
2. I commenced this action on August 1, 2012 as against Cash Store Financial Services Inc., The Cash Store Inc., and Instalozans Inc. ("Cash Store"). This action alleged that Cash Store had breached sections of the Ontario *Payday Loans Act*, and its Regulations on account of refusing to provide its borrowers with cash loans and requiring that loans were taken on prohibited "devices" which resulted in the charging of unlawful fees to class members. The action also alleged breaches of the *Competition Act* and unjust enrichment. Attached hereto and marked as **EXHIBIT 'A'** to this my affidavit is a copy of the Statement of Claim.
3. On August 27, 2013, I instructed my counsel to bring a motion to obtain leave to file a Fresh as Amended Statement of Claim which pleaded updated factual events and added

certain other defendants to the action. Attached hereto and marked as **EXHIBIT 'B'** to this my affidavit is a copy of the Order signed by Justice Goodman, granting leave to file a Fresh as Amended Statement of Claim in this action. Attached hereto and marked as **EXHIBIT 'C'** to this my affidavit is a copy of the issued Fresh as Amended Statement of Claim.

- 4. On January 29, 2014, I swore an affidavit in support of certification of the Class Action. I repeat and rely on the contents of my affidavit sworn in connection with the certification motion. Attached hereto and marked as **EXHIBIT 'D'** to this my affidavit is a copy of my affidavit sworn January 29, 2014.
- 5. I am advised by my counsel that my affidavit, together with other written materials in support of the certification motion, were served and filed on February 5, 2014. I am also advised that my counsel had set a certification schedule with the Defendants' counsel and the Court, which provided for the certification motion to be heard on September 15, 2014.
- 6. I am advised by my counsel that Cash Store filed for CCAA protection on April 15, 2014, and Cash Store was granted protection from its creditors under the CCAA. I understand that the class action I have brought is currently stayed pursuant to the Order made under the CCAA.
- 7. I wish to proceed with representing the class members that are described in the class action I have brought, and have instructed my counsel to bring a motion in order to obtain a representation order in the CCAA proceedings.
- 8. I verily believe that the class members described in the class action are not otherwise represented in the CCAA proceedings, and that their claims, as well as my own, ought to be protected.
- 9. I make this affidavit in support of a motion for a representation order and for no other or improper purpose.

SWORN BEFORE ME at the Town of )  
 Strathroy, in the Province of Ontario this )  
 9th day of May, 2014. )  
 )  
 )  
 )



\_\_\_\_\_  
 TIMOTHY YEOMAN

# TAB A

**This is EXHIBIT "A" referred to in the  
Affidavit of TIMOTHY YEOMAN  
sworn before me, this 9<sup>th</sup> day of May, 2014.**

  
A Commissioner, etc.

Court File No.: 7908/12

CP

ONTARIO  
SUPERIOR COURT OF JUSTICE

TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
and INSTALOANS INC.

Defendants

PROCEEDING UNDER THE *CLASS PROCEEDINGS ACT*, 1992, S.O. 1992, c.6

**STATEMENT OF CLAIM**

**TO THE DEFENDANT(S)**

**A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU** by the plaintiff. The claim made against you is set out in the following pages.

**IF YOU WISH TO DEFEND THIS PROCEEDING**, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, **WITHIN TWENTY DAYS** after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

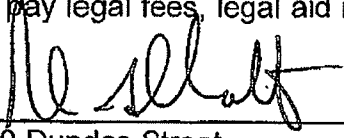
**IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.**

If you wish to defend this proceeding but are unable to pay legal fees, legal aid may be available to you by contacting a local legal aid office.

Date:

**AUG 01 2012**

Issued by:

  
80 Dundas Street  
London, Ontario  
N6A 6A3

**TO: THE CASH STORE FINANCIAL SERVICES INC.**

40 King Street  
Suite 2100  
Toronto, ON M5H 3C2

**AND TO: THE CASH STORE INC.**

10180 – 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: INSTALOANS INC.**

10180 – 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**CLAIM****1. THE PLAINTIFF CLAIMS** on behalf of himself and the Class:

- (a) An Order pursuant to the *Class Proceedings Act, 1992*, S.O. 1992, C. 6 certifying this action as a class proceeding and appointing the Plaintiff as representative Plaintiff on behalf of the Class;
- (b) General damages calculated on an aggregate basis or otherwise for breach of the *Payday Loans Act* S.O, 2008, C. 9 ("*Payday Loans Act*"), and its regulations, O.Reg. 98/09 and O. Reg. 316/11 (the "Regulations"), the *Competition Act* RSC 1985, c C-34 ("*Competition Act*"), and unjust enrichment, in an amount sufficient to compensate the Plaintiff and the Class Members for the harm done to them as a result of the Defendants' unlawful conduct;
- (c) Punitive damages and exemplary damages in an amount to be determined at trial;
- (d) Relief from amounts alleged to be owed to the Defendants by the Class Members on account of the unlawful charges and business practices alleged herein;
- (e) An equitable rate of interest on all sums found due and owing to the Plaintiff and the Class Members or, in the alternative, pre- and post-judgment interest pursuant to the *Courts of Justice Act*, R.S.O. 1990, Chapter C.43;
- (f) An accounting, restitution, disgorgement and the creation of a constructive trust for breach of the *Payday Loans Act*, and its 2011 Regulations, the *Competition Act*, unjust enrichment, and the taking of inequitable profit by unlawful conduct and waiver of tort;



- (g) An Order compelling the creation of a litigation trust to hold and distribute the monetary relief awarded pursuant to a plan of administration and distribution under sections 25 and 26 of the *Class Proceedings Act*;
- (h) An Order for a permanent injunction restraining the Defendants from taking any further action in contravention of the *Payday Loans Act* and its Regulations, or the *Competition Act*;
- (i) An Order compelling the creation of a conspicuous notice program to class members pursuant to section 19 of the *Class Proceedings Act* in order to facilitate the plan of distribution claimed herein;
- (j) Costs of the investigation and prosecution of these proceedings pursuant to Section 36(1) of the *Competition Act*;
- (k) Costs of this action on a substantial indemnity basis including the costs associated with notice to class members and the plan of administration and distribution of relief, plus applicable taxes; and
- (l) such further and other relief as this Honourable Court may deem just.

## THE PARTIES

### Plaintiff

2. The Plaintiff is an individual residing in Strathroy, Ontario. The Plaintiff engaged in a "payday loan" transaction with the Defendants on April 24, 2012. For a payday loan of \$400 and a loan duration of 9 days, the Plaintiff was charged an additional \$68.60 in fees and service charges, and paid \$78.72 in interest for a total cost of borrowing of \$147.32.

**Defendants**

3. The defendant Cash Store Financial Services Inc. is an Ontario corporation carrying on business under the name Cash Store Financial with its principal place of business in Toronto, Ontario.
4. The defendants Cash Store Inc. and Instaloes Inc. are wholly owned subsidiaries of Cash Store Financial Services Inc. (collectively "Cash Store Financial" and "the Defendants").
5. Cash Store Financial Services Inc. has substantial business in Ontario and operates approximately 200 "payday loan" branches across the province.
6. The Defendants collectively engage in a business known as "payday lending." It is the Defendants' business to arrange for short-term cash advances to customers valued at between \$100 to \$1,500, representing up to 50% of the customer's take home pay. The maximum loan period for the Defendants' loans is 18 days.

**The Class**

7. The Plaintiff seeks to represent a class consisting of all persons in Canada who entered into "payday loan" transactions with the Defendants in Ontario between September 1, 2011 and the date of judgment (the "Class Members").

**THE NATURE OF THE ACTION**

8. This action concerns the unlawful business model of the Defendants as operators in the "payday loan" industry subject to the Ontario *Payday Loans Act* and Regulations.

9. Since September 1, 2011, all payday lenders in Ontario are specifically required by legislation to provide borrowers with the option to take their payday loan in an immediate and liquid form. The effect of this requirement is to reduce the cost of borrowing and to prevent payday lenders from requiring borrowers to pay ancillary fees for "devices", a term defined in the Regulations meaning instruments offered by the lender in the delivery of the payday loan such as debit cards or credit cards.
10. Since September 1, 2011 the Defendants as payday lenders have by their business practice, violated the applicable statutory requirements of this province, which requirements were designed for the protection of the Class Members as borrowers.
11. Specifically, the Defendants do not, as a universal and province-wide corporate policy, provide the Class Members with the option to take a payday loan in cash as explicitly required by the *Payday Loans Act* Regulations. The Defendants also do not provide loans by way of cheque. Instead, the Defendants' business model features two options for the delivery of payday loans to Class Members:
- i. By way of ancillary products such as a pre-paid debit or credit card, which products feature additional fees and interest; or
  - ii. By way of a delayed bank transfer to the borrower's account, which transfers take up to 7 days to occur.

Both options fail to comply with the applicable legislation to the prejudice of Class Members.

12. The first option provided by the Defendants constitutes approximately 99% of the Defendants' payday lending business according to information contained in their public financial filings. The option violates multiple statutory requirements, and most notably,

every such loan exceeds the prescribed maximum cost of borrowing. The second option constitutes the remainder of the Defendants' business and it violates the strict requirement that payday loans be made "immediately accessible" to borrowers no later than the time at which the payday loan agreement is entered into, an important matter for loans of such short duration and high rates of interest.

13. The Class Members claim specific relief provided for under the Ontario *Payday Loans Act* and Regulations and the *Competition Act* for the breaches alleged herein as well as common law and equitable remedies.

#### **BACKGROUND**

14. Since 2008, the Defendants and all other payday loan companies operating in Ontario have been governed by the *Payday Loans Act*. The Act and its Regulations, which were passed by the Ontario government in June of 2008, were created by the province in order to ensure the regulation of the payday lending industry in Ontario was compliant with the new requirements of the *Criminal Code* with respect to criminal interest rates. At that time, the Ontario government also commissioned the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the "Advisory Board").
15. The Advisory Board delivered its report in February of 2009, and recommended that the Ontario government set the maximum total cost of borrowing for payday loans in Ontario at \$21 per \$100 borrowed. This recommendation was implemented in 2009.

16. Ontario Regulation 98/09 set out requirements for the content of a payday loan agreement, including the following key elements:

- a) The borrower must only be required to pay a maximum cost of \$21 per \$100 borrowed; and
- b) The maximum cost of borrowing must be stated in the loan agreement as well as in the lender's business advertisements.

17. Since that regulation was enacted in 2009, there were persistent complaints and media reports across Canada of payday lenders requiring the payment of additional fees in lieu of the higher interest rates they had previously been able to charge to borrowers.

18. In response to those complaints, an amendment to the regulation was enacted and brought into force in September of 2011. Ontario Regulation 316/11 (the "2011 Regulation") adds the following key obligations on payday lenders:

- a) Third party fees and charges are to be included in the cost of borrowing (s. 17);
- b) Borrowers must be able to receive their loan in cash (s. 22); and
- c) Optional goods and services are prohibited from being sold by a payday loan company (s. 27).

19. The purpose of these amendments is to reduce the cost of borrowing for payday loans and to confirm the required immediacy in the delivery of loan principal in liquid form for the benefit of borrowers.

20. On August 31, 2011, the day before the 2011 Regulation came into force, the Defendants filed an application for Judicial Review of the new regulation.
21. In their application for Judicial Review, the Defendants requested relief including, but not limited to:
- (a) Orders stating that amendments cited in the new regulation relating to additional charges and the requirement to offer cash were *ultra vires* and of no force and effect;
  - (b) A declaration that the provisions of the new regulation discriminate against the Defendants are *ultra vires* and of no force and effect;
  - (c) A declaration that debit cards and pre-paid cards are not considered a "device" within the meaning of the *Payday Loans Act*, and
  - (d) An order for an interim or interlocutory injunction or a declaration staying the force and effect of the new regulations.
22. In their application, the Defendants submit that "These amendments contain broad changes to the payday lending regulations that specifically affect the business of Cash Store Financial".
23. Further, the Defendants argue that the 2011 Regulations "appear to improperly target Cash Store Financial specifically, to the exclusion of other licensees, and therefore amount to a form of regulatory discrimination."
24. The Defendants concede that in order to comply with the new regulations they "will be required to effect significant changes to [their] operations".

25. To date, the Defendants have not made any such changes to their operations. Rather, the Defendants have refused to make cash payments available to borrowers and have instead continued to compel borrowers to pay additional fees in order to facilitate loan payments through various non-cash mechanisms. Further, the Defendants add those fees to the "borrowed" principal amount of the loan and the maximum rate of interest is charged on those additional fees as well as the principal amount. All of these charges and the interest charged on them result in loan terms which are well in excess of the prescribed maximum cost of borrowing.

26. The following chart details a non-exhaustive list of the ancillary fees that the Defendants require borrowers to pay to a third party bank in order to obtain a payday loan on a pre-paid debit or credit card:

Pre-Paid Mastercard (purchase)	\$17.95
Monthly Mastercard fee	\$29.95 - \$37.95
Mastercard loading fee	\$3.50
Mastercard service fee (each use)	\$2.95
Credit card insurance (on \$500)	\$1.95 / day
Debit card (purchase)	\$17.95
Debit card activation fee	\$8.00
Monthly debit card fee	\$17.90 - \$29.95
Debit card service fee (each use)	\$2.25 - \$2.95

27. In the example of a loan transaction where the funds were provided on a Mastercard, the borrower could be charged a fee of \$17.95 for purchasing a MasterCard credit card in order to obtain the payday loan, as well as monthly fees ranging between \$29.95 and \$37.95 per month. There will also be an additional "loading fee" and service fees for each use of the credit card. If the loan is not withdrawn from an ATM all at once, each additional ATM transaction will result in another fee.
28. The additional fees charged by the third party bank are added to the principal of the borrower's loan at the time the payday loan is taken out, and interest is charged on those fees as well as on the principal loan amount. The third party bank collects their fees once the pre-paid debit or credit card is issued. As a result, a borrower who wishes to take out a loan of \$100 will in fact be required to "borrow" \$100 plus \$17.95 for a debit card, up to \$29.95 for the first monthly fee, and an \$8.00 activation fee. The total amount borrowed becomes a minimum of \$155.90 and interest will be charged on that amount. Additional transaction fees will be subsequently charged as the loan amount is expended.
29. The Defendants also offer optional insurance for their credit cards and debit cards, which costs approximately \$1.95 per day. "Bank accounts" are also required for use of the debit card which involves additional fees.
30. Contrary to the requirements of the 2011 Regulation, the Defendants have a corporate policy of not providing cash to borrowers, a fact which requires every Class Member to obtain their payday loan through a device which requires the payment of additional charges if they are to obtain their loan on an immediate basis.



31. The only alternative for borrowers is to take their loan by way of electronic transfer of funds to a bank account. However, such involves a significant delay in receipt of funds. Loans may take up to 7 days to transfer, which is both in contravention of the *Payday Loans Act* and Regulations, as well as impractical for persons who need to obtain funds on a short-term basis. The delay is prejudicial to borrowers for whom the loan duration is between 9 – 18 days and at a high rate of interest. As a result of the above-noted business practices, the Plaintiff pleads that the Defendants have been unjustly enriched and are in breach of the *Payday Loans Act* and its 2011 Regulation, as well as the *Competition Act*.

#### **PAYDAY LOANS ACT AND REGULATIONS**

32. The Defendants have stated in their application for Judicial Review that "Cash Store Financial's business is distinguishable from its competitors in the marketplace in that it specifically does not provide advances in cash, but rather provides advances by way of cheque or other optional electronic funds transfer mechanisms."
33. As a matter of fact, the Defendants do not provide cheques as a method of borrowing payday loans and as previously indicated, the electronic bank transfers are not immediate. The provision of payday loans through account transfers which take up to 7 days is unlawful as section 29(2) of the Act states that lenders must ensure that the advance is delivered no later than upon entering into the loan agreement. Furthermore, Section 21(1) of the Regulation states that it is deemed that a lender under a payday loan agreement has not delivered the advance to the borrower upon entering into the agreement unless the advance is immediately accessible by the borrower at that time.

34. Section 22(0.1) and (1) of the 2011 Regulation state in combination that borrowers are entitled to receive the whole of their advances by way of cash, and that borrowers must be informed of that right.
35. The Defendants' business model whereby it refuses to provide cash to borrowers is in direct contravention of section 22 of the 2011 Regulation. Further, it contradicts the overarching policy purpose of payday loans in Ontario, which is to provide liquid short-term lending to borrowers.
36. By failing to adhere to the requirements prescribed by the 2011 Regulations, the Defendants have also contravened section 29(1) of the *Payday Loans Act*. Section 29(4) of the Act states that if the parties enter into a loan agreement which breaches section 29(1) or (2) of the Act, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing." The Plaintiff pleads and relies on this section of the Act.
37. As stated above, the Defendants require borrowers to obtain their loans through the use of debit cards and credit cards, which have additional fees attached to them. Section 27(2) of the *Paydays Loans Act Regulations* states that "A lender shall not require a borrower to transact in any good or service, other than a payday loan, as a condition of entering into a loan agreement." The Defendants are in contravention of section 27(2) of the 2011 Regulation as it requires borrowers to purchase a device from a third party bank in order to obtain immediate access to their loans.

38. Section 27(3) of the 2011 Regulation further states that:

"A licensee, acting on the licensee's own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in connection with a payday loan agreement, other than the payday loan, whether or not it is provided for consideration."

The Defendants are in clear breach of this section of the Regulations as they systematically offer and require that certain goods and services are purchased by their borrowers from a third party bank in order to obtain immediate access to their loans.

39. Section 27(5) of the 2011 Regulation provides that if subsections (2) and (3) of section 27 are breached, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."

40. Section 17(1) of the 2011 Regulation states that the following amounts are prescribed as included in the cost of borrowing with respect to a payday loan agreement:

- "1. Any amount payable by the borrower, upon entering into the agreement, to process a payment provided by the borrower under the agreement.
2. Any other amount that is connected directly or indirectly to the payday loan agreement and,
  - i. that the borrower has paid upon entering into the agreement, or
  - ii. for which the borrower's obligation to pay exists upon entering into the agreement."

The Plaintiff pleads that the amounts charged by the Defendants in the form of additional loan amounts to pay for devices are direct and indirect costs that are referred to in sec. 17(1). Section 17(2) specifically states that these amounts include any amounts in relation to a device.

41. By charging its borrowers for devices which are deemed to be included in the cost of borrowing, the Defendants have contravened section 32(2) of the *Payday Loans Act*

which states that "The lender under a payday loan agreement shall ensure that the cost of borrowing under the agreement does not exceed the prescribed limits."

42. Section 32(4) of the *Payday Loans Act* offers the same remedy to the borrower as sections 29(4) of the *Act* and 27(5) of the Regulation if the cost of the payday loan agreement exceeds the prescribed limits: "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."

43. Section 23 of the Regulations states that the prescribed limit on the cost of borrowing under a payday loan agreement for the purposes of subsection 32(2) of the Act is \$21 per \$100 advanced under the agreement. The Defendants charge this prescribed maximum rate on the loan amount the borrower requests as well as the loan amount for additional services to be purchased in connection with the loan. The Defendants are therefore in breach of this requirement as the additional fees must be included in the cost of borrowing, which would result in the total cost exceeding the prescribed maximum.

## **MISREPRESENTATIONS**

44. Section 26 of the *Payday Loans Act* provides as follows:

### **Representations**

26. (1) No licensee shall make or shall facilitate the making of false, misleading or deceptive statements relating to a payday loan or a payday loan agreement in any advertisement, circular, pamphlet or material published by any means. 2008, c. 9, s. 26 (1).

### **Requirements**

(2) No licensee shall make or shall facilitate the making of representations or cause representations to be made relating to a payday loan or a payday loan agreement, whether orally, in writing or in any other form, unless the representations comply with the prescribed requirements, if any. 2008, c. 9, s. 26 (2).

45. In the conduct of their business, the Defendants make at least 2 consistent misrepresentations to Class Members:
- i. They misstate the total cost of borrowing in their loan agreements; and
  - ii. They misrepresent the total cost of borrowing in a poster which is required to be published and posted at point of sale for the benefit of borrowers pursuant to section 14 of the Regulations.
46. For all Class Members whose payday loans involve an additional service or a device, the Defendants uniformly misrepresents the total cost of borrowing within a table which is required by section 18(1) of the Regulations to express each borrower's total cost of borrowing for their loan transaction. The Defendants fail to include the cost of additional services and devices in its description of the total cost of borrowing. As pleaded herein, such charges are mandated to be included in the total cost of borrowing. If properly constituted, such tables would show that every such loan transaction would grossly exceed the prescribed maximum cost of borrowing in Ontario.
47. As indicated, the Defendants' poster required by section 14 also fails to incorporate the cost of devices into the total cost of borrowing.
48. As detailed above, the Defendants' entire business model is promulgated and executed in a manner which falsely denies the class members their fundamental rights under the *Payday Loans Act* and the Regulations.
49. The Plaintiff relies on the *Payday Loans Act* including but not limited to sections 38, 39, and 40 of the *Payday Loans Act*, which state that the Plaintiff and the Class have the right to pursue any remedies they may have in law, including by way of a Class Action.

50. The Plaintiff also specifically pleads and relies on section 41 of the *Payday Loans Act* which states that any ambiguity in the interpretation of a payday loan agreement shall be interpreted to the benefit of the borrower.

#### COMPETITION ACT

51. Section 52 of the *Competition Act* prohibits making misleading representations in order to promote a business interest.

52. (1) No person shall, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, knowingly or recklessly make a representation to the public that is false or misleading in a material respect.

52. Section 52(1.1) of the *Competition Act* states:

(1.1) For greater certainty, in establishing that subsection (1) was contravened, it is not necessary to prove that

(a) any person was deceived or misled

53. The Defendants collectively promulgate and execute their entire business model in a manner which denies the class members their fundamental rights as borrowers under the *Payday Loans Act*. The Defendants conduct is, in its entirety, the false promotion of their business interests in contravention of s. 52 of the *Competition Act*.

54. In addition to all other remedies available at law, the Plaintiff pleads entitlement to damages and costs of investigation and prosecution pursuant to s. 36 of the *Competition Act*. Without limitation, the Plaintiff pleads that the Defendants obtained unlawful revenues due to the promulgation and execution of its false and unlawful business model which actions were in violation of the *Payday Loans Act* and its regulations between September 1, 2011 and the present.

**UNJUST ENRICHMENT**

55. The Defendants have been unjustly enriched to the extent that they have charged and retained unlawful fees, interest and other amounts in respect of payday loans and the associated bank transfers of those loans made to class members since the inception of the 2011 Regulation.
56. The Defendants' enrichment represents a corresponding deprivation to the Class Members as a whole.
57. The enrichment of the Defendants arises solely by the contravention of applicable law. There is therefore no juristic reason for the Defendants' enrichment.

**WAIVER OF TORT**

58. The Plaintiff pleads and relies on the doctrine of waiver of tort and states that the defendants' conduct, including the alleged breaches of the *Payday Loans Act* and its regulations and the *Competition Act* constitutes conduct which can be waived in favour of an election to receive restitutionary or other equitable remedies.

**REMEDIES****Damages**

59. As a result of the acts and omissions of the Defendants as particularized above, the Plaintiff and the Class Members have suffered losses and damages.
60. The Class Members are owed damages amounting to those sums collected by the Defendants pursuant to the illegal fees, interest and other amounts that the Defendants charged to the class members.

61. Further, as the payday loan practices of the defendants did not comply with the prescribed requirements during the class period, the Plaintiff pleads and relies on the remedies provided for pursuant to section 29(4) of the *Payday Loans Act*, which, entitles the class members to refunds of or relief from liability of all fees and interest charged to them in respect of their payday loans.
62. Further, the Class Members claim any gains earned on these amounts and an equitable rate of interest thereon.
63. All amounts payable to the class on account of damages and disgorgement should be calculated on an aggregate basis pursuant to s. 24 of the *Class Proceedings Act*, or otherwise.

#### **Punitive Damages**

64. By virtue of the high-handed conduct of the Defendants and their disregard for the rights of class members, the Plaintiff requests this Court to award against the Defendants or any of them, punitive damages in an amount deemed appropriate by this Court at trial.
65. The plaintiff Pleads and relies on section 45(3) of the *Payday Loans Act* which states that in the event a borrower brings an action in the Superior Court of Justice and is successful, the court "may order exemplary or punitive damages or other relief that the court considers proper."

#### **Relief of Debt**

66. The Plaintiff requests forgiveness of all outstanding amounts alleged to be owing on account of the unlawful amounts charged by the Defendants. The illegal business



practices of the Defendants have resulted in improper charges and rates of interest to the borrowers which are prohibited by law and therefore must be cancelled.

### **An Equitable Accounting**

67. The Plaintiff requests an accounting for all of the unlawful fees, interest and other amounts collected as well as any interest earned thereon and debt which must be forgiven by the Defendants on account of the Class Members during the class period.

### **Constructive Trust**

68. The Plaintiff claims a constructive trust in respect of the illegal fees, interest and other amounts paid by the Class Members. The Plaintiff states that good conscience requires the Defendants to hold all the illegal fees, interest and other amounts paid and interest earned thereon in trust for the Plaintiff and Class Members.

69. The Plaintiff states that the Defendants are constructive trustees in favour of the Plaintiff and the Class Members in respect of the illegal fees, interest and other amounts paid because:

- a) The Defendants may not, in good conscience, retain these illegal fees, interest and other amounts;
- b) The imposition of a constructive trust is required by justice and good conscience;
- c) The integrity of the intentions of *Payday Loans Act* and its related regulations would be undermined if the Court did not impose a constructive trust; and
- d) There are no factors which render the imposition of a constructive trust unjust.

**Plan of Distribution**

70. Such damages ought to be held in a litigation trust and distributed pursuant to a plan of distribution under sections 25 and 26 of the *Class Proceedings Act*.

71. Alternatively, if so elected, the unpaid remuneration and any gains made thereon should be calculated on an aggregate basis or otherwise should be held in a litigation trust and distributed pursuant to a plan of distribution under sections 25 and 26 of the *Class Proceedings Act*.

**Injunction**

72. The Plaintiff claims that the Defendants be permanently enjoined from carrying on business in contravention of the applicable laws.

**Conspicuous Notice Plan**

73. The Plaintiff requests the creation of a conspicuous and comprehensive notice program affording notice to the Class Members of the illegality of the fees, interest and other amounts paid by them and the amounts owing to them by the Defendants pursuant to Section 19 of the *Class Proceedings Act*.

**STATUTES RELIED UPON**

74. The Plaintiff relies upon the *Class Proceedings Act, 1992*, S.O. 1992, c. 6, the *Payday Loans Act, 2008*, S.O. 2008, c. 9 and its regulations, O.Reg. 98/09 and O. Reg. 316/11, the *Competition Act*, RSC 1985, c C-34, and the *Courts of Justice Act*, R.S.O. 1990, c.C.43.

**SERVICE OUTSIDE OF ONTARIO**

75. This originating process may be served without Court Order outside of Ontario in that the claim is:

- a. in respect of a contract made in Ontario (Rule 17.02(f));
- b. in respect of a tort committed in Ontario (Rule 17.02 (g));
- c. in respect of damages sustained in Ontario arising from a tort or a breach of contract wherever committed (Rule 17.02 (h)), and;
- d. against a person carrying on business in Ontario (Rule 17.02 (p)).

**PLACE OF TRIAL**

76. The Plaintiff proposes that this action be tried in London, Ontario.

**AUG 01 2012**

**HARRISON PENSA LLP**  
450 Talbot Street  
London, ON N6A 4K3

**Jonathan J. Foreman**  
LSUC#: 45087H

Tel: (519) 679-9660  
Fax: (519) 667-3362

Counsel for the Plaintiff

Court File No. 7908/12 CP.

YEOMAN  
v THE CASH STORE FINANCIAL SERVICES INC. et al.

PLAINTIFFS

DEFENDANTS

SUPERIOR COURT OF JUSTICE

Commenced at LONDON

**STATEMENT OF CLAIM**

**HARRISON PENZA LLP**  
Barristers and Solicitors  
450 Talbot Street, P.O. Box 3237  
London, Ontario N6A 4K3

**Jonathan J. Foreman**  
(LSUC #45087H)

Tel: (519) 679-9660  
Fax: (519) 667-3362

Lawyers for the Plaintiff.

File # 152426

**TAB B**

**This is EXHIBIT "B" referred to in the  
Affidavit of TIMOTHY YEOMAN  
sworn before me, this 9<sup>th</sup> day of May, 2014.**

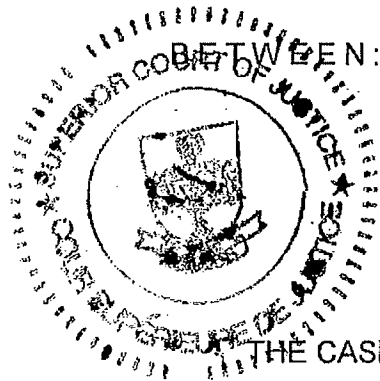
  
A Commissioner, etc.

Court File No.: 7908/12 CP

THE HONOURABLE )  
MR JUSTICE A.J. GOODMAN )

TUESDAY THE 27<sup>th</sup> DAY  
OF AUGUST, 2013

ONTARIO  
SUPERIOR COURT OF JUSTICE



BETWEEN:

TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
and INSTALOANS INC.

Defendants

Proceeding under the *Class Proceedings Act, 1992*

ORDER

**THIS MOTION**, made by the Plaintiff Timothy Yeoman, for an Order (1) adding certain defendants to this action, (2) granting leave to issue a Fresh as Amended Statement of Claim, (3) amending the title of proceedings, and (4) abridging the time for filing and services of this motion if necessary, was heard this day at the Court House, 80 Dundas Street, London, Ontario.

**ON READING** the materials filed, including:

- a) The Notice of Motion and the Fresh as Amended Statement of Claim attached as Schedule "A" thereto; and

b) The Affidavit of Sarah A. Graham sworn August 20, 2013;

**AND ON HEARING** the submissions of counsel,

1. **THIS COURT ORDERS** that DirectCash Bank, DirectCash ATM Processing Partnership, DirectCash ATM Management Partnership, DirectCash Payments Inc., DirectCash Management Inc., and DirectCash Canada Limited Partnership be added as defendants to this action;
2. **THIS COURT ORDERS** that the Plaintiff shall be granted leave to issue a Fresh As Amended Statement of Claim in accordance with Schedule "A" to the Notice of Motion;
3. **THIS COURT ORDERS** that the title of proceedings be amended in the form set out below on all documents issued or filed with this Court:

TIMOTHY YEOMAN

Plaintiff

- and -

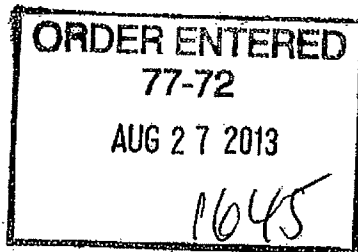
THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
 INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
 PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
 PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
 DIRECTCASH CANADA LIMITED PARTNERSHIP

Defendants;



4. **THIS COURT ORDERS** that the time for service and filing of this Motion Record is hereby abridged and validated and this application is properly returnable in London, Ontario on August 27, 2013 or thereafter as applicable and hereby dispenses with further service hereof.

Date: **AUG 27 2013**



*AR*

Court File No.: 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

BETWEEN:

TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP

Defendants

PROCEEDING UNDER THE *CLASS PROCEEDINGS ACT*, 1992, S.O. 1992, c.6

**FRESH AS AMENDED STATEMENT OF CLAIM**

**TO THE DEFENDANT(S)**

**A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU** by the plaintiff. The claim made against you is set out in the following pages.

**IF YOU WISH TO DEFEND THIS PROCEEDING**, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, **WITHIN TWENTY DAYS** after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

**IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.**

If you wish to defend this proceeding but are unable to pay legal fees, legal aid may be available to you by contacting a local legal aid office.

Date: August 1, 2012

Issued by: \_\_\_\_\_

80 Dundas Street  
London, Ontario  
N6A 6A3

**TO: THE CASH STORE FINANCIAL SERVICES INC.**

40 King Street  
Suite 2100  
Toronto, ON M5H 3C2

**AND TO: THE CASH STORE INC.**

10180 – 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: INSTALOANS INC.**

10180 – 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: DIRECTCASH BANK**

1420 - 28<sup>th</sup> Street North East  
Bay #6  
Calgary, Alberta T2A 7W6

- AND TO: DIRECTCASH ATM PROCESSING PARTNERSHIP**  
350 7<sup>th</sup> Avenue SW  
No. 1400  
Calgary, Alberta T2P 3N9
- AND TO: DIRECTCASH ATM MANAGEMENT PARTNERSHIP**  
350 7<sup>th</sup> Avenue SW  
No. 1400  
Calgary, Alberta T2P 3N9
- AND TO: DIRECTCASH PAYMENTS INC.**  
Bay #6, 1420 28<sup>th</sup> Street NE  
Calgary, Alberta T2A 7W6
- AND TO: DIRECTCASH MANAGEMENT INC.**  
Bay #6, 1420 28<sup>th</sup> Street N E  
Calgary, Alberta T2A 7W6
- AND TO: DIRECTCASH CANADA LIMITED PARTNERSHIP**  
Bay #6, 1420 28<sup>th</sup> Street N E  
Calgary, Alberta T2A 7W6

**CLAIM****1. THE PLAINTIFF CLAIMS** on behalf of himself and the Class:

- (a) An Order pursuant to the *Class Proceedings Act, 1992*, S.O. 1992, C. 6 certifying this action as a class proceeding and appointing the Plaintiff as representative Plaintiff on behalf of the Class;
- (b) General damages calculated on an aggregate basis or otherwise for breach of the *Payday Loans Act* S.O, 2008, C. 9 ("*Payday Loans Act*"), and its regulations, O.Reg. 98/09 and O. Reg. 316/11 (the "Regulations"), the *Competition Act* RSC 1985, c C-34 ("*Competition Act*"), conspiracy, and unjust enrichment, in an amount sufficient to compensate the Plaintiff and the Class Members for the harm done to them as a result of the Defendants' unlawful conduct;
- (c) Punitive damages and exemplary damages in an amount to be determined at trial;
- (d) Relief from amounts alleged to be owed to the Defendants by the Class Members on account of the unlawful charges and business practices alleged herein;
- (e) An equitable rate of interest on all sums found due and owing to the Plaintiff and the Class Members or, in the alternative, pre- and post-judgment interest pursuant to the *Courts of Justice Act*, R.S.O. 1990, Chapter C.43;
- (f) An accounting, restitution, disgorgement and the creation of a constructive trust for breach of the *Payday Loans Act*, and its 2011 Regulations, the *Competition Act*, unjust enrichment, and the taking of inequitable profit by unlawful conduct and waiver of tort;

- (g) An Order compelling the creation of a litigation trust to hold and distribute the monetary relief awarded pursuant to a plan of administration and distribution under sections 25 and 26 of the *Class Proceedings Act*;
- (h) An Order for a permanent injunction restraining the Defendants from taking any further action in contravention of the *Payday Loans Act* and its Regulations, or the *Competition Act*;
- (i) An Order compelling the creation of a conspicuous notice program to Class Members pursuant to section 19 of the *Class Proceedings Act* in order to facilitate the plan of distribution claimed herein;
- (j) Costs of the investigation and prosecution of these proceedings pursuant to Section 36(1) of the *Competition Act*;
- (k) Costs of this action on a substantial indemnity basis including the costs associated with notice to Class Members and the plan of administration and distribution of relief, plus applicable taxes; and
- (l) such further and other relief as this Honourable Court may deem just.

## **THE PARTIES**

### **Plaintiff**

2. The Plaintiff is an individual residing in Strathroy, Ontario. The Plaintiff engaged in a "payday loan" transaction with the Defendants on April 24, 2012. For a payday loan of \$400 and a loan duration of 9 days, the Plaintiff was charged an additional \$68.60 in fees and service charges, and paid \$78.72 in interest for a total cost of borrowing of \$147.32.

**Defendants**

3. The defendant Cash Store Financial Services Inc. is an Ontario corporation carrying on business under the name Cash Store Financial with its principal place of business in Toronto, Ontario.
4. The defendants Cash Store Inc. and Instaloes Inc. are wholly owned subsidiaries of Cash Store Financial Services Inc. (collectively "Cash Store Financial" and "the Cash Store Defendants").
5. Cash Store Financial Services Inc. has substantial business in Ontario and operates approximately 181 "payday loan" branches across the province.
6. The defendant DirectCash Bank (also known as DC Bank) is a Schedule I bank under the *Bank Act*, S.C. 1991c. 46, which is registered with the Superintendent of financial Institutions Canada in Calgary, Alberta. DC Bank describes itself as a "limited purpose bank". It provides products and services in connection with ATM accounts, prepaid debit cards, and prepaid Mastercards.
7. The defendants DirectCash ATM Processing Partnership and DirectCash ATM Management Partnership are general partnerships registered in Alberta which carry out ATM and debit services throughout Canada.
8. The defendant DirectCash Payments Inc. is a corporation which has been amalgamated pursuant to the laws of Alberta. DirectCash Payments Inc. is the head office of the DirectCash entities, which directs business carried out through its subsidiaries.

9. The defendant DirectCash Management Inc. is a corporation incorporated under the laws of Alberta, which is wholly owned by DirectCash Payments Inc., and is the general managing partner of DirectCash Canada Limited Partnership.
10. The defendant DirectCash Canada Limited Partnership is a limited partnership that is registered under the *Partnership Act* in Alberta. DirectCash Payments Inc. owns 100% of the partnership units of DirectCash Canada Limited Partnership. DirectCash Canada Limited Partnership in turn directs the business of DirectCash ATM Processing Partnership and DirectCash ATM Management Partnership.
11. The DirectCash defendants (collectively referred to as "DirectCash" and the "DirectCash Defendants") have entered into an agency relationship with the Cash Store Defendants, and are integral to maintaining the Cash Store Defendants' revenue stream.
12. The Defendants collectively engage in a business known as "payday lending." It is Cash Store Financial's business to arrange for short-term cash advances and "lines of credit" to customers valued at between \$100 to \$5000. The maximum loan period for Cash Store Financial's previous payday loans was 18 days, and for its current lines of credit is 4 weeks.
13. The DirectCash Defendants have expressly and inextricably interwoven their offerings into Cash Store Financial's payday loan agreements with the Class Members. The Plaintiff therefore pleads that the Defendants are each liable to the Class Members for the unlawful conduct alleged herein.



### The Class

14. The Plaintiff seeks to represent a class consisting of all persons in Canada who entered into "payday loan" transactions with Cash Store Financial in Ontario between September 1, 2011 and the date of judgment (the "Class Members").

### THE NATURE OF THE ACTION

15. This action concerns the unlawful business models of the Defendants as operators in the "payday loan" industry subject to the Ontario *Payday Loans Act* and Regulations.
16. Since September 1, 2011, all payday lenders in Ontario are specifically required by legislation to provide borrowers with the option to take their payday loan in an immediate and liquid form. The effect of this requirement is to reduce the cost of borrowing and to prevent payday lenders from requiring borrowers to pay ancillary fees for "devices", a term defined in the Regulations meaning instruments offered by the lender in the delivery of the payday loan such as debit cards or credit cards.
17. Since September 1, 2011, the Defendants as payday lenders have by their business practices, violated the applicable statutory requirements of this province, which requirements were designed for the protection of the Class Members as borrowers.
18. Specifically, the Cash Store Financial does not, as a universal and province-wide corporate policy, provide the Class Members with the option to take a payday loan in cash as explicitly required by the *Payday Loans Act* Regulations. Cash Store Financial also had not provided Class Members with the option to take loans by way of cheque until February of 2013, and such option requires processing time of up to several days. Instead, Cash Store Financial's business model has featured two primary options for the delivery of payday loans to Class Members since September 1, 2011:

- i. By way of ancillary products such as a pre-paid DirectCash debit or credit card, which products feature additional fees and interest; or
- ii. By way of a delayed bank transfer to the borrower's account, which transfers take up to 7 days to occur.

Both options fail to comply with the applicable legislation to the prejudice of Class Members.

19. The first option provided by the Defendants constituted approximately 99% of Cash Store Financial's payday lending business in 2011, according to information contained in their public financial filings. It continues to be the primary method by which borrowers obtain loans from the Defendants. The option violates multiple statutory requirements, and most notably, every such loan exceeds the prescribed maximum cost of borrowing. The second option, together with cheques as of February of 2013, constitutes the remainder of Cash Store Financial's loan business and they violate the strict requirement that payday loans be made "immediately accessible" to borrowers no later than the time at which the payday loan agreement is entered into, an important matter for loans of such short duration and high rates of interest.

20. The DirectCash Defendants are inextricably incorporated into the illegal conduct alleged herein. In the payday loan agreements at issue, Class Members are required to enter into agreements with the DirectCash Defendants and to remit funds to them, which funds are expressly added to the borrowed amount in the payday loan and on which interest is charged. Further, Cash Store Financial and the DirectCash Defendants share the revenue that is illegally charged to the Class Members in contravention of the applicable legislation and the common law.

21. Cash Store Financial's payday loans changed in their outward form on February 1, 2013 when the company made the strategic decision to declare it was discontinuing to offer "payday loans" and would instead offer "lines of credit". In reality, Cash Store Financial has continued to offer payday loans under a different name, in an attempt to circumvent the applicable payday lending legislation and applicable regulations.
22. On February 4, 2013, the Registrar for the *Payday Loans Act* the issued a proposal to revoke the payday lending licenses of The Cash Store Inc. and Instalozans Inc. On July 3, 2013, Cash Store Financial issued a public statement indicating that The Cash Store Inc. and Instalozans Inc. intend to allow their respective payday loan licenses in Ontario to expire, and that they will instead continue to offer lines of credit.
23. The Plaintiff pleads that the lines of credit currently offered by Cash Store Financial are in fact payday loans, which are subject to the *Payday Loans Act* and its Regulations. The Plaintiff relies on section 4 of the *Payday Loans Act* in this regard, which states that the court shall consider the real substance of the agreement or transaction, and in so doing may disregard the outward form of the agreement or transaction.
24. The DirectCash Defendants maintain full knowledge of and participation in the illegal payday loan transactions with Class Members which are improperly characterized as "lines of credit".
25. The Class Members claim specific relief from the Defendants as provided for under the Ontario *Payday Loans Act* and Regulations and the *Competition Act* for the breaches alleged herein as well as common law and equitable remedies.

**BACKGROUND**

26. Since 2008, Cash Store Financial and all other payday loan companies operating in Ontario have been governed by the *Payday Loans Act*. The Act and its Regulations, which were passed by the Ontario government in June of 2008, were created by the province in order to ensure the regulation of the payday lending industry in Ontario was compliant with the new requirements of the *Criminal Code* with respect to criminal interest rates. At that time, the Ontario government also commissioned the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the "Advisory Board").
27. The Advisory Board delivered its report in February of 2009, and recommended that the Ontario government set the maximum total cost of borrowing for payday loans in Ontario at \$21 per \$100 borrowed. This recommendation was implemented in 2009.
28. Ontario Regulation 98/09 set out requirements for the content of a payday loan agreement, including the following key elements:
- a) The borrower must only be required to pay a maximum cost of \$21 per \$100 borrowed; and
  - b) The maximum cost of borrowing must be stated in the loan agreement as well as in the lender's business advertisements.
29. Since that regulation was enacted in 2009, there were persistent complaints and media reports across Canada of payday lenders requiring the payment of additional fees in lieu of the higher interest rates they had previously been able to charge to borrowers.

30. In response to those complaints, an amendment to the regulation was enacted and brought into force in September of 2011. Ontario Regulation 316/11 (the "2011 Regulation") adds the following key obligations on payday lenders:

- a) Third party fees and charges are to be included in the cost of borrowing (s. 17);
- b) Borrowers must be able to receive their loan in cash (s. 22); and
- c) Optional goods and services are prohibited from being sold by a payday loan company (s. 27).

31. The purpose of these amendments is to reduce the cost of borrowing for payday loans and to confirm the required immediacy in the delivery of loan principal in liquid form for the benefit of borrowers.

32. On August 31, 2011, the day before the 2011 Regulation came into force, Cash Store Financial filed an application for Judicial Review of the new regulation.

33. In its application for Judicial Review, Cash Store Financial requested relief including, but not limited to:

- (a) Orders stating that amendments cited in the new regulation relating to additional charges and the requirement to offer cash were *ultra vires* and of no force and effect;
- (b) A declaration that the provisions of the new regulation discriminates against Cash Store Financial are *ultra vires* and of no force and effect;
- (c) A declaration that debit cards and pre-paid cards are not considered a "device" within the meaning of the *Payday Loans Act*; and

(d) An order for an interim or interlocutory injunction or a declaration staying the force and effect of the new regulations.

34. In its application, Cash Store Financial submitted that "These amendments contain broad changes to the payday lending regulations that specifically affect the business of Cash Store Financial".
35. Further, Cash Store Financial argued that the 2011 Regulations "appear to improperly target Cash Store Financial specifically, to the exclusion of other licensees, and therefore amount to a form of regulatory discrimination."
36. Cash Store Financial conceded that in order to comply with the new regulations it would "be required to effect significant changes to [its ] operations".
37. Cash Store Financial has not make any such changes to its operations. Rather, Cash Store Financial has continued to refuse to make cash payments available to borrowers and has instead continued to compel borrowers to pay additional fees in order to facilitate loan payments through various non-cash mechanisms provided by DirectCash.
38. Until February 1, 2013, Cash Store Financial added those fees to the "borrowed" principal amount of the loan and the maximum rate of interest under the *Payday Loans Act* was charged on those additional fees as well as the principal amount. Since February 1, 2013, Cash Store Financial has charged interest in excess of the maximum rate prescribed for payday loans in Ontario, and has continued to charge interest on the additional fees and principal amounts. All of these charges and the interest charged on them result in loan terms which are well in excess of the prescribed maximum cost of borrowing.

39. The following chart details a non-exhaustive list of the ancillary fees that Cash Store Financial has required borrowers to pay to DirectCash in order to obtain a payday loan on a pre-paid debit or credit card:

Pre-Paid Mastercard (purchase)	\$17.95
Monthly Mastercard fee	\$29.95 - \$37.95
Mastercard loading fee	\$3.50
Mastercard service fee (each use)	\$2.95
Credit card insurance (on \$500)	\$1.95 / day
Debit card (purchase)	\$17.95
Debit card activation fee	\$8.00
Monthly debit card fee	\$17.90 - \$29.95
Debit card service fee (each use)	\$2.25 - \$2.95

40. In the example of a loan transaction where the funds were provided on a Mastercard, the borrower could be charged a fee of \$17.95 for purchasing a MasterCard credit card in order to obtain the payday loan, as well as monthly fees ranging between \$29.95 and \$37.95 per month. There are also additional "loading fees" and service fees for each use of the credit card. If the loan is not withdrawn from an ATM all at once, each additional ATM transaction will result in another fee.

41. The additional fees charged by DirectCash are added to the principal of the borrower's loan at the time the payday loan is taken out, and interest is charged on those fees as well as on the principal loan amount. DirectCash collects their fees once the pre-paid debit or credit card is issued. As a result, a borrower who wishes to take out a loan of \$100 will in fact be required to "borrow" \$100 plus \$17.95 for a debit card, up to \$29.95 for the first monthly fee, and an \$8.00 activation fee. The total amount borrowed becomes a minimum of \$155.90 and interest will be charged on that amount. Additional transaction fees will be subsequently charged as the loan amount is expended.
42. Cash Store Financial also offers optional insurance for their credit cards and debit cards, which costs approximately \$1.95 per day. "Bank accounts" are also required for use of the debit card which involves additional fees.
43. Contrary to the requirements of the 2011 Regulation, Cash Store Financial has a corporate policy of not providing cash to borrowers, a fact which requires every Class Member to obtain their payday loan through a device which requires the payment of additional charges to DirectCash if they are to obtain their loan on an immediate basis.
44. The only alternative for borrowers is to take their loan by way of electronic transfer of funds to a bank account. However, such option involves a significant delay in receipt of funds. Loans may take up to 7 days to transfer, which is both in contravention of the *Payday Loans Act* and Regulations, as well as impractical for persons who need to obtain funds on a short-term basis. The delay is prejudicial to borrowers for whom the loan duration is up to a maximum of 4 weeks and at a high rate of interest. As a result of the above-noted business practices, the Plaintiff pleads that the Defendants have been unjustly enriched and are in breach of the *Payday Loans Act* and its 2011 Regulation, as well as the *Competition Act*.



### **THE DIRECTCASH DEFENDANTS**

45. Cash Store Financial and DirectCash operate pursuant to an agency agreement whereby Cash Store Financial is the agent of DirectCash in its dealing with the Class Members. Further, Class Members are required to enter into agreements with the DirectCash Defendants and to pay amounts to them pursuant to the Cash Store Financial Payday Loan Agreements.
46. Together the Defendants collectively engage in illegal payday loan transactions with Class Members and they share the revenues, including interest revenue on the Payday Loans which are collected illegally pursuant to those transactions.
47. On account of this relationship, the Defendants are each liable for the acts and omissions of the other in violation of applicable law.

### **PAYDAY LOANS ACT AND REGULATIONS**

48. Cash Store Financial has stated in its application for Judicial Review that "Cash Store Financial's business is distinguishable from its competitors in the marketplace in that it specifically does not provide advances in cash, but rather provides advances by way of cheque or other optional electronic funds transfer mechanisms."
49. As a matter of fact, the Cash Store Financial has only recently begun to offer cheques as a form of payment of advances, and as previously indicated, neither the cheques nor the electronic bank transfers are immediate. The provision of payday loans through account transfers which take up to 7 days is unlawful as section 29(2) of the Act states that lenders must ensure that the advance is delivered no later than upon entering into the loan agreement. Furthermore, Section 21(1) of the Regulation states that it is deemed that a lender under a payday loan agreement has not delivered the advance to the

borrower upon entering into the agreement unless the advance is immediately accessible by the borrower at that time.

50. Section 22(0.1) and (1) of the 2011 Regulation state in combination that borrowers are entitled to receive the whole of their advances by way of cash, and that borrowers must be informed of that right.
51. Cash Store Financial's business model whereby it refuses to provide cash to borrowers is in direct contravention of section 22 of the 2011 Regulation. Further, it contradicts the overarching policy purpose of payday loans in Ontario, which is to provide liquid short-term lending to borrowers. The DirectCash Defendants are engaged in this contravention as well, by virtue of its role in offering payday loans in conjunction with Cash Store Financial.
52. By failing to adhere to the requirements prescribed by the 2011 Regulations, Cash Store Financial and DirectCash have also contravened section 29(1) of the *Payday Loans Act*. Section 29(4) of the Act states that if the parties enter into a loan agreement which breaches section 29(1) or (2) of the Act, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing." The Plaintiff pleads and relies on this section of the Act.
53. As stated above, the Cash Store Financial requires borrowers to obtain their loans through the use of debit cards and credit cards, which have additional fees attached to them. Section 27(2) of the *Paydays Loans Act Regulations* states that "A lender shall not require a borrower to transact in any good or service, other than a payday loan, as a condition of entering into a loan agreement." Cash Store Financial and DirectCash are

in contravention of section 27(2) of the 2011 Regulation as they require borrowers to purchase a device from DirectCash in order to obtain immediate access to their loans.

54. Section 27(3) of the 2011 Regulation further states that:

"A licensee, acting on the licensee's own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in connection with a payday loan agreement, other than the payday loan, whether or not it is provided for consideration."

Cash Store Financial is in clear breach of this section of the Regulations as it systematically offers and requires that certain goods and services be purchased by its borrowers from DirectCash in order to obtain immediate access to their loans.

55. Section 27(5) of the 2011 Regulation provides that if subsections (2) and (3) of section 27 are breached, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."

56. Furthermore, Cash Store Financial and DirectCash are both liable for offering payday loans without a license to do so. Cash Store Financial has not obtained loan broker licenses which permit it to provide the "lines of credit" which it currently offers, nor has DirectCash ever obtained payday lender or loan broker licenses which would allow them to engage in the payday loans business. Offering loans without a licence is contrary to sections 6(1) and 6(2) of the *Payday Loans Act*, and pursuant to section 6(3), carries a consequence of requiring that the borrower only repay the advance to the lender, and not the cost of borrowing.

57. Section 17(1) of the 2011 Regulation states that the following amounts are prescribed as included in the cost of borrowing with respect to a payday loan agreement:

- "1. Any amount payable by the borrower, upon entering into the agreement, to process a payment provided by the borrower under the agreement.
2. Any other amount that is connected directly or indirectly to the payday loan agreement and,
  - i. that the borrower has paid upon entering into the agreement, or
  - ii. for which the borrower's obligation to pay exists upon entering into the agreement."

The Plaintiff pleads that the amounts charged by the Defendants in the form of additional loan amounts to pay for devices are direct and indirect costs that are referred to in sec. 17(1). Section 17(2) specifically states that these amounts include any amounts in relation to a device.

58. By charging its borrowers for devices which are deemed to be included in the cost of borrowing, the Defendants have contravened section 32(2) of the *Payday Loans Act* which states that "The lender under a payday loan agreement shall ensure that the cost of borrowing under the agreement does not exceed the prescribed limits." Section 32(3) of the Act states that "No loan broker shall facilitate a contravention of subsection (2)."
59. Section 32(4) of the *Payday Loans Act* offers the same remedy to the borrower as sections 29(4) of the Act and 27(5) of the Regulation if the cost of the payday loan agreement exceeds the prescribed limits: "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."
60. Section 23 of the Regulations states that the prescribed limit on the cost of borrowing under a payday loan agreement for the purposes of subsection 32(2) of the Act is \$21 per \$100 advanced under the agreement. Until February 1, 2013 Cash Store Financial charged this prescribed maximum rate on the loan amount the borrower requested as well as the loan amount for additional services purchased in connection with the loan. Since February 1, 2013 it has charged a rate in excess of the prescribed maximum on

the loans themselves, as well as the fees. Cash Store Financial was therefore in breach of this requirement as the additional fees must be included in the cost of borrowing, which would result in the total cost exceeding the prescribed maximum.

61. Further, Section 31(1) of the *Payday Loans Act* states that the lender may not make any deductions from the advance provided to the borrower. Section 31(3) states that if the parties enter a payday loan agreement that results in contravention of subsection (1), the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing.

62. The Plaintiff pleads sec. 4 of the *Payday Loans Act* relating to anti-avoidance applies to all representations, agreements, and transactions as between the Defendants and the Class Members. The plaintiff specifically pleads that the DirectCash Defendants acted as a payday lender and/or loan broker and are liable to the Class Members for the breaches pleaded herein.

### **MISREPRESENTATIONS**

63. Section 26 of the *Payday Loans Act* provides as follows:

#### **Representations**

26. (1) No licensee shall make or shall facilitate the making of false, misleading or deceptive statements relating to a payday loan or a payday loan agreement in any advertisement, circular, pamphlet or material published by any means. 2008, c. 9, s. 26 (1).

#### **Requirements**

(2) No licensee shall make or shall facilitate the making of representations or cause representations to be made relating to a payday loan or a payday loan agreement, whether orally, in writing or in any other form, unless the representations comply with the prescribed requirements, if any. 2008, c. 9, s. 26 (2).

64. In the conduct of their business, Cash Store Financial made at least 2 consistent misrepresentations to Class Members:

- i. They misstated the total cost of borrowing in their loan agreements; and
- ii. They misrepresented the total cost of borrowing in a poster which was required to be published and posted at point of sale for the benefit of borrowers pursuant to section 14 of the Regulations.

65. For all Class Members whose payday loans involved an additional service or a device, Cash Store Financial uniformly misrepresented the total cost of borrowing within a table which is required by section 18(1) of the Regulations to express each borrower's total cost of borrowing for their loan transaction. Cash Store Financial failed to include the cost of additional services and devices in its description of the total cost of borrowing. As pleaded herein, such charges are mandated to be included in the total cost of borrowing. If properly constituted, such tables would show that every such loan transaction grossly exceeded the prescribed maximum cost of borrowing in Ontario.

66. Furthermore, Cash Store Financial violated sec. 15(2) of the Regulations by misrepresenting the actual cost of borrowing per each \$100 advanced under the payday loan agreement.

67. As indicated, Cash Store Financial's poster required by section 14 also failed to incorporate the cost of devices into the total cost of borrowing.

68. As detailed above, Cash Store Financial's entire business model was promulgated and executed in a manner which falsely denied the Class Members their fundamental rights under the *Payday Loans Act* and the Regulations.

69. The Plaintiff relies on the *Payday Loans Act* including but not limited to sections 38, 39, and 40 of the *Payday Loans Act*, which state that the Plaintiff and the Class have the right to pursue any remedies they may have in law, including by way of a Class Action.

70. The Plaintiff also specifically pleads and relies on section 41 of the *Payday Loans Act* which states that any ambiguity in the interpretation of a payday loan agreement shall be interpreted to the benefit of the borrower.

### COMPETITION ACT

71. Section 52 of the *Competition Act* prohibits making misleading representations in order to promote a business interest.

52. (1) No person shall, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, knowingly or recklessly make a representation to the public that is false or misleading in a material respect.

72. Section 52(1.1) of the *Competition Act* states:

(1.1) For greater certainty, in establishing that subsection (1) was contravened, it is not necessary to prove that

(a) any person was deceived or misled

73. Cash Store Financial promulgated and executed their entire business model in a manner which denied the Class Members their fundamental rights as borrowers under the *Payday Loans Act*. Cash Store Financial's conduct was, in its entirety, the false promotion of their business interests in contravention of s. 52 of the *Competition Act*.

74. In addition to all other remedies available at law, the Plaintiff pleads entitlement to damages and costs of investigation and prosecution pursuant to s. 36 of the *Competition Act*. Without limitation, the Plaintiff pleads that Cash Store Financial obtained unlawful revenues due to the promulgation and execution of its false and unlawful business

model, which actions were in violation of the *Payday Loans Act* and its regulations between September 1, 2011 and the present.

#### **CONSPIRACY**

75. The Plaintiff pleads that the Defendants wrongfully, unlawfully, maliciously and lacking bona fides, conspired and agreed together and with persons unknown to, among other things, extract illegal revenue from the Class Members in the form of fees and charges relating to "devices" used by Class Members in order to obtain payday loans.
76. Cash Store Financial and DirectCash entered into an arrangement where the revenue brought in by Cash Store Financial on account of illegal fees charged to the Class Members was shared with DirectCash.
77. In furtherance of the conspiracy, the Defendants, among other overt acts, have promulgated a business practice which is contrary to the *Payday Loans Act* and its Regulations. The conspiracy was unlawful because the conspirators knowingly and intentionally committed the forgoing acts which they knew to be in violation of the *Payday Loans Act* and its Regulations, as well as the *Competition Act*.
78. The conspiracy was directed towards the Plaintiff and the other Class Members. The Defendants knew or ought to have known in the circumstances that the conspiracy would, and did, cause loss to the Plaintiff and the Class Members.

#### **UNJUST ENRICHMENT**

79. The Defendants have been unjustly enriched to the extent that they have charged and retained unlawful fees, interest and other amounts in respect of payday loans and the



associated bank transfers of those loans made to Class Members since the inception of the 2011 Regulation.

80. The Defendants' enrichment represents a corresponding deprivation to the Class Members as a whole.

81. The enrichment of the Defendants arises solely by the contravention of applicable law. There is therefore no juristic reason for the Defendants' enrichment.

### **WAIVER OF TORT**

82. The Plaintiff pleads and relies on the doctrine of waiver of tort and states that the Defendants' conduct, including their conspiracy, and the alleged breaches of the *Payday Loans Act* and its regulations and the *Competition Act* constitutes conduct which can be waived in favour of an election to receive restitutionary or other equitable remedies. '

### **REMEDIES**

#### **Damages**

83. As a result of the acts and omissions of the Defendants as particularized above, the Plaintiff and the Class Members have suffered losses and damages.

84. The Class Members are owed damages amounting to those sums collected by the Defendants pursuant to the illegal fees, interest and other amounts that the Defendants charged to the Class Members.

85. Further, as the payday loan practices of the Defendants did not comply with the prescribed requirements during the class period, the Plaintiff pleads and relies on the remedies provided for pursuant to section 29(4) of the *Payday Loans Act*, which, entitles

the Class Members to refunds of or relief from liability of all fees and interest charged to them in respect of their payday loans.

86. Further, the Class Members claim any gains earned on these amounts and an equitable rate of interest thereon.

87. All amounts payable to the class on account of damages and disgorgement should be calculated on an aggregate basis pursuant to s. 24 of the *Class Proceedings Act*, or otherwise.

### **Punitive Damages**

88. By virtue of the high-handed conduct of the Defendants and their disregard for the rights of Class Members, the Plaintiff requests this Court to award against the Defendants or any of them, punitive damages in an amount deemed appropriate by this Court at trial.

89. The Plaintiff pleads and relies on section 45(3) of the *Payday Loans Act* which states that in the event a borrower brings an action in the Superior Court of Justice and is successful, the court "may order exemplary or punitive damages or other relief that the court considers proper."

### **Relief of Debt**

90. The Plaintiff requests forgiveness of all outstanding amounts alleged to be owing on account of the unlawful amounts charged by the Defendants. The illegal business practices of the Defendants have resulted in improper charges and rates of interest to the borrowers which are prohibited by law and therefore must be cancelled.

### **An Equitable Accounting**

91. The Plaintiff requests an accounting for all of the unlawful fees, interest and other amounts collected as well as any interest earned thereon and debt which must be forgiven by the Defendants on account of the Class Members during the class period.

### **Constructive Trust**

92. The Plaintiff claims a constructive trust in respect of the illegal fees, interest and other amounts paid by the Class Members. The Plaintiff states that good conscience requires the Defendants to hold all the illegal fees, interest and other amounts paid and interest earned thereon in trust for the Plaintiff and Class Members.

93. The Plaintiff states that the Defendants are constructive trustees in favour of the Plaintiff and the Class Members in respect of the illegal fees, interest and other amounts paid because:

- a) The Defendants may not, in good conscience, retain these illegal fees, interest and other amounts;
- b) The imposition of a constructive trust is required by justice and good conscience;
- c) The integrity of the intentions of *Payday Loans Act* and its related regulations would be undermined if the Court did not impose a constructive trust; and
- d) There are no factors which render the imposition of a constructive trust unjust.

### **Plan of Distribution**

94. Such damages ought to be held in a litigation trust and distributed pursuant to a plan of

distribution under sections 25 and 26 of the *Class Proceedings Act*.

95. Alternatively, if so elected, the unpaid remuneration and any gains made thereon should be calculated on an aggregate basis or otherwise should be held in a litigation trust and distributed pursuant to a plan of distribution under sections 25 and 26 of the *Class Proceedings Act*.

### **Injunction**

96. The Plaintiff claims that the Defendants be permanently enjoined from carrying on business in contravention of the applicable laws.

### **Conspicuous Notice Plan**

97. The Plaintiff requests the creation of a conspicuous and comprehensive notice program affording notice to the Class Members of the illegality of the fees, interest and other amounts paid by them and the amounts owing to them by the Defendants pursuant to Section 19 of the *Class Proceedings Act*.

### **STATUTES RELIED UPON**

98. The Plaintiff relies upon the *Class Proceedings Act, 1992*, S.O. 1992, c. 6, the *Payday Loans Act, 2008*, S.O. 2008, c. 9 and its regulations, O.Reg. 98/09 and O. Reg. 316/11, the *Competition Act*, RSC 1985, c C-34, and the *Courts of Justice Act*, R.S.O. 1990, c.C.43.

### **SERVICE OUTSIDE OF ONTARIO**

99. This originating process may be served without Court Order outside of Ontario in that the claim is:

- a. in respect of a contract made in Ontario (Rule 17.02(f));

- b. in respect of a tort committed in Ontario (Rule 17.02 (g));
- c. in respect of damages sustained in Ontario arising from a tort or a breach of contract wherever committed (Rule 17.02 (h)), and;
- d. against a person carrying on business in Ontario (Rule 17.02 (p)).

**PLACE OF TRIAL**

100. The Plaintiff proposes that this action be tried in London, Ontario.

**HARRISON PENSA LLP**  
450 Talbot Street  
London, ON N6A 4K3

**Jonathan J. Foreman**  
LSUC#: 45087H

Tel: (519) 679-9660  
Fax: (519) 667-3362

Counsel for the Plaintiff

**YEOMAN**

**v THE CASH STORE FINANCIAL SERVICES INC. et al.**

**PLAINTIFFS**

**DEFENDANTS**

**SUPERIOR COURT OF JUSTICE**

**Commenced at LONDON**

**ORDER**

**HARRISON PENSA LLP**  
Barristers and Solicitors  
450 Talbot Street, P.O. Box 3237  
London, Ontario N6A 4K3

**Jonathan J. Foreman**  
**(LSUC #45087H)**

**Tel: (519) 679-9660**

**Fax: (519) 667-3362**

**Lawyers for the Plaintiff.**

**File # 152426**

# TAB C

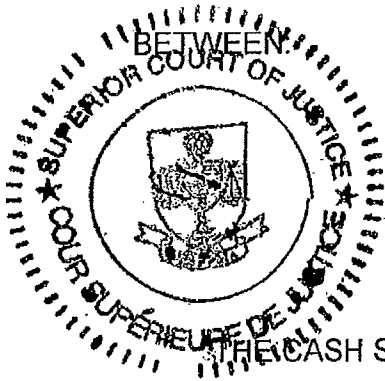
**This is EXHIBIT "C" referred to in the  
Affidavit of TIMOTHY YEOMAN  
sworn before me, this 9<sup>th</sup> day of May, 2014.**

  
*A Commissioner, etc.*



Court File No.: 7908/12 CP

ONTARIO  
SUPERIOR COURT OF JUSTICE



TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP

Defendants

PROCEEDING UNDER THE *CLASS PROCEEDINGS ACT*, 1992, S.O. 1992, c.6

**FRESH AS AMENDED STATEMENT OF CLAIM**

**TO THE DEFENDANT(S)**

**A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU** by the plaintiff.  
The claim made against you is set out in the following pages.

**IF YOU WISH TO DEFEND THIS PROCEEDING**, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, **WITHIN TWENTY DAYS** after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

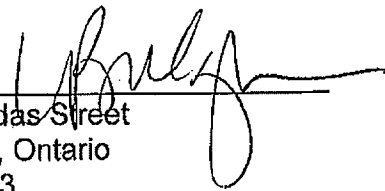
Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

**IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.**

If you wish to defend this proceeding but are unable to pay legal fees, legal aid may be available to you by contacting a local legal aid office.

Date: August 1, 2012

Issued by: \_\_\_\_\_

  
80 Dundas Street  
London, Ontario  
N6A 6A3

**TO: THE CASH STORE FINANCIAL SERVICES INC.**  
40 King Street  
Suite 2100  
Toronto, ON M5H 3C2

**AND TO: THE CASH STORE INC.**  
10180 – 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: INSTALOANS INC.**  
10180 – 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: DIRECTCASH BANK**  
1420 - 28<sup>th</sup> Street North East  
Bay #6  
Calgary, Alberta T2A 7W6

**AND TO: DIRECTCASH ATM PROCESSING PARTNERSHIP**  
350 7<sup>th</sup> Avenue SW  
No. 1400  
Calgary, Alberta T2P 3N9

**AND TO: DIRECTCASH ATM MANAGEMENT PARTNERSHIP**  
350 7<sup>th</sup> Avenue SW  
No. 1400  
Calgary, Alberta T2P 3N9

**AND TO: DIRECTCASH PAYMENTS INC.**  
Bay #6, 1420 28<sup>th</sup> Street NE  
Calgary, Alberta T2A 7W6

**AND TO: DIRECTCASH MANAGEMENT INC.**  
Bay #6, 1420 28<sup>th</sup> Street N E  
Calgary, Alberta T2A 7W6

**AND TO: DIRECTCASH CANADA LIMITED PARTNERSHIP**  
Bay #6, 1420 28<sup>th</sup> Street N E  
Calgary, Alberta T2A 7W6

**CLAIM****1. THE PLAINTIFF CLAIMS** on behalf of himself and the Class:

- (a) An Order pursuant to the *Class Proceedings Act, 1992*, S.O. 1992, C. 6 certifying this action as a class proceeding and appointing the Plaintiff as representative Plaintiff on behalf of the Class;
- (b) General damages calculated on an aggregate basis or otherwise for breach of the *Payday Loans Act* S.O, 2008, C. 9 ("*Payday Loans Act*"), and its regulations, O.Reg. 98/09 and O. Reg. 316/11 (the "Regulations"), the *Competition Act* RSC 1985, c C-34 ("*Competition Act*"), conspiracy, and unjust enrichment, in an amount sufficient to compensate the Plaintiff and the Class Members for the harm done to them as a result of the Defendants' unlawful conduct;
- (c) Punitive damages and exemplary damages in an amount to be determined at trial;
- (d) Relief from amounts alleged to be owed to the Defendants by the Class Members on account of the unlawful charges and business practices alleged herein;
- (e) An equitable rate of interest on all sums found due and owing to the Plaintiff and the Class Members or, in the alternative, pre- and post-judgment interest pursuant to the *Courts of Justice Act*, R.S.O. 1990, Chapter C.43;
- (f) An accounting, restitution, disgorgement and the creation of a constructive trust for breach of the *Payday Loans Act*, and its 2011 Regulations, the *Competition Act*, unjust enrichment, and the taking of inequitable profit by unlawful conduct and waiver of tort;

- (g) An Order compelling the creation of a litigation trust to hold and distribute the monetary relief awarded pursuant to a plan of administration and distribution under sections 25 and 26 of the *Class Proceedings Act*;
- (h) An Order for a permanent injunction restraining the Defendants from taking any further action in contravention of the *Payday Loans Act* and its Regulations, or the *Competition Act*;
- (i) An Order compelling the creation of a conspicuous notice program to Class Members pursuant to section 19 of the *Class Proceedings Act* in order to facilitate the plan of distribution claimed herein;
- (j) Costs of the investigation and prosecution of these proceedings pursuant to Section 36(1) of the *Competition Act*;
- (k) Costs of this action on a substantial indemnity basis including the costs associated with notice to Class Members and the plan of administration and distribution of relief, plus applicable taxes; and
- (l) such further and other relief as this Honourable Court may deem just.

## THE PARTIES

### Plaintiff

2. The Plaintiff is an individual residing in Strathroy, Ontario. The Plaintiff engaged in a "payday loan" transaction with the Defendants on April 24, 2012. For a payday loan of \$400 and a loan duration of 9 days, the Plaintiff was charged an additional \$68.60 in fees and service charges, and paid \$78.72 in interest for a total cost of borrowing of \$147.32.

**Defendants**

3. The defendant Cash Store Financial Services Inc. is an Ontario corporation carrying on business under the name Cash Store Financial with its principal place of business in Toronto, Ontario.
4. The defendants Cash Store Inc. and Instalozans Inc. are wholly owned subsidiaries of Cash Store Financial Services Inc. (collectively "Cash Store Financial" and "the Cash Store Defendants").
5. Cash Store Financial Services Inc. has substantial business in Ontario and operates approximately 181 "payday loan" branches across the province.
6. The defendant DirectCash Bank (also known as DC Bank) is a Schedule I bank under the *Bank Act*, S.C. 1991c. 46, which is registered with the Superintendent of financial Institutions Canada in Calgary, Alberta. DC Bank describes itself as a "limited purpose bank". It provides products and services in connection with ATM accounts, prepaid debit cards, and prepaid Mastercards.
7. The defendants DirectCash ATM Processing Partnership and DirectCash ATM Management Partnership are general partnerships registered in Alberta which carry out ATM and debit services throughout Canada.
8. The defendant DirectCash Payments Inc. is a corporation which has been amalgamated pursuant to the laws of Alberta. DirectCash Payments Inc. is the head office of the DirectCash entities, which directs business carried out through its subsidiaries.

9. The defendant DirectCash Management Inc. is a corporation incorporated under the laws of Alberta, which is wholly owned by DirectCash Payments Inc., and is the general managing partner of DirectCash Canada Limited Partnership.
10. The defendant DirectCash Canada Limited Partnership is a limited partnership that is registered under the *Partnership Act* in Alberta. DirectCash Payments Inc. owns 100% of the partnership units of DirectCash Canada Limited Partnership. DirectCash Canada Limited Partnership in turn directs the business of DirectCash ATM Processing Partnership and DirectCash ATM Management Partnership.
11. The DirectCash defendants (collectively referred to as "DirectCash" and the "DirectCash Defendants") have entered into an agency relationship with the Cash Store Defendants, and are integral to maintaining the Cash Store Defendants' revenue stream.
12. The Defendants collectively engage in a business known as "payday lending." It is Cash Store Financial's business to arrange for short-term cash advances and "lines of credit" to customers valued at between \$100 to \$5000. The maximum loan period for Cash Store Financial's previous payday loans was 18 days, and for its current lines of credit is 4 weeks.
13. The DirectCash Defendants have expressly and inextricably interwoven their offerings into Cash Store Financial's payday loan agreements with the Class Members. The Plaintiff therefore pleads that the Defendants are each liable to the Class Members for the unlawful conduct alleged herein.

**The Class**

14. The Plaintiff seeks to represent a class consisting of all persons in Canada who entered into "payday loan" transactions with Cash Store Financial in Ontario between September 1, 2011 and the date of judgment (the "Class Members").

**THE NATURE OF THE ACTION**

15. This action concerns the unlawful business models of the Defendants as operators in the "payday loan" industry subject to the Ontario *Payday Loans Act* and Regulations.
16. Since September 1, 2011, all payday lenders in Ontario are specifically required by legislation to provide borrowers with the option to take their payday loan in an immediate and liquid form. The effect of this requirement is to reduce the cost of borrowing and to prevent payday lenders from requiring borrowers to pay ancillary fees for "devices", a term defined in the Regulations meaning instruments offered by the lender in the delivery of the payday loan such as debit cards or credit cards.
17. Since September 1, 2011, the Defendants as payday lenders have by their business practices, violated the applicable statutory requirements of this province, which requirements were designed for the protection of the Class Members as borrowers.
18. Specifically, the Cash Store Financial does not, as a universal and province-wide corporate policy, provide the Class Members with the option to take a payday loan in cash as explicitly required by the *Payday Loans Act* Regulations. Cash Store Financial also had not provided Class Members with the option to take loans by way of cheque until February of 2013, and such option requires processing time of up to several days. Instead, Cash Store Financial's business model has featured two primary options for the delivery of payday loans to Class Members since September 1, 2011:



- i. By way of ancillary products such as a pre-paid DirectCash debit or credit card, which products feature additional fees and interest; or
- ii. By way of a delayed bank transfer to the borrower's account, which transfers take up to 7 days to occur.

Both options fail to comply with the applicable legislation to the prejudice of Class Members.

19. The first option provided by the Defendants constituted approximately 99% of Cash Store Financial's payday lending business in 2011, according to information contained in their public financial filings. It continues to be the primary method by which borrowers obtain loans from the Defendants. The option violates multiple statutory requirements, and most notably, every such loan exceeds the prescribed maximum cost of borrowing. The second option, together with cheques as of February of 2013, constitutes the remainder of Cash Store Financial's loan business and they violate the strict requirement that payday loans be made "immediately accessible" to borrowers no later than the time at which the payday loan agreement is entered into, an important matter for loans of such short duration and high rates of interest.

20. The DirectCash Defendants are inextricably incorporated into the illegal conduct alleged herein. In the payday loan agreements at issue, Class Members are required to enter into agreements with the DirectCash Defendants and to remit funds to them, which funds are expressly added to the borrowed amount in the payday loan and on which interest is charged. Further, Cash Store Financial and the DirectCash Defendants share the revenue that is illegally charged to the Class Members in contravention of the applicable legislation and the common law.

21. Cash Store Financial's payday loans changed in their outward form on February 1, 2013 when the company made the strategic decision to declare it was discontinuing to offer "payday loans" and would instead offer "lines of credit". In reality, Cash Store Financial has continued to offer payday loans under a different name, in an attempt to circumvent the applicable payday lending legislation and applicable regulations.
22. On February 4, 2013, the Registrar for the *Payday Loans Act* the issued a proposal to revoke the payday lending licenses of The Cash Store Inc. and Instalozans Inc. On July 3, 2013, Cash Store Financial issued a public statement indicating that The Cash Store Inc. and Instalozans Inc. intend to allow their respective payday loan licenses in Ontario to expire, and that they will instead continue to offer lines of credit.
23. The Plaintiff pleads that the lines of credit currently offered by Cash Store Financial are in fact payday loans, which are subject to the *Payday Loans Act* and its Regulations. The Plaintiff relies on section 4 of the *Payday Loans Act* in this regard, which states that the court shall consider the real substance of the agreement or transaction, and in so doing may disregard the outward form of the agreement or transaction.
24. The DirectCash Defendants maintain full knowledge of and participation in the illegal payday loan transactions with Class Members which are improperly characterized as "lines of credit".
25. The Class Members claim specific relief from the Defendants as provided for under the Ontario *Payday Loans Act* and Regulations and the *Competition Act* for the breaches alleged herein as well as common law and equitable remedies.

## BACKGROUND

26. Since 2008, Cash Store Financial and all other payday loan companies operating in Ontario have been governed by the *Payday Loans Act*. The Act and its Regulations, which were passed by the Ontario government in June of 2008, were created by the province in order to ensure the regulation of the payday lending industry in Ontario was compliant with the new requirements of the *Criminal Code* with respect to criminal interest rates. At that time, the Ontario government also commissioned the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the "Advisory Board").
27. The Advisory Board delivered its report in February of 2009, and recommended that the Ontario government set the maximum total cost of borrowing for payday loans in Ontario at \$21 per \$100 borrowed. This recommendation was implemented in 2009.
28. Ontario Regulation 98/09 set out requirements for the content of a payday loan agreement, including the following key elements:
- a) The borrower must only be required to pay a maximum cost of \$21 per \$100 borrowed; and
  - b) The maximum cost of borrowing must be stated in the loan agreement as well as in the lender's business advertisements.
29. Since that regulation was enacted in 2009, there were persistent complaints and media reports across Canada of payday lenders requiring the payment of additional fees in lieu of the higher interest rates they had previously been able to charge to borrowers.

30. In response to those complaints, an amendment to the regulation was enacted and brought into force in September of 2011. Ontario Regulation 316/11 (the "2011 Regulation") adds the following key obligations on payday lenders:

- a) Third party fees and charges are to be included in the cost of borrowing (s. 17);
- b) Borrowers must be able to receive their loan in cash (s. 22); and
- c) Optional goods and services are prohibited from being sold by a payday loan company (s. 27).

31. The purpose of these amendments is to reduce the cost of borrowing for payday loans and to confirm the required immediacy in the delivery of loan principal in liquid form for the benefit of borrowers.

32. On August 31, 2011, the day before the 2011 Regulation came into force, Cash Store Financial filed an application for Judicial Review of the new regulation.

33. In its application for Judicial Review, Cash Store Financial requested relief including, but not limited to:

- (a) Orders stating that amendments cited in the new regulation relating to additional charges and the requirement to offer cash were *ultra vires* and of no force and effect;
- (b) A declaration that the provisions of the new regulation discriminates against Cash Store Financial are *ultra vires* and of no force and effect;
- (c) A declaration that debit cards and pre-paid cards are not considered a "device" within the meaning of the *Payday Loans Act*; and

(d) An order for an interim or interlocutory injunction or a declaration staying the force and effect of the new regulations.

34. In its application, Cash Store Financial submitted that "These amendments contain broad changes to the payday lending regulations that specifically affect the business of Cash Store Financial".

35. Further, Cash Store Financial argued that the 2011 Regulations "appear to improperly target Cash Store Financial specifically, to the exclusion of other licensees, and therefore amount to a form of regulatory discrimination."

36. Cash Store Financial conceded that in order to comply with the new regulations it would "be required to effect significant changes to [its ] operations".

37. Cash Store Financial has not make any such changes to its operations. Rather, Cash Store Financial has continued to refuse to make cash payments available to borrowers and has instead continued to compel borrowers to pay additional fees in order to facilitate loan payments through various non-cash mechanisms provided by DirectCash.

38. Until February 1, 2013, Cash Store Financial added those fees to the "borrowed" principal amount of the loan and the maximum rate of interest under the *Payday Loans Act* was charged on those additional fees as well as the principal amount. Since February 1, 2013, Cash Store Financial has charged interest in excess of the maximum rate prescribed for payday loans in Ontario, and has continued to charge interest on the additional fees and principal amounts. All of these charges and the interest charged on them result in loan terms which are well in excess of the prescribed maximum cost of borrowing.

39. The following chart details a non-exhaustive list of the ancillary fees that Cash Store Financial has required borrowers to pay to DirectCash in order to obtain a payday loan on a pre-paid debit or credit card:

Pre-Paid Mastercard (purchase)	\$17.95
Monthly Mastercard fee	\$29.95 - \$37.95
Mastercard loading fee	\$3.50
Mastercard service fee (each use)	\$2.95
Credit card insurance (on \$500)	\$1.95 / day
Debit card (purchase)	\$17.95
Debit card activation fee	\$8.00
Monthly debit card fee	\$17.90 - \$29.95
Debit card service fee (each use)	\$2.25 - \$2.95

40. In the example of a loan transaction where the funds were provided on a Mastercard, the borrower could be charged a fee of \$17.95 for purchasing a MasterCard credit card in order to obtain the payday loan, as well as monthly fees ranging between \$29.95 and \$37.95 per month. There are also additional "loading fees" and service fees for each use of the credit card. If the loan is not withdrawn from an ATM all at once, each additional ATM transaction will result in another fee.

41. The additional fees charged by DirectCash are added to the principal of the borrower's loan at the time the payday loan is taken out, and interest is charged on those fees as well as on the principal loan amount. DirectCash collects their fees once the pre-paid debit or credit card is issued. As a result, a borrower who wishes to take out a loan of \$100 will in fact be required to "borrow" \$100 plus \$17.95 for a debit card, up to \$29.95 for the first monthly fee, and an \$8.00 activation fee. The total amount borrowed becomes a minimum of \$155.90 and interest will be charged on that amount. Additional transaction fees will be subsequently charged as the loan amount is expended.
42. Cash Store Financial also offers optional insurance for their credit cards and debit cards, which costs approximately \$1.95 per day. "Bank accounts" are also required for use of the debit card which involves additional fees.
43. Contrary to the requirements of the 2011 Regulation, Cash Store Financial has a corporate policy of not providing cash to borrowers, a fact which requires every Class Member to obtain their payday loan through a device which requires the payment of additional charges to DirectCash if they are to obtain their loan on an immediate basis.
44. The only alternative for borrowers is to take their loan by way of electronic transfer of funds to a bank account. However, such option involves a significant delay in receipt of funds. Loans may take up to 7 days to transfer, which is both in contravention of the *Payday Loans Act* and Regulations, as well as impractical for persons who need to obtain funds on a short-term basis. The delay is prejudicial to borrowers for whom the loan duration is up to a maximum of 4 weeks and at a high rate of interest. As a result of the above-noted business practices, the Plaintiff pleads that the Defendants have been unjustly enriched and are in breach of the *Payday Loans Act* and its 2011 Regulation, as well as the *Competition Act*.

### **THE DIRECTCASH DEFENDANTS**

45. Cash Store Financial and DirectCash operate pursuant to an agency agreement whereby Cash Store Financial is the agent of DirectCash in its dealing with the Class Members. Further, Class Members are required to enter into agreements with the DirectCash Defendants and to pay amounts to them pursuant to the Cash Store Financial Payday Loan Agreements.
46. Together the Defendants collectively engage in illegal payday loan transactions with Class Members and they share the revenues, including interest revenue on the Payday Loans which are collected illegally pursuant to those transactions.
47. On account of this relationship, the Defendants are each liable for the acts and omissions of the other in violation of applicable law.

### **PAYDAY LOANS ACT AND REGULATIONS**

48. Cash Store Financial has stated in its application for Judicial Review that "Cash Store Financial's business is distinguishable from its competitors in the marketplace in that it specifically does not provide advances in cash, but rather provides advances by way of cheque or other optional electronic funds transfer mechanisms."
49. As a matter of fact, the Cash Store Financial has only recently begun to offer cheques as a form of payment of advances, and as previously indicated, neither the cheques nor the electronic bank transfers are immediate. The provision of payday loans through account transfers which take up to 7 days is unlawful as section 29(2) of the Act states that lenders must ensure that the advance is delivered no later than upon entering into the loan agreement. Furthermore, Section 21(1) of the Regulation states that it is deemed that a lender under a payday loan agreement has not delivered the advance to the



borrower upon entering into the agreement unless the advance is immediately accessible by the borrower at that time.

50. Section 22(0.1) and (1) of the 2011 Regulation state in combination that borrowers are entitled to receive the whole of their advances by way of cash, and that borrowers must be informed of that right.

51. Cash Store Financial's business model whereby it refuses to provide cash to borrowers is in direct contravention of section 22 of the 2011 Regulation. Further, it contradicts the overarching policy purpose of payday loans in Ontario, which is to provide liquid short-term lending to borrowers. The DirectCash Defendants are engaged in this contravention as well, by virtue of its role in offering payday loans in conjunction with Cash Store Financial.

52. By failing to adhere to the requirements prescribed by the 2011 Regulations, Cash Store Financial and DirectCash have also contravened section 29(1) of the *Payday Loans Act*. Section 29(4) of the Act states that if the parties enter into a loan agreement which breaches section 29(1) or (2) of the Act, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing." The Plaintiff pleads and relies on this section of the Act.

53. As stated above, the Cash Store Financial requires borrowers to obtain their loans through the use of debit cards and credit cards, which have additional fees attached to them. Section 27(2) of the *Paydays Loans Act Regulations* states that "A lender shall not require a borrower to transact in any good or service, other than a payday loan, as a condition of entering into a loan agreement." Cash Store Financial and DirectCash are

in contravention of section 27(2) of the 2011 Regulation as they require borrowers to purchase a device from DirectCash in order to obtain immediate access to their loans.

54. Section 27(3) of the 2011 Regulation further states that:

"A licensee, acting on the licensee's own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in connection with a payday loan agreement, other than the payday loan, whether or not it is provided for consideration."

Cash Store Financial is in clear breach of this section of the Regulations as it systematically offers and requires that certain goods and services be purchased by its borrowers from DirectCash in order to obtain immediate access to their loans.

55. Section 27(5) of the 2011 Regulation provides that if subsections (2) and (3) of section 27 are breached, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."

56. Furthermore, Cash Store Financial and DirectCash are both liable for offering payday loans without a license to do so. Cash Store Financial has not obtained loan broker licenses which permit it to provide the "lines of credit" which it currently offers, nor has DirectCash ever obtained payday lender or loan broker licenses which would allow them to engage in the payday loans business. Offering loans without a licence is contrary to sections 6(1) and 6(2) of the *Payday Loans Act*, and pursuant to section 6(3), carries a consequence of requiring that the borrower only replay the advance to the lender, and not the cost of borrowing.

57. Section 17(1) of the 2011 Regulation states that the following amounts are prescribed as included in the cost of borrowing with respect to a payday loan agreement:

- "1. Any amount payable by the borrower, upon entering into the agreement, to process a payment provided by the borrower under the agreement.
2. Any other amount that is connected directly or indirectly to the payday loan agreement and,
  - i. that the borrower has paid upon entering into the agreement, or
  - ii. for which the borrower's obligation to pay exists upon entering into the agreement."

The Plaintiff pleads that the amounts charged by the Defendants in the form of additional loan amounts to pay for devices are direct and indirect costs that are referred to in sec. 17(1). Section 17(2) specifically states that these amounts include any amounts in relation to a device.

58. By charging its borrowers for devices which are deemed to be included in the cost of borrowing, the Defendants have contravened section 32(2) of the *Payday Loans Act* which states that "The lender under a payday loan agreement shall ensure that the cost of borrowing under the agreement does not exceed the prescribed limits." Section 32(3) of the Act states that "No loan broker shall facilitate a contravention of subsection (2)".
59. Section 32(4) of the *Payday Loans Act* offers the same remedy to the borrower as sections 29(4) of the Act and 27(5) of the Regulation if the cost of the payday loan agreement exceeds the prescribed limits: "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."
60. Section 23 of the Regulations states that the prescribed limit on the cost of borrowing under a payday loan agreement for the purposes of subsection 32(2) of the Act is \$21 per \$100 advanced under the agreement. Until February 1, 2013 Cash Store Financial charged this prescribed maximum rate on the loan amount the borrower requested as well as the loan amount for additional services purchased in connection with the loan. Since February 1, 2013 it has charged a rate in excess of the prescribed maximum on

the loans themselves, as well as the fees. Cash Store Financial was therefore in breach of this requirement as the additional fees must be included in the cost of borrowing, which would result in the total cost exceeding the prescribed maximum.

61. Further, Section 31(1) of the *Payday Loans Act* states that the lender may not make any deductions from the advance provided to the borrower. Section 31(3) states that if the parties enter a payday loan agreement that results in contravention of subsection (1), the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing.
62. The Plaintiff pleads sec. 4 of the *Payday Loans Act* relating to anti-avoidance applies to all representations, agreements, and transactions as between the Defendants and the Class Members. The plaintiff specifically pleads that the DirectCash Defendants acted as a payday lender and/or loan broker and are liable to the Class Members for the breaches pleaded herein.

## **MISREPRESENTATIONS**

63. Section 26 of the *Payday Loans Act* provides as follows:

### **Representations**

26. (1) No licensee shall make or shall facilitate the making of false, misleading or deceptive statements relating to a payday loan or a payday loan agreement in any advertisement, circular, pamphlet or material published by any means. 2008, c. 9, s. 26 (1).

### **Requirements**

(2) No licensee shall make or shall facilitate the making of representations or cause representations to be made relating to a payday loan or a payday loan agreement, whether orally, in writing or in any other form, unless the representations comply with the prescribed requirements, if any. 2008, c. 9, s. 26 (2).

64. In the conduct of their business, Cash Store Financial made at least 2 consistent misrepresentations to Class Members:

- i. They misstated the total cost of borrowing in their loan agreements; and
- ii. They misrepresented the total cost of borrowing in a poster which was required to be published and posted at point of sale for the benefit of borrowers pursuant to section 14 of the Regulations.

65. For all Class Members whose payday loans involved an additional service or a device, Cash Store Financial uniformly misrepresented the total cost of borrowing within a table which is required by section 18(1) of the Regulations to express each borrower's total cost of borrowing for their loan transaction. Cash Store Financial failed to include the cost of additional services and devices in its description of the total cost of borrowing. As pleaded herein, such charges are mandated to be included in the total cost of borrowing. If properly constituted, such tables would show that every such loan transaction grossly exceeded the prescribed maximum cost of borrowing in Ontario.

66. Furthermore, Cash Store Financial violated sec. 15(2) of the Regulations by misrepresenting the actual cost of borrowing per each \$100 advanced under the payday loan agreement.

67. As indicated, Cash Store Financial's poster required by section 14 also failed to incorporate the cost of devices into the total cost of borrowing.

68. As detailed above, Cash Store Financial's entire business model was promulgated and executed in a manner which falsely denied the Class Members their fundamental rights under the *Payday Loans Act* and the Regulations.

69. The Plaintiff relies on the *Payday Loans Act* including but not limited to sections 38, 39, and 40 of the *Payday Loans Act*, which state that the Plaintiff and the Class have the right to pursue any remedies they may have in law, including by way of a Class Action.

70. The Plaintiff also specifically pleads and relies on section 41 of the *Payday Loans Act* which states that any ambiguity in the interpretation of a payday loan agreement shall be interpreted to the benefit of the borrower.

### COMPETITION ACT

71. Section 52 of the *Competition Act* prohibits making misleading representations in order to promote a business interest.

52. (1) No person shall, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, knowingly or recklessly make a representation to the public that is false or misleading in a material respect.

72. Section 52(1.1) of the *Competition Act* states:

(1.1) For greater certainty, in establishing that subsection (1) was contravened, it is not necessary to prove that

(a) any person was deceived or misled

73. Cash Store Financial promulgated and executed their entire business model in a manner which denied the Class Members their fundamental rights as borrowers under the *Payday Loans Act*. Cash Store Financial's conduct was, in its entirety, the false promotion of their business interests in contravention of s. 52 of the *Competition Act*.

74. In addition to all other remedies available at law, the Plaintiff pleads entitlement to damages and costs of investigation and prosecution pursuant to s. 36 of the *Competition Act*. Without limitation, the Plaintiff pleads that Cash Store Financial obtained unlawful revenues due to the promulgation and execution of its false and unlawful business

model, which actions were in violation of the *Payday Loans Act* and its regulations between September 1, 2011 and the present.

### **CONSPIRACY**

75. The Plaintiff pleads that the Defendants wrongfully, unlawfully, maliciously and lacking bona fides, conspired and agreed together and with persons unknown to, among other things, extract illegal revenue from the Class Members in the form of fees and charges relating to "devices" used by Class Members in order to obtain payday loans.

76. Cash Store Financial and DirectCash entered into an arrangement where the revenue brought in by Cash Store Financial on account of illegal fees charged to the Class Members was shared with DirectCash.

77. In furtherance of the conspiracy, the Defendants, among other overt acts, have promulgated a business practice which is contrary to the *Payday Loans Act* and its Regulations. The conspiracy was unlawful because the conspirators knowingly and intentionally committed the forgoing acts which they knew to be in violation of the *Payday Loans Act* and its Regulations, as well as the *Competition Act*.

78. The conspiracy was directed towards the Plaintiff and the other Class Members. The Defendants knew or ought to have known in the circumstances that the conspiracy would, and did, cause loss to the Plaintiff and the Class Members.

### **UNJUST ENRICHMENT**

79. The Defendants have been unjustly enriched to the extent that they have charged and retained unlawful fees, interest and other amounts in respect of payday loans and the

associated bank transfers of those loans made to Class Members since the inception of the 2011 Regulation.

80. The Defendants' enrichment represents a corresponding deprivation to the Class Members as a whole.

81. The enrichment of the Defendants arises solely by the contravention of applicable law. There is therefore no juristic reason for the Defendants' enrichment.

### **WAIVER OF TORT**

82. The Plaintiff pleads and relies on the doctrine of waiver of tort and states that the Defendants' conduct, including their conspiracy, and the alleged breaches of the *Payday Loans Act* and its regulations and the *Competition Act* constitutes conduct which can be waived in favour of an election to receive restitutionary or other equitable remedies.

### **REMEDIES**

#### **Damages**

83. As a result of the acts and omissions of the Defendants as particularized above, the Plaintiff and the Class Members have suffered losses and damages.

84. The Class Members are owed damages amounting to those sums collected by the Defendants pursuant to the illegal fees, interest and other amounts that the Defendants charged to the Class Members.

85. Further, as the payday loan practices of the Defendants did not comply with the prescribed requirements during the class period, the Plaintiff pleads and relies on the remedies provided for pursuant to section 29(4) of the *Payday Loans Act*, which, entitles



the Class Members to refunds of or relief from liability of all fees and interest charged to them in respect of their payday loans.

86. Further, the Class Members claim any gains earned on these amounts and an equitable rate of interest thereon.

87. All amounts payable to the class on account of damages and disgorgement should be calculated on an aggregate basis pursuant to s. 24 of the *Class Proceedings Act*, or otherwise.

#### **Punitive Damages**

88. By virtue of the high-handed conduct of the Defendants and their disregard for the rights of Class Members, the Plaintiff requests this Court to award against the Defendants or any of them, punitive damages in an amount deemed appropriate by this Court at trial.

89. The Plaintiff pleads and relies on section 45(3) of the *Payday Loans Act* which states that in the event a borrower brings an action in the Superior Court of Justice and is successful, the court "may order exemplary or punitive damages or other relief that the court considers proper."

#### **Relief of Debt**

90. The Plaintiff requests forgiveness of all outstanding amounts alleged to be owing on account of the unlawful amounts charged by the Defendants. The illegal business practices of the Defendants have resulted in improper charges and rates of interest to the borrowers which are prohibited by law and therefore must be cancelled.

### **An Equitable Accounting**

91. The Plaintiff requests an accounting for all of the unlawful fees, interest and other amounts collected as well as any interest earned thereon and debt which must be forgiven by the Defendants on account of the Class Members during the class period.

### **Constructive Trust**

92. The Plaintiff claims a constructive trust in respect of the illegal fees, interest and other amounts paid by the Class Members. The Plaintiff states that good conscience requires the Defendants to hold all the illegal fees, interest and other amounts paid and interest earned thereon in trust for the Plaintiff and Class Members.

93. The Plaintiff states that the Defendants are constructive trustees in favour of the Plaintiff and the Class Members in respect of the illegal fees, interest and other amounts paid because:

- a) The Defendants may not, in good conscience, retain these illegal fees, interest and other amounts;
- b) The imposition of a constructive trust is required by justice and good conscience;
- c) The integrity of the intentions of *Payday Loans Act* and its related regulations would be undermined if the Court did not impose a constructive trust; and
- d) There are no factors which render the imposition of a constructive trust unjust.

### **Plan of Distribution**

94. Such damages ought to be held in a litigation trust and distributed pursuant to a plan of

distribution under sections 25 and 26 of the *Class Proceedings Act*.

95. Alternatively, if so elected, the unpaid remuneration and any gains made thereon should be calculated on an aggregate basis or otherwise should be held in a litigation trust and distributed pursuant to a plan of distribution under sections 25 and 26 of the *Class Proceedings Act*.

### **Injunction**

96. The Plaintiff claims that the Defendants be permanently enjoined from carrying on business in contravention of the applicable laws.

### **Conspicuous Notice Plan**

97. The Plaintiff requests the creation of a conspicuous and comprehensive notice program affording notice to the Class Members of the illegality of the fees, interest and other amounts paid by them and the amounts owing to them by the Defendants pursuant to Section 19 of the *Class Proceedings Act*.

### **STATUTES RELIED UPON**

98. The Plaintiff relies upon the *Class Proceedings Act, 1992*, S.O. 1992, c. 6, the *Payday Loans Act, 2008*, S.O. 2008, c. 9 and its regulations, O.Reg. 98/09 and O. Reg. 316/11, the *Competition Act*, RSC 1985, c C-34, and the *Courts of Justice Act*, R.S.O. 1990, c.C.43.

### **SERVICE OUTSIDE OF ONTARIO**

99. This originating process may be served without Court Order outside of Ontario in that the claim is:

- a. in respect of a contract made in Ontario (Rule 17.02(f));

- b. in respect of a tort committed in Ontario (Rule 17.02 (g));
- c. in respect of damages sustained in Ontario arising from a tort or a breach of contract wherever committed (Rule 17.02 (h)), and;
- d. against a person carrying on business in Ontario (Rule 17.02 (p)).

#### **PLACE OF TRIAL**

100. The Plaintiff proposes that this action be tried in London, Ontario.

**HARRISON PENSA LLP**  
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London, ON N6A 4K3

**Jonathan J. Foreman**  
LSUC#: 45087H

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Counsel for the Plaintiff

**YEOMAN** v **THE CASH STORE FINANCIAL SERVICES INC. et al.**

**PLAINTIFFS**

**DEFENDANTS**

**SUPERIOR COURT OF JUSTICE**

Commenced at LONDON

**FRESH AS AMENDED STATEMENT OF CLAIM**

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**Lawyers for the Plaintiff.**

**File # 152426**

# TAB D

**This is EXHIBIT "D" referred to in the  
Affidavit of TIMOTHY YEOMAN  
sworn before me, this 9<sup>th</sup> day of May, 2014.**

  
*A Commissioner, etc.*

Court File No.: 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

BETWEEN:

TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP

Defendants

**Proceeding under the *Class Proceedings Act, 1992***

**AFFIDAVIT OF TIMOTHY YEOMAN  
(sworn January 29, 2014)**

I, TIMOTHY YEOMAN, of the Town of Strathroy, in the Province of Ontario,

MAKE OATH AND SAY:

1. I am the proposed representative plaintiff in this action.



2. I have reviewed the Fresh as Amended Statement of Claim, a copy of which is attached as **Exhibit 'A'** to this affidavit.
  
3. I entered into a payday loan transaction with The Cash Store Inc. on April 24, 2012. In order to obtain my loan I was required to complete a set of agreements between myself and The Cash Store Inc., DC Bank, DC ATM Processing Partnership, and DC ATM Management Partnership. The loan documentation included the following documents: "Promissory Note and Disclosure of All Costs", "Electronic Funds Transfer Slip", "Pre-Authorized Debit Agreement", "Optional Advance Card Limit Creditor Protection", "Customer Receipt", "Direct Cash Payment Protection Plan Certificate of Insurance", and "Wallet Agreement". I signed all of the loan documentation together as a package. Attached hereto and marked as **Exhibit 'B'** is a copy of my loan documentation.
  
4. As such, I have personal knowledge of the facts deposed to herein, except where the facts stated are based upon information and belief, in which case I have disclosed the source of the information and believe such facts are true.

#### **NATURE OF THE ACTION**

5. This action arises as a result of the business models the defendants The Cash Store Financial Services Inc., The Cash Store Inc., and Instalozans Inc. ("Cash Store Financial") and DirectCash ATM Processing Partnership, DirectCash ATM Management Partnership, DirectCash Bank, DirectCash Payments Inc.,

DirectCash Management Inc., and DirectCash Canada Limited Partnership ("DirectCash") (collectively, the "Defendants"), which are alleged to be unlawful and contrary to applicable regulation, as operators in the payday loans industry.

6. Specifically, it is alleged that the Defendants' business model universally fails to comply with the regulatory framework applicable to the payday loans industry in the province of Ontario. It is alleged that the following sections of the *Ontario Payday Loans Act* and Regulations have been breached:
- a) Sections 6(1) and (2) of the *Payday Loans Act*;
  - b) Sections 26(1) and 26(2) of the *Payday Loans Act*;
  - c) Sections 29(1) and 29(2) of the *Payday Loans Act*;
  - d) Section 31(1) and 31(3) of the *Payday Loans Act*;
  - e) Sections 32(2) and 32(3) of the *Payday Loans Act*;
  - f) Section 15(2) of the Regulations;
  - g) Section 18(1) of the Regulations;
  - h) Section 21 of the Regulations;
  - i) Section 22(3) of the Regulations;
  - j) Section 23 of the Regulations; and
  - k) Sections 27(2) and 27(3) of the Regulations.
7. As shown in Exhibit 'B', for the payday loan I borrowed in April of 2012 in the amount of \$400, I personally paid \$68.60 in fees and service charges. The fees and service charges were added to the amount I wished to borrow. Accordingly, I

paid \$78.72 in interest charges on the amount of \$468.60 rather than the lesser amount I would have paid on my desired loan amount of \$400.

8. It is alleged that the cost of borrowing for my loan exceeded the prescribed limits.

#### **NATURE OF THE MOTION**

9. In this motion, I seek an order certifying this action as a class proceeding and certain other ancillary orders necessary for the proper conduct of the action.

#### **CERTIFICATION**

10. I believe that there is an identifiable class of two or more persons that I would represent as the proposed representative plaintiff.

11. My counsel has advised me that the current definition of the Class is as follows:

*"All persons in Canada who entered into "payday loan" transactions with Cash Store Financial in Ontario between September 1, 2011 and the date of judgment".*

12. I am advised by my counsel and believe that, due to the nature of the lending transactions that are at issue in this action, the Defendants' records contain contact information for all or nearly all individuals who entered into payday loan agreements with the Defendants during the relevant time. That information can be used to identify class members and to facilitate notice of this action to them.

13. In this action, it is my understanding that the Plaintiff and Class Counsel are required to formulate and propose "common issues" to the Court in the context of the certification motion. The following common issues are proposed in the context of this class action for resolution at a common issues trial:

- a) In respect of all payday loan transactions involving a "device" between Cash Store Financial and any class member after September 1, 2011:
  - i. By adding the cost of devices and other services onto their payday loans and by charging interest thereon, did Cash Store Financial charge class members amounts which exceeded the prescribed maximum cost of borrowing?
  - ii. Did Cash Store Financial misrepresent the total cost of borrowing in the prescribed loan disclosure materials by excluding the cost of devices, other services, and the interest charged thereon? If so, did such misrepresentations contravene s. 26 of the *Payday Loans Act*, the requirements of the *Payday Loans Act Regulations* and/or s. 52 of the *Competition Act*?
  - iii. By requiring immediate payment for devices and other services out of the amounts deemed to have been borrowed by class members, did Cash Store Financial make deductions of the advances of the payday loans issued to the class members contrary to s. 31 of the *Payday Loans Act*?
  - iv. If the answer to any of i, ii or iii above is yes, are the class members entitled to damages, full refunds of the cost of borrowing, forgiveness of debt or other relief? If so, what relief is due to class members?
- b) In respect of all payday loans offered by the Defendants to the class members after September 1, 2011, did Cash Store Financial breach the requirements of the *Payday Loans Act* and Regulations by failing to make payday loans available to class members in cash? If so, are the class members entitled to repayment and/or forgiveness of the full cost of borrowing?

- c) Are the loan transactions, which are described by Cash Store Financial as "lines of credit" after February 1, 2013, deemed to be payday loans for the purposes of the *Payday Loans Act* and Regulations? If so:
- i. By adding the cost of devices and other services onto their payday loans and by charging interest thereon, did Cash Store Financial charge class members amounts which exceeded the prescribed maximum cost of borrowing?
  - ii. Did Cash Store Financial misrepresent the total cost of borrowing in the prescribed loan disclosure materials by excluding the cost of devices, other services, and the interest charged thereon? If so, did such misrepresentations contravene s. 26 of the *Payday Loans Act*, the requirements of the *Payday Loans Act* Regulations and/or s. 52 of the *Competition Act*?
  - iii. By requiring immediate payment for devices and other services out of the amounts deemed to have been borrowed by class members, did Cash Store Financial make deductions of the advances of the payday loans issued to the class members contrary to s. 31 of the *Payday Loans Act*?
  - iv. If the answer to any of i, ii or iii above is yes, are the class members entitled to damages, full refunds of the cost of borrowing, forgiveness of debt or other relief? If so, what relief is due to class members?
- d) If the answer to c) is yes, did Cash Store Financial breach the requirements of the *Payday Loans Act* and Regulations by failing to make such loans available to class members in cash? If so, are the class members entitled to repayment and/or forgiveness of the full cost of borrowing?
- e) Are the DirectCash defendants deemed to be payday lenders under the *Payday Loans Act* and Regulations? If so, has DirectCash also engaged in any or all of the practices listed above? Alternatively or in addition, did Cash Store Financial and DirectCash conspire and agree together to implement a payday loan business model which contravened any requirements of the *Payday Loans Act*, its Regulations or the *Competition Act*?

- f) If so, are all of the Defendants jointly liable to the class members for any violation of the *Payday Loans Act*, its Regulations and/or the *Competition Act* committed in connection with all actual or deemed payday loans during the class period?
  - g) Did Cash Store Financial and/or DirectCash operate as payday lenders without the requisite licenses from the Province of Ontario during the class period? If so, at what times did such conduct occur? Are those class members who entered into actual or deemed payday loan transactions with the Defendants during those times entitled to be repaid or to be forgiven the full cost of borrowing?
  - h) Were any or all of the Defendants unjustly enriched to the detriment of the class members by their conduct? If so, are the class members entitled to restitution, an equitable accounting, a constructive trust or other equitable relief?
  - i) Are class members entitled to relief from any or all of the Defendants pursuant to the doctrine of waiver of tort?
  - j) If any or all of the Defendants are liable to the class members, should punitive damages be awarded and if so in what amount?
14. I have considered the common issues listed above and I cannot contemplate any differences among the class members relating to them. Therefore, I do not believe that I have any interests in conflict with the interests of any other class member on any of the common issues and that I can fairly and capably represent the interests of the proposed class in the prosecution of this action.
15. I am advised by my counsel and I believe that if I were to commence an individual action against the Defendants, the costs of that litigation would be completely uneconomical relative to the remedies claimed. In fact, I believe that the legal costs of any individual action would immediately and vastly exceed the

- damages I would claim as an individual. I believe the same to be true for all of the proposed class members.
16. Therefore, I believe that it is not economically feasible to litigate the issues raised in the amended statement of claim as an individual. Absent the advantages of the *Class Proceedings Act*, I would be unable to proceed with my own action.
  17. If this action is certified as a class proceeding, I understand that the value of my claim will be aggregated with the claims of all other class members, increasing the amount in issue.
  18. Further, I have been advised by my counsel and I believe that certification of this action as a class proceeding will permit the cost of counsel and experts to be shared by all members of the class.
  19. I am advised by counsel and believe that the mechanisms available under the *Class Proceedings Act* will assist in the efficient resolution of the issues raised by the amended statement of claim.
  20. I do verily believe that it is preferable that the issues arising from the allegations made in the Fresh as Amended Statement of Claim are decided in the most comprehensive and conclusive means possible – a certified proceeding which directly engages the rights and interests of all class members against the Defendants in a single proceeding.

**REPRESENTATIVE PLAINTIFF**

21. I am prepared to act as a representative on behalf of the proposed class.
22. I entered into a payday loan transaction with Cash Store Financial on April 24, 2012. I have repaid the \$400 loan to Cash Store Financial, as well as \$68.60 in additional fees and service charges, and \$78.72 in interest charges. The total cost of borrowing my \$400 loan was \$147.32.
23. I have retained legal counsel. I have met with them and instructed them throughout the conduct of this proceeding. I have obtained documents and other information for counsel and I have aided in the drafting of the statement of claim, the fresh as amended statement of claim and this affidavit.
24. I understand that the major steps in this action have been and will generally be as follows:
  - (a) On August 1, 2012, I commenced an action against Cash Store Financial Services Inc., The Cash Store Inc., and Instalozans Inc. by issuance of a Statement of Claim (Court File No. 7908/12 CP);
  - (b) The Cash Store defendants were served with the Statement of Claim;
  - (c) On August 27, 2013, my counsel brought a motion to add the DirectCash defendants as party to this action and an order was granted which allowed them to do so;



- (d) The Cash Store defendants and the DirectCash defendants were served with the Fresh as Amended Statement of Claim;
- (e) None of the Defendants have delivered notices of intent to defend;
- (f) I am asking the court to certify the action as a class proceeding by this motion for certification;
- (g) Cross-examinations of the affidavits filed on the certification motion may be held;
- (h) There will be a motion before a judge where the lawyers will argue whether the action can proceed (be certified) as a class action;
- (i) If the court certifies the action as a class proceeding, the court will determine the common issues;
- (j) Notice of the certification order will be given to the class members who will be given the opportunity to opt out of the class action within a fixed period;
- (k) I must list in an affidavit all relevant document and the Defendants also must list all of its relevant documents;
- (l) Examinations for discovery will be held, during which lawyers for the Defendants will ask me questions and my lawyers will ask questions of representatives of the Defendants;
- (m) Case Management Conferences will be held with the judge from time to time;
- (n) If the action is not settled, there will be a trial of the common issues and the court will decide whether or not the Defendants are liable and whether damages will be awarded;

- (o) Then, the court will decide upon a procedure for the assessment of damages if damages cannot be assessed in the aggregate;
- (p) If damages or a part thereof are to be assessed individually, notice will be given to the class members to give them the opportunity to participate at this stage to prove their damages;
- (q) Appeals may be taken at various stages of the class action; and
- (r) At any stage the class action may be settled but only with court approval.

25. I am committed to fulfilling my responsibilities to all members of the proposed class if the court appoints me as a representative plaintiff. I understand that it is my responsibility to, among other things:

- (a) To review the statement of claim and amendments thereto;
- (b) To assist in the preparation and execution of this affidavit in support of the motion for certification;
- (c) If necessary, to attend with my counsel for cross-examination on this affidavit;
- (d) To attend at the certification motion in this matter;
- (e) To assist in the preparation and execution of an affidavit of documents (preparing a listing of documentation relevant to this action);
- (f) If necessary, to attend with my counsel to be examined for discovery where I will be asked questions;
- (g) To attend with my lawyers and participate at the trial of the common issues, giving evidence regarding the case;
- (h) To receive briefings from and to instruct my lawyers;
- (i) To express, in some circumstances, my opinions on strategy to my lawyers;

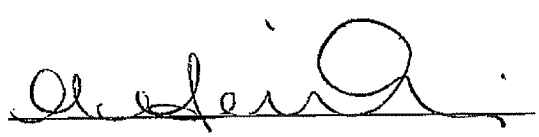
- (j) To assist with the notice program to class members;
  - (k) To express my opinion to my counsel and to the court if settlement positions are to be formulated;
  - (l) To express my opinion to my lawyers and to the court if offers to settle are made;
  - (m) To assist in the preparation of and execution of an affidavit in support of court approval of any settlement;
  - (n) To negotiate and execute an agreement for my lawyers' fees and disbursements and to seek the court's approval of our agreement; and
  - (o) To ensure communication with class members, as required.
26. My counsel have prepared a plan for the advancement of the proceeding and notifying Class Members of the certification of the proceeding. Attached hereto and marked as **Exhibit "C"** to this affidavit is a copy of the Litigation Plan (the "Plan").
27. I have reviewed the notice program contained in the Plan and believe that, if implemented, it would notify most class members.
28. I do not have any expertise which would permit me to evaluate the legal aspects of the Plan.

29. I believe that I can fairly and adequately represent the interests of the class and I am committed to fulfilling my responsibilities should the court see fit to appoint me as the representative plaintiff.

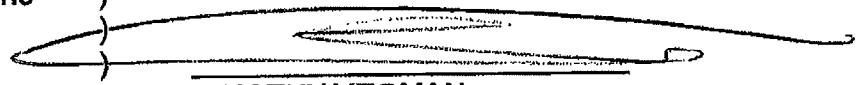
**CLASS COUNSEL**

30. I have retained counsel, Harrison Pensa LLP, who are experienced in class proceedings. Jonathan J. Foreman of Harrison Pensa LLP will have the primary responsibility for prosecuting this action.

SWORN BEFORE ME at the City of London, in the Province of Ontario this 29th day of January, 2014.



Commissioner for taking affidavits



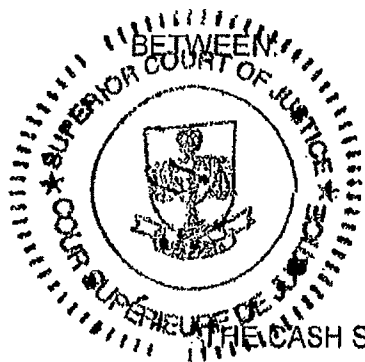
TIMOTHY YEOMAN

**This is EXHIBIT 'A' referred to in the  
Affidavit of Timothy Yeoman  
sworn before me, this 29th day of  
January, 2014.**

  
A Commissioner, etc.

Court File No.: 7908/12 CP

ONTARIO  
SUPERIOR COURT OF JUSTICE



TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP

Defendants

PROCEEDING UNDER THE *CLASS PROCEEDINGS ACT, 1992, S.O. 1992, c.6*

**FRESH AS AMENDED STATEMENT OF CLAIM**

TO THE DEFENDANT(S)

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff.  
The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, **WITHIN TWENTY DAYS** after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the Rules of Civil Procedure. This will entitle you to ten more days within which to serve and file your statement of defence.

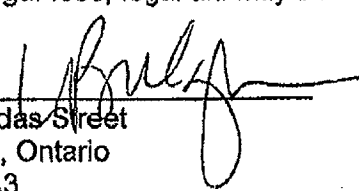
**IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU.**

If you wish to defend this proceeding but are unable to pay legal fees, legal aid may be available to you by contacting a local legal aid office.

Date: August 1, 2012

Issued by: \_\_\_\_\_

80 Dundas Street  
London, Ontario  
N6A 6A3



**TO: THE CASH STORE FINANCIAL SERVICES INC.**

40 King Street  
Suite 2100  
Toronto, ON M5H 3C2

**AND TO: THE CASH STORE INC.**

10180 - 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: INSTALOANS INC.**

10180 - 101 Street  
Suite 3200  
Edmonton, Alberta T5J 3W8

**AND TO: DIRECTCASH BANK**

1420 - 28<sup>th</sup> Street North East  
Bay #6  
Calgary, Alberta T2A 7W6

**AND TO: DIRECTCASH ATM PROCESSING PARTNERSHIP**  
350 7<sup>th</sup> Avenue SW  
No. 1400  
Calgary, Alberta T2P 3N9

**AND TO: DIRECTCASH ATM MANAGEMENT PARTNERSHIP**  
350 7<sup>th</sup> Avenue SW  
No. 1400  
Calgary, Alberta T2P 3N9

**AND TO: DIRECTCASH PAYMENTS INC.**  
Bay #6, 1420 28<sup>th</sup> Street NE  
Calgary, Alberta T2A 7W6

**AND TO: DIRECTCASH MANAGEMENT INC.**  
Bay #6, 1420 28<sup>th</sup> Street N E  
Calgary, Alberta T2A 7W6

**AND TO: DIRECTCASH CANADA LIMITED PARTNERSHIP**  
Bay #6, 1420 28<sup>th</sup> Street N E  
Calgary, Alberta T2A 7W6



**CLAIM****1. THE PLAINTIFF CLAIMS on behalf of himself and the Class:**

- (a) An Order pursuant to the *Class Proceedings Act, 1992*, S.O. 1992, C. 6 certifying this action as a class proceeding and appointing the Plaintiff as representative Plaintiff on behalf of the Class;
- (b) General damages calculated on an aggregate basis or otherwise for breach of the *Payday Loans Act* S.O, 2008, C. 9 ("*Payday Loans Act*"), and its regulations, O.Reg. 98/09 and O. Reg. 316/11 (the "Regulations"), the *Competition Act* RSC 1985, c C-34 ("*Competition Act*"), conspiracy, and unjust enrichment, in an amount sufficient to compensate the Plaintiff and the Class Members for the harm done to them as a result of the Defendants' unlawful conduct;
- (c) Punitive damages and exemplary damages in an amount to be determined at trial;
- (d) Relief from amounts alleged to be owed to the Defendants by the Class Members on account of the unlawful charges and business practices alleged herein;
- (e) An equitable rate of interest on all sums found due and owing to the Plaintiff and the Class Members or, in the alternative, pre- and post-judgment interest pursuant to the *Courts of Justice Act*, R.S.O. 1990, Chapter C.43;
- (f) An accounting, restitution, disgorgement and the creation of a constructive trust for breach of the *Payday Loans Act*, and its 2011 Regulations, the *Competition Act*, unjust enrichment, and the taking of inequitable profit by unlawful conduct and waiver of tort;

- (g) An Order compelling the creation of a litigation trust to hold and distribute the monetary relief awarded pursuant to a plan of administration and distribution under sections 25 and 26 of the *Class Proceedings Act*;
- (h) An Order for a permanent injunction restraining the Defendants from taking any further action in contravention of the *Payday Loans Act* and its Regulations, or the *Competition Act*;
- (i) An Order compelling the creation of a conspicuous notice program to Class Members pursuant to section 19 of the *Class Proceedings Act* in order to facilitate the plan of distribution claimed herein;
- (j) Costs of the investigation and prosecution of these proceedings pursuant to Section 36(1) of the *Competition Act*;
- (k) Costs of this action on a substantial indemnity basis including the costs associated with notice to Class Members and the plan of administration and distribution of relief, plus applicable taxes; and
- (l) such further and other relief as this Honourable Court may deem just.

## THE PARTIES

### Plaintiff

2. The Plaintiff is an individual residing in Strathroy, Ontario. The Plaintiff engaged in a "payday loan" transaction with the Defendants on April 24, 2012. For a payday loan of \$400 and a loan duration of 9 days, the Plaintiff was charged an additional \$68.60 in fees and service charges, and paid \$78.72 in interest for a total cost of borrowing of \$147.32.

**Defendants**

3. The defendant Cash Store Financial Services Inc. is an Ontario corporation carrying on business under the name Cash Store Financial with its principal place of business in Toronto, Ontario.
4. The defendants Cash Store Inc. and Instalozans Inc. are wholly owned subsidiaries of Cash Store Financial Services Inc. (collectively "Cash Store Financial" and "the Cash Store Defendants").
5. Cash Store Financial Services Inc. has substantial business in Ontario and operates approximately 181 "payday loan" branches across the province.
6. The defendant DirectCash Bank (also known as DC Bank) is a Schedule I bank under the *Bank Act*, S.C. 1991c. 46, which is registered with the Superintendent of financial Institutions Canada in Calgary, Alberta. DC Bank describes itself as a "limited purpose bank". It provides products and services in connection with ATM accounts, prepaid debit cards, and prepaid Mastercards.
7. The defendants DirectCash ATM Processing Partnership and DirectCash ATM Management Partnership are general partnerships registered in Alberta which carry out ATM and debit services throughout Canada.
8. The defendant DirectCash Payments Inc. is a corporation which has been amalgamated pursuant to the laws of Alberta. DirectCash Payments Inc. is the head office of the DirectCash entities, which directs business carried out through its subsidiaries.

9. The defendant DirectCash Management Inc. is a corporation incorporated under the laws of Alberta, which is wholly owned by DirectCash Payments Inc., and is the general managing partner of DirectCash Canada Limited Partnership.
10. The defendant DirectCash Canada Limited Partnership is a limited partnership that is registered under the *Partnership Act* in Alberta. DirectCash Payments Inc. owns 100% of the partnership units of DirectCash Canada Limited Partnership. DirectCash Canada Limited Partnership in turn directs the business of DirectCash ATM Processing Partnership and DirectCash ATM Management Partnership.
11. The DirectCash defendants (collectively referred to as "DirectCash" and the "DirectCash Defendants") have entered into an agency relationship with the Cash Store Defendants, and are integral to maintaining the Cash Store Defendants' revenue stream.
12. The Defendants collectively engage in a business known as "payday lending." It is Cash Store Financial's business to arrange for short-term cash advances and "lines of credit" to customers valued at between \$100 to \$5000. The maximum loan period for Cash Store Financial's previous payday loans was 18 days, and for its current lines of credit is 4 weeks.
13. The DirectCash Defendants have expressly and inextricably interwoven their offerings into Cash Store Financial's payday loan agreements with the Class Members. The Plaintiff therefore pleads that the Defendants are each liable to the Class Members for the unlawful conduct alleged herein.

**The Class**

14. The Plaintiff seeks to represent a class consisting of all persons in Canada who entered into "payday loan" transactions with Cash Store Financial in Ontario between September 1, 2011 and the date of judgment (the "Class Members").

**THE NATURE OF THE ACTION**

15. This action concerns the unlawful business models of the Defendants as operators in the "payday loan" industry subject to the Ontario *Payday Loans Act* and Regulations.
16. Since September 1, 2011, all payday lenders in Ontario are specifically required by legislation to provide borrowers with the option to take their payday loan in an immediate and liquid form. The effect of this requirement is to reduce the cost of borrowing and to prevent payday lenders from requiring borrowers to pay ancillary fees for "devices", a term defined in the Regulations meaning instruments offered by the lender in the delivery of the payday loan such as debit cards or credit cards.
17. Since September 1, 2011, the Defendants as payday lenders have by their business practices, violated the applicable statutory requirements of this province, which requirements were designed for the protection of the Class Members as borrowers.
18. Specifically, the Cash Store Financial does not, as a universal and province-wide corporate policy, provide the Class Members with the option to take a payday loan in cash as explicitly required by the *Payday Loans Act* Regulations. Cash Store Financial also had not provided Class Members with the option to take loans by way of cheque until February of 2013, and such option requires processing time of up to several days. Instead, Cash Store Financial's business model has featured two primary options for the delivery of payday loans to Class Members since September 1, 2011:

- i. By way of ancillary products such as a pre-paid DirectCash debit or credit card, which products feature additional fees and interest; or
- ii. By way of a delayed bank transfer to the borrower's account, which transfers take up to 7 days to occur.

Both options fail to comply with the applicable legislation to the prejudice of Class Members.

19. The first option provided by the Defendants constituted approximately 99% of Cash Store Financial's payday lending business in 2011, according to information contained in their public financial filings. It continues to be the primary method by which borrowers obtain loans from the Defendants. The option violates multiple statutory requirements, and most notably, every such loan exceeds the prescribed maximum cost of borrowing. The second option, together with cheques as of February of 2013, constitutes the remainder of Cash Store Financial's loan business and they violate the strict requirement that payday loans be made "immediately accessible" to borrowers no later than the time at which the payday loan agreement is entered into, an important matter for loans of such short duration and high rates of interest.

20. The DirectCash Defendants are inextricably incorporated into the illegal conduct alleged herein. In the payday loan agreements at issue, Class Members are required to enter into agreements with the DirectCash Defendants and to remit funds to them, which funds are expressly added to the borrowed amount in the payday loan and on which interest is charged. Further, Cash Store Financial and the DirectCash Defendants share the revenue that is illegally charged to the Class Members in contravention of the applicable legislation and the common law.

21. Cash Store Financial's payday loans changed in their outward form on February 1, 2013 when the company made the strategic decision to declare it was discontinuing to offer "payday loans" and would instead offer "lines of credit". In reality, Cash Store Financial has continued to offer payday loans under a different name, in an attempt to circumvent the applicable payday lending legislation and applicable regulations.
22. On February 4, 2013, the Registrar for the *Payday Loans Act* the issued a proposal to revoke the payday lending licenses of The Cash Store Inc. and Instaloans Inc. On July 3, 2013, Cash Store Financial issued a public statement indicating that The Cash Store Inc. and Instaloans Inc. intend to allow their respective payday loan licenses in Ontario to expire, and that they will instead continue to offer lines of credit.
23. The Plaintiff pleads that the lines of credit currently offered by Cash Store Financial are in fact payday loans, which are subject to the *Payday Loans Act* and its Regulations. The Plaintiff relies on section 4 of the *Payday Loans Act* in this regard, which states that the court shall consider the real substance of the agreement or transaction, and in so doing may disregard the outward form of the agreement or transaction.
24. The DirectCash Defendants maintain full knowledge of and participation in the illegal payday loan transactions with Class Members which are improperly characterized as "lines of credit".
25. The Class Members claim specific relief from the Defendants as provided for under the Ontario *Payday Loans Act* and Regulations and the *Competition Act* for the breaches alleged herein as well as common law and equitable remedies.

**BACKGROUND**

26. Since 2008, Cash Store Financial and all other payday loan companies operating in Ontario have been governed by the *Payday Loans Act*. The Act and its Regulations, which were passed by the Ontario government in June of 2008, were created by the province in order to ensure the regulation of the payday lending industry in Ontario was compliant with the new requirements of the *Criminal Code* with respect to criminal interest rates. At that time, the Ontario government also commissioned the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the "Advisory Board").
27. The Advisory Board delivered its report in February of 2009, and recommended that the Ontario government set the maximum total cost of borrowing for payday loans in Ontario at \$21 per \$100 borrowed. This recommendation was implemented in 2009.
28. Ontario Regulation 98/09 set out requirements for the content of a payday loan agreement, including the following key elements:
- a) The borrower must only be required to pay a maximum cost of \$21 per \$100 borrowed; and
  - b) The maximum cost of borrowing must be stated in the loan agreement as well as in the lender's business advertisements.
29. Since that regulation was enacted in 2009, there were persistent complaints and media reports across Canada of payday lenders requiring the payment of additional fees in lieu of the higher interest rates they had previously been able to charge to borrowers.



30. In response to those complaints, an amendment to the regulation was enacted and brought into force in September of 2011. Ontario Regulation 316/11 (the "2011 Regulation") adds the following key obligations on payday lenders:

- a) Third party fees and charges are to be included in the cost of borrowing (s. 17);
- b) Borrowers must be able to receive their loan in cash (s. 22); and
- c) Optional goods and services are prohibited from being sold by a payday loan company (s. 27).

31. The purpose of these amendments is to reduce the cost of borrowing for payday loans and to confirm the required immediacy in the delivery of loan principal in liquid form for the benefit of borrowers.

32. On August 31, 2011, the day before the 2011 Regulation came into force, Cash Store Financial filed an application for Judicial Review of the new regulation.

33. In its application for Judicial Review, Cash Store Financial requested relief including, but not limited to:

- (a) Orders stating that amendments cited in the new regulation relating to additional charges and the requirement to offer cash were *ultra vires* and of no force and effect;
- (b) A declaration that the provisions of the new regulation discriminates against Cash Store Financial are *ultra vires* and of no force and effect;
- (c) A declaration that debit cards and pre-paid cards are not considered a "device" within the meaning of the *Payday Loans Act*; and

(d) An order for an interim or interlocutory injunction or a declaration staying the force and effect of the new regulations.

34. In its application, Cash Store Financial submitted that "These amendments contain broad changes to the payday lending regulations that specifically affect the business of Cash Store Financial".
35. Further, Cash Store Financial argued that the 2011 Regulations "appear to improperly target Cash Store Financial specifically, to the exclusion of other licensees, and therefore amount to a form of regulatory discrimination."
36. Cash Store Financial conceded that in order to comply with the new regulations it would "be required to effect significant changes to [its ] operations".
37. Cash Store Financial has not make any such changes to its operations. Rather, Cash Store Financial has continued to refuse to make cash payments available to borrowers and has instead continued to compel borrowers to pay additional fees in order to facilitate loan payments through various non-cash mechanisms provided by DirectCash.
38. Until February 1, 2013, Cash Store Financial added those fees to the "borrowed" principal amount of the loan and the maximum rate of interest under the *Payday Loans Act* was charged on those additional fees as well as the principal amount. Since February 1, 2013, Cash Store Financial has charged interest in excess of the maximum rate prescribed for payday loans in Ontario, and has continued to charge interest on the additional fees and principal amounts. All of these charges and the interest charged on them result in loan terms which are well in excess of the prescribed maximum cost of borrowing.

39. The following chart details a non-exhaustive list of the ancillary fees that Cash Store Financial has required borrowers to pay to DirectCash in order to obtain a payday loan on a pre-paid debit or credit card:

Pre-Paid Mastercard (purchase)	\$17.95
Monthly Mastercard fee	\$29.95 - \$37.95
Mastercard loading fee	\$3.50
Mastercard service fee (each use)	\$2.95
Credit card insurance (on \$500)	\$1.95 / day
Debit card (purchase)	\$17.95
Debit card activation fee	\$8.00
Monthly debit card fee	\$17.90 - \$29.95
Debit card service fee (each use)	\$2.25 - \$2.95

40. In the example of a loan transaction where the funds were provided on a Mastercard, the borrower could be charged a fee of \$17.95 for purchasing a MasterCard credit card in order to obtain the payday loan, as well as monthly fees ranging between \$29.95 and \$37.95 per month. There are also additional "loading fees" and service fees for each use of the credit card. If the loan is not withdrawn from an ATM all at once, each additional ATM transaction will result in another fee.

41. The additional fees charged by DirectCash are added to the principal of the borrower's loan at the time the payday loan is taken out, and interest is charged on those fees as well as on the principal loan amount. DirectCash collects their fees once the pre-paid debit or credit card is issued. As a result, a borrower who wishes to take out a loan of \$100 will in fact be required to "borrow" \$100 plus \$17.95 for a debit card, up to \$29.95 for the first monthly fee, and an \$8.00 activation fee. The total amount borrowed becomes a minimum of \$155.90 and interest will be charged on that amount. Additional transaction fees will be subsequently charged as the loan amount is expended.
42. Cash Store Financial also offers optional insurance for their credit cards and debit cards, which costs approximately \$1.95 per day. "Bank accounts" are also required for use of the debit card which involves additional fees.
43. Contrary to the requirements of the 2011 Regulation, Cash Store Financial has a corporate policy of not providing cash to borrowers, a fact which requires every Class Member to obtain their payday loan through a device which requires the payment of additional charges to DirectCash if they are to obtain their loan on an immediate basis.
44. The only alternative for borrowers is to take their loan by way of electronic transfer of funds to a bank account. However, such option involves a significant delay in receipt of funds. Loans may take up to 7 days to transfer, which is both in contravention of the *Payday Loans Act* and Regulations, as well as impractical for persons who need to obtain funds on a short-term basis. The delay is prejudicial to borrowers for whom the loan duration is up to a maximum of 4 weeks and at a high rate of interest. As a result of the above-noted business practices, the Plaintiff pleads that the Defendants have been unjustly enriched and are in breach of the *Payday Loans Act* and its 2011 Regulation, as well as the *Competition Act*.

#### **THE DIRECTCASH DEFENDANTS**

45. Cash Store Financial and DirectCash operate pursuant to an agency agreement whereby Cash Store Financial is the agent of DirectCash in its dealing with the Class Members. Further, Class Members are required to enter into agreements with the DirectCash Defendants and to pay amounts to them pursuant to the Cash Store Financial Payday Loan Agreements.
46. Together the Defendants collectively engage in illegal payday loan transactions with Class Members and they share the revenues, including interest revenue on the Payday Loans which are collected illegally pursuant to those transactions.
47. On account of this relationship, the Defendants are each liable for the acts and omissions of the other in violation of applicable law.

#### **PAYDAY LOANS ACT AND REGULATIONS**

48. Cash Store Financial has stated in its application for Judicial Review that "Cash Store Financial's business is distinguishable from its competitors in the marketplace in that it specifically does not provide advances in cash, but rather provides advances by way of cheque or other optional electronic funds transfer mechanisms."
49. As a matter of fact, the Cash Store Financial has only recently begun to offer cheques as a form of payment of advances, and as previously indicated, neither the cheques nor the electronic bank transfers are immediate. The provision of payday loans through account transfers which take up to 7 days is unlawful as section 29(2) of the Act states that lenders must ensure that the advance is delivered no later than upon entering into the loan agreement. Furthermore, Section 21(1) of the Regulation states that it is deemed that a lender under a payday loan agreement has not delivered the advance to the

borrower upon entering into the agreement unless the advance is immediately accessible by the borrower at that time.

50. Section 22(0.1) and (1) of the 2011 Regulation state in combination that borrowers are entitled to receive the whole of their advances by way of cash, and that borrowers must be informed of that right.

51. Cash Store Financial's business model whereby it refuses to provide cash to borrowers is in direct contravention of section 22 of the 2011 Regulation. Further, it contradicts the overarching policy purpose of payday loans in Ontario, which is to provide liquid short-term lending to borrowers. The DirectCash Defendants are engaged in this contravention as well, by virtue of its role in offering payday loans in conjunction with Cash Store Financial.

52. By failing to adhere to the requirements prescribed by the 2011 Regulations, Cash Store Financial and DirectCash have also contravened section 29(1) of the *Payday Loans Act*. Section 29(4) of the Act states that if the parties enter into a loan agreement which breaches section 29(1) or (2) of the Act, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing." The Plaintiff pleads and relies on this section of the Act.

53. As stated above, the Cash Store Financial requires borrowers to obtain their loans through the use of debit cards and credit cards, which have additional fees attached to them. Section 27(2) of the *Paydays Loans Act Regulations* states that "A lender shall not require a borrower to transact in any good or service, other than a payday loan, as a condition of entering into a loan agreement." Cash Store Financial and DirectCash are

in contravention of section 27(2) of the 2011 Regulation as they require borrowers to purchase a device from DirectCash in order to obtain immediate access to their loans.

54. Section 27(3) of the 2011 Regulation further states that:

"A licensee, acting on the licensee's own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in connection with a payday loan agreement, other than the payday loan, whether or not it is provided for consideration."

Cash Store Financial is in clear breach of this section of the Regulations as it systematically offers and requires that certain goods and services be purchased by its borrowers from DirectCash in order to obtain immediate access to their loans.

55. Section 27(5) of the 2011 Regulation provides that if subsections (2) and (3) of section 27 are breached, "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."

56. Furthermore, Cash Store Financial and DirectCash are both liable for offering payday loans without a license to do so. Cash Store Financial has not obtained loan broker licenses which permit it to provide the "lines of credit" which it currently offers, nor has DirectCash ever obtained payday lender or loan broker licenses which would allow them to engage in the payday loans business. Offering loans without a licence is contrary to sections 6(1) and 6(2) of the *Payday Loans Act*, and pursuant to section 6(3), carries a consequence of requiring that the borrower only repay the advance to the lender, and not the cost of borrowing.

57. Section 17(1) of the 2011 Regulation states that the following amounts are prescribed as included in the cost of borrowing with respect to a payday loan agreement:

- "1. Any amount payable by the borrower, upon entering into the agreement, to process a payment provided by the borrower under the agreement.
2. Any other amount that is connected directly or indirectly to the payday loan agreement and,
  - i. that the borrower has paid upon entering into the agreement, or
  - ii. for which the borrower's obligation to pay exists upon entering into the agreement."

The Plaintiff pleads that the amounts charged by the Defendants in the form of additional loan amounts to pay for devices are direct and indirect costs that are referred to in sec. 17(1). Section 17(2) specifically states that these amounts include any amounts in relation to a device.

58. By charging its borrowers for devices which are deemed to be included in the cost of borrowing, the Defendants have contravened section 32(2) of the *Payday Loans Act* which states that "The lender under a payday loan agreement shall ensure that the cost of borrowing under the agreement does not exceed the prescribed limits." Section 32(3) of the Act states that "No loan broker shall facilitate a contravention of subsection (2)".
59. Section 32(4) of the *Payday Loans Act* offers the same remedy to the borrower as sections 29(4) of the Act and 27(5) of the Regulation if the cost of the payday loan agreement exceeds the prescribed limits: "the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing."
60. Section 23 of the Regulations states that the prescribed limit on the cost of borrowing under a payday loan agreement for the purposes of subsection 32(2) of the Act is \$21 per \$100 advanced under the agreement. Until February 1, 2013 Cash Store Financial charged this prescribed maximum rate on the loan amount the borrower requested as well as the loan amount for additional services purchased in connection with the loan. Since February 1, 2013 it has charged a rate in excess of the prescribed maximum on



the loans themselves, as well as the fees. Cash Store Financial was therefore in breach of this requirement as the additional fees must be included in the cost of borrowing, which would result in the total cost exceeding the prescribed maximum.

61. Further, Section 31(1) of the *Payday Loans Act* states that the lender may not make any deductions from the advance provided to the borrower. Section 31(3) states that if the parties enter a payday loan agreement that results in contravention of subsection (1), the borrower is only required to repay the advance to the lender and is not liable to pay the cost of borrowing.

62. The Plaintiff pleads sec. 4 of the *Payday Loans Act* relating to anti-avoidance applies to all representations, agreements, and transactions as between the Defendants and the Class Members. The plaintiff specifically pleads that the DirectCash Defendants acted as a payday lender and/or loan broker and are liable to the Class Members for the breaches pleaded herein.

#### **MISREPRESENTATIONS**

63. Section 26 of the *Payday Loans Act* provides as follows:

##### Representations

26. (1) No licensee shall make or shall facilitate the making of false, misleading or deceptive statements relating to a payday loan or a payday loan agreement in any advertisement, circular, pamphlet or material published by any means. 2008, c. 9, s. 26 (1).

##### Requirements

(2) No licensee shall make or shall facilitate the making of representations or cause representations to be made relating to a payday loan or a payday loan agreement, whether orally, in writing or in any other form, unless the representations comply with the prescribed requirements, if any. 2008, c. 9, s. 26 (2).

64. In the conduct of their business, Cash Store Financial made at least 2 consistent misrepresentations to Class Members:

- i. They misstated the total cost of borrowing in their loan agreements; and
- ii. They misrepresented the total cost of borrowing in a poster which was required to be published and posted at point of sale for the benefit of borrowers pursuant to section 14 of the Regulations.

65. For all Class Members whose payday loans involved an additional service or a device, Cash Store Financial uniformly misrepresented the total cost of borrowing within a table which is required by section 18(1) of the Regulations to express each borrower's total cost of borrowing for their loan transaction. Cash Store Financial failed to include the cost of additional services and devices in its description of the total cost of borrowing. As pleaded herein, such charges are mandated to be included in the total cost of borrowing. If properly constituted, such tables would show that every such loan transaction grossly exceeded the prescribed maximum cost of borrowing in Ontario.

66. Furthermore, Cash Store Financial violated sec. 15(2) of the Regulations by misrepresenting the actual cost of borrowing per each \$100 advanced under the payday loan agreement.

67. As indicated, Cash Store Financial's poster required by section 14 also failed to incorporate the cost of devices into the total cost of borrowing.

68. As detailed above, Cash Store Financial's entire business model was promulgated and executed in a manner which falsely denied the Class Members their fundamental rights under the *Payday Loans Act* and the Regulations.

69. The Plaintiff relies on the *Payday Loans Act* including but not limited to sections 38, 39, and 40 of the *Payday Loans Act*, which state that the Plaintiff and the Class have the right to pursue any remedies they may have in law, including by way of a Class Action.

70. The Plaintiff also specifically pleads and relies on section 41 of the *Payday Loans Act* which states that any ambiguity in the interpretation of a payday loan agreement shall be interpreted to the benefit of the borrower.

#### COMPETITION ACT

71. Section 52 of the *Competition Act* prohibits making misleading representations in order to promote a business interest.

52. (1) No person shall, for the purpose of promoting, directly or indirectly, the supply or use of a product or for the purpose of promoting, directly or indirectly, any business interest, by any means whatever, knowingly or recklessly make a representation to the public that is false or misleading in a material respect.

72. Section 52(1.1) of the *Competition Act* states:

(1.1) For greater certainty, in establishing that subsection (1) was contravened, it is not necessary to prove that

(a) any person was deceived or misled

73. Cash Store Financial promulgated and executed their entire business model in a manner which denied the Class Members their fundamental rights as borrowers under the *Payday Loans Act*. Cash Store Financial's conduct was, in its entirety, the false promotion of their business interests in contravention of s. 52 of the *Competition Act*.

74. In addition to all other remedies available at law, the Plaintiff pleads entitlement to damages and costs of investigation and prosecution pursuant to s. 36 of the *Competition Act*. Without limitation, the Plaintiff pleads that Cash Store Financial obtained unlawful revenues due to the promulgation and execution of its false and unlawful business

model, which actions were in violation of the *Payday Loans Act* and its regulations between September 1, 2011 and the present.

#### CONSPIRACY

75. The Plaintiff pleads that the Defendants wrongfully, unlawfully, maliciously and lacking bona fides, conspired and agreed together and with persons unknown to, among other things, extract illegal revenue from the Class Members in the form of fees and charges relating to "devices" used by Class Members in order to obtain payday loans.
76. Cash Store Financial and DirectCash entered into an arrangement where the revenue brought in by Cash Store Financial on account of illegal fees charged to the Class Members was shared with DirectCash.
77. In furtherance of the conspiracy, the Defendants, among other overt acts, have promulgated a business practice which is contrary to the *Payday Loans Act* and its Regulations. The conspiracy was unlawful because the conspirators knowingly and intentionally committed the forgoing acts which they knew to be in violation of the *Payday Loans Act* and its Regulations, as well as the *Competition Act*.
78. The conspiracy was directed towards the Plaintiff and the other Class Members. The Defendants knew or ought to have known in the circumstances that the conspiracy would, and did, cause loss to the Plaintiff and the Class Members.

#### UNJUST ENRICHMENT

79. The Defendants have been unjustly enriched to the extent that they have charged and retained unlawful fees, interest and other amounts in respect of payday loans and the

associated bank transfers of those loans made to Class Members since the inception of the 2011 Regulation.

80. The Defendants' enrichment represents a corresponding deprivation to the Class Members as a whole.

81. The enrichment of the Defendants arises solely by the contravention of applicable law. There is therefore no juristic reason for the Defendants' enrichment.

#### **WAIVER OF TORT**

82. The Plaintiff pleads and relies on the doctrine of waiver of tort and states that the Defendants' conduct, including their conspiracy, and the alleged breaches of the *Payday Loans Act* and its regulations and the *Competition Act* constitutes conduct which can be waived in favour of an election to receive restitutionary or other equitable remedies. '

#### **REMEDIES**

##### **Damages**

83. As a result of the acts and omissions of the Defendants as particularized above, the Plaintiff and the Class Members have suffered losses and damages.

84. The Class Members are owed damages amounting to those sums collected by the Defendants pursuant to the illegal fees, interest and other amounts that the Defendants charged to the Class Members.

85. Further, as the payday loan practices of the Defendants did not comply with the prescribed requirements during the class period, the Plaintiff pleads and relies on the remedies provided for pursuant to section 29(4) of the *Payday Loans Act*, which, entitles

the Class Members to refunds of or relief from liability of all fees and interest charged to them in respect of their payday loans.

86. Further, the Class Members claim any gains earned on these amounts and an equitable rate of interest thereon.

87. All amounts payable to the class on account of damages and disgorgement should be calculated on an aggregate basis pursuant to s. 24 of the *Class Proceedings Act*, or otherwise.

#### **Punitive Damages**

88. By virtue of the high-handed conduct of the Defendants and their disregard for the rights of Class Members, the Plaintiff requests this Court to award against the Defendants or any of them, punitive damages in an amount deemed appropriate by this Court at trial.

89. The Plaintiff pleads and relies on section 45(3) of the *Payday Loans Act* which states that in the event a borrower brings an action in the Superior Court of Justice and is successful, the court "may order exemplary or punitive damages or other relief that the court considers proper."

#### **Relief of Debt**

90. The Plaintiff requests forgiveness of all outstanding amounts alleged to be owing on account of the unlawful amounts charged by the Defendants. The illegal business practices of the Defendants have resulted in improper charges and rates of interest to the borrowers which are prohibited by law and therefore must be cancelled.

**An Equitable Accounting**

91. The Plaintiff requests an accounting for all of the unlawful fees, interest and other amounts collected as well as any interest earned thereon and debt which must be forgiven by the Defendants on account of the Class Members during the class period.

**Constructive Trust**

92. The Plaintiff claims a constructive trust in respect of the illegal fees, interest and other amounts paid by the Class Members. The Plaintiff states that good conscience requires the Defendants to hold all the illegal fees, interest and other amounts paid and interest earned thereon in trust for the Plaintiff and Class Members.

93. The Plaintiff states that the Defendants are constructive trustees in favour of the Plaintiff and the Class Members in respect of the illegal fees, interest and other amounts paid because:

- a) The Defendants may not, in good conscience, retain these illegal fees, interest and other amounts;
- b) The imposition of a constructive trust is required by justice and good conscience;
- c) The integrity of the intentions of *Payday Loans Act* and its related regulations would be undermined if the Court did not impose a constructive trust; and
- d) There are no factors which render the imposition of a constructive trust unjust.

**Plan of Distribution**

94. Such damages ought to be held in a litigation trust and distributed pursuant to a plan of

distribution under sections 25 and 26 of the *Class Proceedings Act*.

95. Alternatively, if so elected, the unpaid remuneration and any gains made thereon should be calculated on an aggregate basis or otherwise should be held in a litigation trust and distributed pursuant to a plan of distribution under sections 25 and 26 of the *Class Proceedings Act*.

### **Injunction**

96. The Plaintiff claims that the Defendants be permanently enjoined from carrying on business in contravention of the applicable laws.

### **Conspicuous Notice Plan**

97. The Plaintiff requests the creation of a conspicuous and comprehensive notice program affording notice to the Class Members of the illegality of the fees, interest and other amounts paid by them and the amounts owing to them by the Defendants pursuant to Section 19 of the *Class Proceedings Act*.

### **STATUTES RELIED UPON**

98. The Plaintiff relies upon the *Class Proceedings Act, 1992*, S.O. 1992, c. 6, the *Payday Loans Act, 2008*, S.O. 2008, c. 9 and its regulations, O.Reg. 98/09 and O. Reg. 316/11, the *Competition Act, RSC 1985, c C-34*, and the *Courts of Justice Act, R.S.O. 1990, c.C.43*.

### **SERVICE OUTSIDE OF ONTARIO**

99. This originating process may be served without Court Order outside of Ontario in that the claim is:

- a. in respect of a contract made in Ontario (Rule 17.02(f));



- b. in respect of a tort committed in Ontario (Rule 17.02 (g));
- c. in respect of damages sustained in Ontario arising from a tort or a breach of contract wherever committed (Rule 17.02 (h)), and;
- d. against a person carrying on business in Ontario (Rule 17.02 (p)).

**PLACE OF TRIAL**

100. The Plaintiff proposes that this action be tried in London, Ontario.

**HARRISON PENSA LLP**  
450 Talbot Street  
London, ON N6A 4K3

**Jonathan J. Foreman**  
LSUC#: 45087H

Tel: (519) 679-9660  
Fax: (519) 667-3362

Counsel for the Plaintiff

Court File No. 7908/12CP

**YEOMAN**

**PLAINTIFFS**

**v THE CASH STORE FINANCIAL SERVICES INC. et al.**

**DEFENDANTS**

**SUPERIOR COURT OF JUSTICE**

Commenced at LONDON

**FRESH AS AMENDED STATEMENT OF CLAIM**

**HARRISON PENZA LLP**  
Barristers and Solicitors  
450 Talbot Street, P.O. Box 3237  
London, Ontario N6A 4K3

**Jonathan J. Foreman**  
**(LSUC #45087H)**

Tel: (519) 679-9660  
Fax: (519) 667-3362

**Lawyers for the Plaintiff.**

**File # 152426**

**This is EXHIBIT 'B' referred to in the  
Affidavit of Timothy Yeoman  
sworn before me, this 29th day of  
January, 2014.**

  
A Commissioner, etc.

**Promissory Note and Disclosure of All Costs**

Date of loan: 04/24/2012 to receive \$468.60 in advance for a period of 9 days  
Assuming the Total Loan Amount was advanced in full, on the above date,  
plus repaid in full on the due date, the following would apply:

A	B	C
The Total Cost of borrowing	You Will Receive \$468.60 on 04/24/2012	You will Repay The Cash Store Inc. \$547.32 on 05/03/2012 (the due date)
\$78.72		

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY PROMISES TO PAY to The Cash Store Inc., (THE "Payday Lender") on the due date the sum of \$547.32, together with interest on this amount at the rate of fifty-nine percent (59%) compounded annually, after maturity (05/03/2012).

The Cash Store Inc.'s interest rate is calculated at a rate of 59% per annum compounded annually upon default on the total amount owing on the loan. I hereby acknowledge the above costs of borrowing in "A" above have been explained to me and I understand the same. The payday lender may change with notice to the borrower.

I confirm that I have given The Cash Store Inc. certain information regarding my income and assets on which they have relied upon while approving my loan. I understand that if any of this information is incorrect The Cash Store Inc. will continue to act to recover any outstanding debt. I agree to pay a default charge of \$50.00 in the event of a returned item.  
Dated on April 24, 2012 in STRATHROY, ON

Customer Signature: \_\_\_\_\_

Customer Name: TIMOTHY 469YBOMAN  
City/Province: 545 DEWAN ST. APT. 201, STRATHROY ON, N7G 3C6  
Branch Number: The Cash Store 256  
UNIT A5 70 CARROLL STREET STRATHROY, ON N7G 4G2 (519) 245-1847

Below table is per Ontario Payday Loan Act, 2008  
Details of Payday Credit Agreement

Amount Borrowed	\$468.60
Term of the Agreement in Days	9
Total Cost of Borrowing	\$78.72
Maximum Allowable Cost per \$100 Borrowed	\$21.00
Cost per \$100 Borrowed	\$21.00
Total Amount Due under the Agreement	\$547.32
Payment Due Date	05/03/2012

Borrower's Signature: \_\_\_\_\_

Payment is due 05/03/2012 and can be made by cheque, cash, interac or pre-authorized debit.



For: The Cash Store

**ATTENTION:**

This payday loan is intended to address short-term financial needs. The cost of borrowing for this loan may be significantly higher than credit offered by other lenders.

**YOUR CANCELLATION RIGHTS UNDER THE PAYDAY LOANS ACT, 2008:**

If you are provided with the loan and a copy of this agreement that complies with the Act when you enter into the agreement, you may cancel the agreement within two (2) business days of entering into it. For remote payday loan agreements\*, you may cancel the agreement within two (2) business days of entering into it if you are provided with a copy of this agreement that complies with the Act when you enter into the agreement. You do not have to give a reason for cancelling the agreement.

If you are not provided with the loan or with a copy of this agreement that complies with the Act when you enter into the agreement, you may cancel the agreement at any time. For remote payday loan agreements you may cancel the agreement at any time if you are not provided with the loan within one hour of entering into the agreement or if you are not provided with a copy of this agreement that complies with the Act when you enter into the agreement. You do not have to give a reason for cancelling the agreement.

To cancel the agreement, you must provide your notice of cancellation, together with the amount you borrowed, to the business you dealt with to get your loan. If you have made any payments under the loan, the lender must return those payments to you at the earliest reasonable opportunity.

\* A remote payday loan agreement is one in which the borrower is not present with the lender or the loan broker when the payday loan agreement is made (e.g. a loan made over the internet or by phone).

T.Y.

REFUNDS UNDER THE PAYDAY LOANS ACT, 2008:

Under certain circumstances, you may demand a refund of a payment you made under a payday loan agreement within one year of having made that payment. Either the licensee has received a payment to which it is not entitled or the licensee has engaged in prohibited conduct of such a serious nature that you are entitled to a refund of the cost of borrowing that you paid. To obtain a refund you must give a notice demanding it to the business that you dealt with to get your payday loan. Your notice must set out your demand for the refund and the reason for it, as well as your name and telephone number. Note that the business has two (2) business days within which to provide the refund to you. You may choose to collect your refund in person or have it mailed to you.

Please contact the Consumer Protection Branch of the Ministry of Small Business and Consumer Services for information on when you may be entitled to a refund and how to make your demand for a refund. You may contact the Consumer Protection Branch toll free at 1-800-889-9768.

I understand I have the right to request a copy of this loan agreement at any time before the end of one year from the end of the term of the agreement from the,

- i) lender, if no loan broker assisted the borrower in obtaining the payday loan  
or
- ii) the loan broker who assisted the borrower in obtaining the payday loan.

Further information about payday loans can be found at the Ministry of Consumer Services website.

[www.sse.gov.on.ca/mcs/en/pages/payday\\_lending.aspx](http://www.sse.gov.on.ca/mcs/en/pages/payday_lending.aspx).

The Registrar of payday loans may be contacted at:

Registrar, Payday Loans Act, 2008.  
Consumer Protection Branch  
5775 Yonge Street, Suite 1500  
Toronto, Ontario M7A 2E5  
1 (416) 326-6203  
1 (800) 889-9768 (toll free)  
1 (416) 326-8810 (fax)

T.K.

Electronic Funds Transfer Slip  
Customer Receipt and Acknowledgement

Total proceeds of the payday loan delivered by way of electronic funds transfer (E.F.T.) to the bank account number provided by TIMOTHY 469YEOMAN.

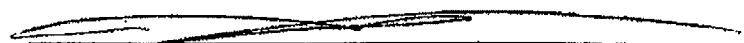
0352  
Institution Number

10009  
Branch Number

6063570012486208  
Account Number

With my signature I acknowledge delivery to and receipt by me of the proceeds of my payday loan to the bank account identified and in the amount of \$468.60.

April 24, 2012 10:28am

  
Borrower's Signature

## Pre-Authorized Debit Agreement

Date of Loan: April 24, 2012  
 Maturity Date: 05/03/12  
 Regular Payday: MAY 3/12

Loan Number: 114569  
 Customer Name: TIMOTHY 469YEOMAN  
 Address: 545 DEWAN ST. APT. 201 STRATHROY  
 STRATHROY ON, N7G 3C6

In this Pre-Authorized Debit Agreement ("PAD Agreement") "I" and "me" refer to the customer identified above; "Deposit Account" refers to the chequing account identified by the attached VOID cheque or such other deposit account that I may identify to you from time to time; "Loan" refers to the loan identified above and evidenced by a certain promissory note; "PAD" refers to a pre-authorized debit issued against the Deposit Account; and "You" refers to The Cash Store Inc., its successors and assigns. The PADs are for personal purposes.

## 1. Pre-Authorized Debits (PADs)

I agree to have my deposit account debited at Set Intervals, as the term Set Interval is defined in Section 5 (u) of Part 1 of rule #1 of the Canadian Payments Association rules manual. "Set Interval" means occurring at specified, set or predictable periods or times or upon the occurrence of such criteria and / or events as may be set out in a Payor's PAD agreement. This PAD agreement specifies those events, which should they occur, constitute the Set Interval at which you agree to have your deposit account debited.

- a) In the event, that I do not pay \$547.32 by 05/03/12, in relation to loan, I authorize and direct you to debit the deposit account to pay all amounts that I owe in connection with the loan.
- b) In the event that a PAD in clause (a) is returned NSF by my financial institution, I acknowledge that this event will render me in default of the loan agreement and I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing, as specified in the loan agreement pertaining to Loan.
- c) i) In the event that a PAD described in clause b) is returned NSF by my financial institution, I agree that this constitutes a new event, and I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing, as specified in the loan agreement pertaining to the Loan.
- c) ii) I agree that subsequent to an event defined in clause c) i) that each instance in which a PAD is returned NSF by my financial institution constitutes a new event. In each instance that a new event occurs, I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing as specified in the loan agreement pertaining to the Loan.
- d) You and I waive the requirement for pre-notification of the PAD authorized in clause (a) and any PADs authorized in clauses (b) and (c).

## 2. Additional Terms and Conditions

- (a) Changes: I agree to inform you promptly, in writing, of any change in the information provided in this PAD Agreement.
- (b) Cancellation: I may cancel an authorization at any time by giving you ten (10) days prior written notice. I understand that I may obtain a sample cancellation form, or more information about my right to cancel this PAD Agreement, from you or my financial institution or at [www.cdnpay.ca](http://www.cdnpay.ca). This PAD Agreement applies only to the method of payment of my indebtedness pursuant to the Loan and does not otherwise affect my obligations to you or the lender.
- (c) Dishonour, disputes and recourse: If any PAD is dishonoured for any reason, I agree that you may resubmit that PAD in accordance with the rules of the Canadian Payments Association. I have certain recourse rights if any debit does not comply with this PAD Agreement. For example, I have the right to receive reimbursement for any debit that is not authorized or is not consistent with this PAD Agreement. To obtain more information on my recourse rights, I may contact my financial institution or visit [www.cdnpay.ca](http://www.cdnpay.ca).
- (d) Consent: I consent to the disclosure of personal information contained in this PAD Agreement, and any debit issued pursuant to this authorization, to financial institutions as necessary in order to give effect to this PAD Agreement, subject to the rules of the Canadian Payments Association and applicable privacy laws.
- (f) Contact: I may contact you by calling (519) 245-1847 or by mail at UNIT A5 70 CARROLL STREET STRATHROY ON N7G 4G2, provincial licence 4716765.

I warrant and guarantee that I am the only person whose signature is required to authorize transactions on the Deposit Account. I attach a VOID cheque for the Deposit Account.

## AUTHORIZATION BY CUSTOMER

NAME: TIMOTHY 469YEOMAN

SIGNATURE: \_\_\_\_\_

We recognize that you have provided us with personal information such as your name and contact information. The Cash Store and its affiliates use this information to administer our business and to respond to your inquiries. We are committed to protecting the privacy of your personal information. From time to time we may use your information for the purposes of selectively including you in advertising and marketing campaigns designed to increase the awareness of our products and services which we believe will be of interest to you. If you do not wish to receive further marketing information from us, please email us at [customerservice@csfinancial.ca](mailto:customerservice@csfinancial.ca) or call us at 1-866-506-5035. For more information on our privacy policy, please visit [www.cashstore.ca](http://www.cashstore.ca) or call us at 1-866-506-5035.

SIGNATURE: \_\_\_\_\_

DATE: April 24, 2012



## OPTIONAL ADVANCE CARD LIMIT CREDITOR PROTECTION

Y YES Please enroll me in the Plan

[Signature]  
Customer Signature

[Signature]  
Witness Signature

April 24, 2012

## The Advance Card Limit Credit Insurance Protection - APPLICATION

Group Policy DCB0911P and DCB0911L to DC Bank, DC ATM Processing Partnership and DC ATM Management Partnership (collectively "Direct Cash").

Regarding The Advance Card Limit Credit Insurance Protection ("the Plan"), which protects my card advance limits (overdraft), I understand that and agree that:

- 1) The Plan is underwritten by Trans Global Life Insurance Company and Trans Global Insurance Company (together, Trans Global) who can be contacted at 1-888-226-7876 or at Suite 275, 16930-114 Avenue, Edmonton, AB T5M 3S2
- 2) Participation in the plan is OPTIONAL and coverage will not be provided unless I sign below requesting it and I agree to pay the premium calculated at 3.77% of the combined total of the amounts due on the Agreed Credit Advance Limit. This premium for this coverage is reflected on my bank statement.
- 3) I can cancel my Plan coverage at any time and I will not be charged any extra fees or penalties for canceling; and if I cancel within 10 days of signing this agreement and prior to repaying the loan, the Advance Limit Insurance Fee will be credited back to my account.
- 4) I understand that payment under this Plan is subject to exceptions, limitations and exclusions more particularly set out in the Master Policies referenced above and that they may be incompletely summarized in the Certificate of Insurance provided hereunder. Copies of pertinent provisions of the Master Policies can be obtained by contacting Trans Global.
- 5) Direct Cash will be collecting certain personal information from me and will be providing this information to Trans Global. I further understand and agree that Direct Cash, Trans Global, and the Credit Provider will use my personal information for the purposes of administering the Plan and any necessary related purposes, including collection purposes, and I consent to such collection, use and disclosure.
- 6) I understand that the beneficiary under these policies is the Advance Limit Provider that the Provider will apply any insurance money it receives, but only the money it actually received from Trans Global and the Policies to reduce the sum that I owe to the Credit Provider. I expressly consent to the Credit Provider being named as beneficiary under such policies.

Are you the applicant over the age of 72? YES \_\_\_\_\_ NO X

CUSTOMER RECEIPT  
Partial

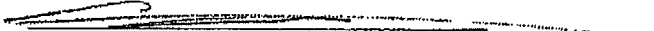
DATE: 04/24/2012

STORE	256	CUSTOMER TIMOTHY	469YEOMAN
	The Cash Store	545 DEWAN ST, APT. 201	
	UNIT A5 70 CARROLL S	STRATHROY	ON N7G 3C6
	STRATHROY	ON N7G 4G2	
	519-245-1847	Phone# 519-319-8630	
	License#	Cust# 101452	Loan# 114569
	Fax: 519-245-2867	Email: c256@csfinancial.ca	

Payment Detail  
 NSF Fee  
 Collection Fee  
 Addl Fee  
 Term Fee

Principal

Receipt # 157373  
 Employee Initials: TMM /  
 Balance owed to Lender: \$547.32

  
 Customer Signature

Thank you for coming to The Cash Store

ID# 256114569

Direct Cash  
PAYMENT PROTECTION PLAN  
CERTIFICATE OF INSURANCE

The Payment Protection Plan (the "Plan") is available only to customers of DC Bank, DC ATM Processing Partnership and DC ATM Management Partnership (collectively "Direct Cash") who have requested the optional coverage and agreed to pay the required premium referred to herein as the Loan Protector Fee. The Plan is underwritten pursuant to two Group Policies No.'s issued by Trans Global Life Insurance Company and Trans Global Insurance Company (collectively "Trans Global") to Direct Cash.

The applicable Master Group Policy Numbers are also identified on the application. In the event there is a discrepancy between this Certificate of Insurance and the Master Group Policy the Master Group Policy will prevail. Your receipt of this Certificate plus the payment of the Loan Protector Fee shown on the Customer Receipt issued to You are evidence of Your insurance under the Plan.

If You do not want this insurance and Your loan is not due nor repaid, return this Certificate within 10 days of receiving this Certificate and ask Us or Direct Cash in writing to cancel the Plan, and the Loan Protector Fee billed relating to Your loan pursuant to the Group Policies and to this Certificate will be credited to Your account with the Lender. If You have any questions or require claim information, please contact: The Trans Global Insurance Group, Suite 275, 16930-114 Avenue, Edmonton, AB T5M 3S2, Telephone 1-888-226-7876.

**MAXIMUM BENEFIT**

Maximum Benefit under the Payment Protection Plan is the lesser of the outstanding loan balance or \$3500.

**PART A - DEATH WITH DISMEMBERMENT BENEFITS (Provided by Trans Global Life Insurance Company)**

**BENEFIT**

While You are insured under the Plan and during the Loan Period, if You or your Spouse die or suffer a Dismemberment, upon due proof of Your death or Your Spouse's death or Dismemberment, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit.

**DISMEMBERMENT**

means accidental bodily injuries that are sustained directly and independently of all other causes resulting in the total and irrevocable loss of the entire sight of both eyes, or a hand or foot by complete severance through or above the wrist or ankle joint.

**EXCLUSIONS**

The Plan does not cover death resulting directly or indirectly from a Pre-existing Condition (see Part H - Definitions) or any of the exclusions listed under Part G - General Exclusions.

**PART B - ACCIDENT BENEFIT (Provided by Trans Global Life Insurance Company)**

**ACCIDENT BENEFIT**

While You are insured under the Plan and during the Loan Period, if You become disabled as a result of an accidental bodily injury, upon proof or suffer a Specified Injury (defined below) upon proof of same, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit, determined as follows:

1. If You suffer from an Accidentally or Specified Injury and advised by a licensed physician or surgeon that You are disabled and must remain off work as a result of the injury for seven (7) consecutive days We will pay the Lenders 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit. If You remain disabled and unable to work for an additional 14 consecutive days (21 days in total) We will pay the Lenders the remaining 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of

50% of the applicable Maximum Benefit. In both cases, We will require Your attending physician or surgeon to send Us a written statement, on a form provided by Us or acceptable to Us, of your inability to work due to Your total disability as a result of Your Accidental Injury or Specified Injury.

#### **SPECIFIED INJURY**

A Specified Injury is defined to be the accidental fracture of one or more of the following bones that requires fixation, metallic fixation or grafting within 7 days of the Date of Loss: Fibula, Tibia, Patella, Femur, Tarsal, Metatarsal, Radius, Ulna, Humerus, Carpal, Metacarpel, Ilium, Sacrum, Coccyx, Pubis, Ischium, Sternum, Scapula, Clavicle, Spine or Cranial Bones. Fracture of fingers and toes (Phalanges) are EXCLUDED from the list. We will require Your attending physician or surgeon to send Us a written statement, on a form provided by Us or acceptable to Us, verifying that You suffered a Specified Injury.

#### **CONDITIONS**

To be eligible for the Accident Benefit or Specified Injury, You must:

1. be gainfully employed on a full-time basis by one or more employers for at least 20 hours per week immediately prior to Your accidental disability;
2. become disabled and unable to work as a result of accidental bodily injury and remain unable to work for a period of at least seven consecutive days. Additional benefits may be payable if You remain unable to work for a total of 21 consecutive days; and
3. provide Us with a written statement from Your attending physician or surgeon, on a form provided by Us or acceptable to Us, verifying that You were totally disabled and unable to resume employment because of Your accidental injury. You may be required to provide subsequent verification of continued accidental disability. Benefits will end once your doctor allows you to return to work on a full-time, part-time, or modified basis.

#### **EXCLUSIONS**

The Plan does not pay Accident Benefits if the Specified Injury or Accidental bodily injury resulted directly or indirectly from any of the exclusions listed in Part G - General Exclusions.

**PART C - CANCER, HEART ATTACK & STROKE BENEFIT** (Provided by Trans Global Life Insurance Company)

#### **BENEFIT**

While You are insured under the Plan and during the Loan Period, if You or Your Spouse are diagnosed with Cancer, Heart Attack or Stroke for the first time in Your or Your Spouse's life, upon proof of diagnosis, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit.

#### **CONDITIONS**

1. Cancer means leukemia, Hodgkin's disease or any malignant tumor characterized by the uncontrolled growth and spread of malignant cells and invasion of tissue.
2. Heart Attack means the death of a portion of the heart muscle as a result of inadequate blood supply that has resulted in all of the following evidence of acute myocardial infarction - typical chest pain, new characteristic electrocardiographic (ECG) changes, and the characteristic rise of cardiac enzymes, troponins or other biochemical markers. Other acute coronary syndromes, including but not limited to angina, are not covered under this definition.
3. Stroke means any cerebrovascular incident, excluding transient ischemic attack (mini stroke), producing death of a portion of the brain as a result of thrombosis, intracranial or subarachnoid hemorrhage or embolization from an extracranial source and with objective evidence of a new permanent neurological deficit persisting for more than 30 days.
4. Proof of loss satisfactory to Us must be submitted within 90 days of diagnosis. The diagnosis must be made in writing by a licensed physician and be supported by medical evidence that We require, or may require.

#### **EXCLUSIONS**

The Plan does not cover any Cancer, Heart Attack or Stroke that is not the first Cancer, Heart Attack or Stroke that You or Your Spouse have suffered in Your life or that existed or was first diagnosed prior to the advance of Your loan. The Plan does not cover Cancer, Heart Attack or Stroke resulting directly or indirectly from any of the exclusions listed in Part G - General Exclusions.

**PART D - HOSPITALIZATION BENEFIT BENEFIT**

#### **BENEFIT**

While You are insured under the Plan and during the Loan Period, if You become hospitalized, in accordance with the terms and conditions of this section, upon proof of same, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit.

#### **CONDITIONS**

To be eligible for the Hospitalization Benefit, You must:

1. Become hospitalized as a result of accidental bodily injury or an unforeseen illness; and
2. Be admitted to a Hospital during the Loan Period and remain hospitalized for 48 consecutive hours or more (Hospital means any Canadian institution that has been licensed to treat patients on an in-patient, out-patient or emergency basis, that has an operating room and laboratory, and that is operated under the supervision of a staff of doctors, but excludes mental institutions; nursing, rest or convalescent homes; homes for the aged; extended care facilities; rehabilitation establishments; clinics; hospices or palliative care facilities); and
3. Submit a written statement from the Hospital where you were treated, in a form satisfactory to Us, identifying the date that You were admitted to Hospital, the date that you were released from Hospital and the reasons for your hospitalization.

**EXCLUSIONS**

The Plan does not pay the Hospitalization Benefit if:

1. Your hospitalization results directly or indirectly from any of the exclusions listed in Part G - General Exclusions;
2. Your hospitalization was scheduled or pending at the date of enrolment to this Plan;
3. You were admitted to a Hospital for any reason in the 30 day period preceding the Loan Period;

**PART E - JOB LOSS BENEFIT FOR INVOLUNTARY UNEMPLOYMENT (Provided by Trans Global Insurance Company)**

**BENEFIT**

While You are insured under the Plan and during the Loan Period, if You become involuntarily unemployed, upon proof of same, We will pay to the Lenders, as principal insured, the Job Loss Benefit to a maximum benefit of the applicable Maximum Benefit. The amount of the Job Loss Benefit varies with the length of Your employment immediately prior to your involuntary unemployment and is determined as follows:

1. If You were continuously employed by one or more employers for at least 90 days prior to Your involuntary unemployment then the Job Loss Benefit would be calculated as 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit. If You remain involuntarily unemployed for a period of 30 consecutive days and are receiving Employment Insurance benefits, the Job Loss Benefit will also include a second payment calculated at 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit.
2. If You were continuously employed with one or more employers for between 60 and 89 days prior to Your involuntary unemployment then the Job Loss Benefit would be calculated as 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit.

**CONDITIONS APPLICABLE JOB LOSS PREMIUM BENEFIT FOR LOANS.**

1. To be eligible for the Job Loss benefits, You must:
  - (a) be gainfully employed on a permanent basis for at least 20 hours per week and You must have been working for at least 60 days immediately prior to Your involuntary unemployment; and
  - (b) have been paying Employment Insurance premiums prior to Your involuntary unemployment and You must be eligible to receive Employment Insurance (EI) Benefits and You must have registered with Human Resources Development Canada to receive EI benefits within 14 days of becoming involuntarily unemployed; and
  - (c) submit proof of Your involuntary unemployment and the length of Your employment by submitting to Us a copy, or copies, of Your Record of Employment and a written statement from your employer.
2. If You are eligible for continued Job Loss Benefits You must submit proof that You have remained unemployed for 30 days and are receiving EI benefits.

**EXCLUSIONS APPLICABLE JOB LOSS PREMIUM BENEFIT FOR LOANS.**

The Plan does not pay the Job Loss Benefit if:

1. Your involuntary unemployment results directly or indirectly from any of the exclusions listed in Part G - General Exclusions;
2. Your unemployment was known to You to be impending at the time You made application for this insurance;
3. You were discharged for cause by Your employer;
4. You are seasonally employed and Your unemployment is a regular and anticipated event in Your work schedule;
5. Your unemployment is the direct or indirect result of a strike or lockout, Your resignation, Your retirement, Your death, Your maternity or parental leave, Your voluntary unemployment, or Your loss of self-employment.

**PART F - GENERAL PROVISIONS (Applicable to Parts A, B, C, D and E)**  
**ONLY ONE MAXIMUM BENEFIT**

In the event You are or may be entitled to benefits under more than one of Part A, Part B, Part C, Part D and Part E in respect of the same loan, You are entitled to submit a claim and We will pay only one (1) benefit under only one (1) of Parts A, B, C, D and E (but the greater of them), the maximum amount of which will in no case be in excess of the Maximum Benefit.

**AGE LIMITATION**

Coverage is not available prior to Your 18th birthday and terminates when You reach Your 72nd birthday (the "excluded ages"). If You are charged any premiums during the excluded ages, as a result of clerical error or if You misstate Your age, it is agreed that our liability is limited to refunding any premiums You paid during the said period.

**CERTIFICATE**

This Certificate contains all the insuring terms and conditions between You and Us. In the event of any inconsistencies or ambiguities between this Certificate and the Group Policies, the terms of the Group Policies will prevail. You may review the Group Policies at the Corporate Offices of Direct Cash.

**CLAIMS**

CLAIM FORMS may be obtained from a Cash Store or Installoan store or by calling The Trans Global Insurance Group at 1-888-226-7876.

NOTICE OF LOSS and PROOF OF LOSS in writing must be filed with US at the office address set out at the beginning of this Certificate within 90 days from the date of such loss. Failure to report a loss within the stated period of time will invalidate any claim in respect of such loss, if such delay has prejudiced our ability to confirm the validity of the claim. Costs incurred by You to obtain proof or evidence of Your loss will be at Your own expense. You will provide written authorization for Us to make inquiries of Your past and present employers and of Your medical or other health care practitioners or Hospitals, in which You were a patient, for the settlement of Your claim as We consider necessary. All proper claims covered by this Plan will be paid by US regardless of any other insurance You may have; however, We will pay only one claim benefit under this Plan. You must cooperate with the Lender when making a claim.

**PREMIUM CHARGE -**

Is the premium charge for loans for each month or a portion of a month as shown on the Customer Receipt that You have signed.

**TERM AND TERMINATION -**

This insurance is effective after You have signed to accept it and Your loan has been advanced; and unless an insurable loss hereunder has already become payable, will end the sooner of:

1. the date You repay Your indebtedness to the Lenders, or
2. the date We or Direct Cash receive Your written request to end this insurance coverage, or
3. 11:59 p.m. on the day on which your loan is due, Coverage under this Certificate ends on the due date any required payment is not made by you on or before such due date but will be automatically reinstated upon your Loan being made current and all payments due have been made or
4. 10 days from the date on which We or the Lenders send You written notice to Your last known address, to cancel this insurance.

**BENEFICIARY**

You agree that the Benefits payable under Parts A, B, C, D and E of the Plan shall be paid to the Lender, as irrevocable Beneficiary under the Master Policy. The Lender is obliged to apply the Benefits towards the outstanding amount of Your Total Indebtedness. However, interest continues to run on Your Total Indebtedness until paid in full, notwithstanding any delay in receipt by the Lender of the Benefits hereunder.

**LEGAL PROCEEDINGS**

No legal action may be brought against Us, unless it is brought within 12 months after the Date of Loss or the shortest applicable limitation period established by law, whichever is earlier.

**PART G - GENERAL EXCLUSIONS (Applicable to Parts A, B, C, D and E)**

What we Exclude: No benefits will be paid under this Plan if the loss was, directly or indirectly, caused by:

1. a suicide or an attempted suicide, while sane or insane;
2. an intentionally self-inflicted injury;
3. the commission, or attempted commission, by You of an illegal act;
4. military service, declared or undeclared war, or any nuclear, chemical, or biological contamination resulting from an act of terrorism;
5. alcohol, substance or solvent abuse, or the taking of drugs except where prescribed by a licensed doctor and taken as directed.

**PART H - DEFINITIONS (Applicable to Parts A, B, C, D and E)**

YOU, YOUR and YOURSELF mean the borrower or customer whose name appears on the Customer Receipt and who is the primary person responsible for the outstanding debt, and excludes any Co-signer. WE, US and OUR mean the Trans Global Insurance Group.

**TOTAL INDEBTEDNESS**

is the total of the Loan Amount, Broker Fee, Interest Fee, and Loan Protector Fee premium along with any applicable provincial sales tax as shown on the Customer Receipt issued to You by a Cash Store or Installoan store.

**LOAN PERIOD**

means the period of time beginning with the advance of Your loan and ending at 11:59p.m. on the required date of repayment as shown on Your Customer Receipt.

**DATE OF LOSS**

means the date of the insured event or occurrence giving rise to a claim under the Plan.

**PRE-EXISTING CONDITION**

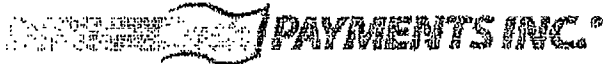
means any sickness or injury for which You received medical advice, consultation, diagnosis, investigation, or for which treatment was required or recommended by a doctor during the 6 months prior to the Loan Period.

**Spouse**

means Your Spouse that You are married to; or Your partner in a common-law relationship of the same or opposite sex, who although not legally married to each other, have continuously co-habitated in a marriage like relationship for at least the last 12 months. If You are a single, widowed, divorced or separated individual that is supporting a minor dependent who lives in the same household, for purposes of providing benefits under Part A and C of this Plan, We will consider that minor to be Your Spouse.

Trans Global Life Insurance Company  
Ian Burns Vice President

Trans Global Insurance Company  
Ian Burns Vice President



**WALLET AGREEMENT**

among

DirectCash ATM Processing Partnership ("DCP"),  
DirectCash ATM Management Partnership ("DCM"),  
(collectively referred to as "DirectCash"),

DirectCash Bank ("DCBank"), and

the "Customer" noted below

Toll Free Phone: 1-866-231-0373  
Toll Free Fax: 1-866-777-5519  
Web Site: www.directcash.net

Date: 2012/04/24	Merchant: CASH STORE LOANS	Merchant Location Name: Cash Store Financial C256 LN	Store Number: 1829
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**CUSTOMER INFORMATION & AGREEMENT**

The undersigned Customer acknowledges having read the entire agreement and accepts the terms and conditions set out below. DirectCash's and DCBank's acceptance of this agreement (if fully completed) shall be evidenced by the issuance of a Prepaid Card to Customer and the activation of that Prepaid Card for use by Customer.

Additionally, if the undersigned Customer is opening a bank account with DCBank, then the Customer acknowledges that the Customer has reviewed the DC Bank account agreement terms (either through a written form provided when Customer applied for the account or the online version available at www.dcbank.ca) (the "Account Agreement Terms") and hereby agrees with DCBank that the Account Agreement Terms will govern the arrangements between DCBank and Customer (as supplemented by this Agreement in connection with the issuance and use of a Prepaid Card associated with the Customer's account). Customer acknowledges that the Account Agreement Terms include provisions whereby DCBank may change the terms and that the Account Agreement Terms set out the means by which DCBank may notify Customer of these changes.

Customer First Name: TIMOTHY	Customer Middle Name: J	Customer Last Name: YEOMAN	Customer Phone Number (Home): (519)3198630	Customer Phone Number (Work or other):
Customer Street Address: 546 DEWAN ST.	City: STRATHROY	Province: ON	Postal Code: N7G3C6	
Customer Occupation: Production Worker - Factory	Customer Birthdate: 1982/04/27	Customer Email:		
Customer's Signature:	Purpose For The Prepaid Card/Account: ATM Access	Are you a "Politically Exposed Foreign Person" or "Politically Exposed Canadian Person" (see definitions below)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**TYPE OF PREPAID CARD**

Interac Debit Prepaid Card		MasterCard Credit Prepaid Card	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Standard (1) Debit Card	DCBank Account(2) Debit Card	Standard (1) MasterCard	DCBank Account(2) MasterCard

- "Standard" Debit Cards and Mastercards are cards issued where the Customer does not have an individual bank account (or account agreement) with DCBank that is tied to the Prepaid Card. The "Advance Limits" associated with all of these types of cards are EFT transferred/deposited into pooled/consolidated trust accounts at DCBank (issued in the name of DirectCash as trustee/agent for all of the cardholders).
- Additional monthly fees apply for the optional "DCBank Account Debit Card" and the "DCBank Account MasterCard" (see below). For both of these types of cards, the Customer opens a bank account with DCBank and positive balances on the card are reflected as positive balances in the Customer's DCBank bank account. For these types of cards, Customer is entering into an account agreement with DC Bank (see above) governing matters related to the account issued in the name of the Customer at DC Bank. In both cases, (i.e. Customer has a linked bank account open at DCBank), the Advance Limit will qualify for CDIC deposit insurance (subject to CDIC limits). **NONE OF THE OTHER 2 TYPES OF CARDS QUALIFY FOR CDIC INSURANCE OR ANY OTHER BANK ACCOUNT SERVICES OFFERED FROM TIME TO TIME BY DCBANK.**

**CURRENT FEES(1) & PROGRAM DETAILS**

ATM Cash Advance:	\$2.95	Debit Card Funds Transfer:	\$2.25	Requested Transaction Decline:	\$0.50	Balance Inquiry:	\$1.75
U.S. ATM Cash Advance:	\$2.95	U.S. Debit Card Funds Transfer:	\$2.25	U.S. Requested Transaction Decline:	\$1.80	IVR Balance Inquiry Fee:	\$1.50
Inter. ATM Cash Advance:	\$2.95	Inter. Debit Card Funds Transfer:	\$2.25	Inter. Requested Transaction Decline:	\$4.05	% Fee On All International Trans:	2.5%
Card Activation (first time) Fee:	\$8.00	Additional Advance Limit EFT/Added (Card Load) (2):	\$3.50	Deactivation Fee:	\$3.00		
Monthly Fee for DCBank Account(3):	\$9.95	Monthly Fee Per Interac Debit Prepaid Card(3):	\$29.95	Monthly Fee Per MasterCard Credit Prepaid Card (3):	N/A		
Monthly Dormant Account Fee(3):	\$10.70	Negative Balance (Overdraft) Fee (4):	\$0.00	Statement Fee:	\$0.00		
				Live/Telephone Customer Service (CSR):	\$2.50		



- (1) All fees are quoted on a net basis. GST, HST and PST are either inapplicable or the fees are presented on a "GST, HST and PST Included" basis. Therefore, the quoted fees include all GST, HST, PST and other taxes chargeable on the individual fees. DirectCash ATM Processing Partnership's GST/HST Number is R6418 5822. Fees include the standard banking or credit card network transaction fees charged to DirectCash or DCBank in connection with the use of the Prepaid Card. Other additional fees may apply in connection with outlet specific surcharges for use of ATMs and debit card terminals, in which case such fees will be charged to the Customer and will reduce against the remaining Advance Limit left on the Prepaid Card (In addition to the DirectCash Service Charges listed above). Fees (and methods of calculating and collecting any applicable taxes) may be changed by DirectCash from time to time.
- (2) Current limit on the Daily Advance is \$1,000.
- (3) If there is more than 1 Advance Limit authorized for a Prepaid Card, only 1 monthly fee will be charged. This fee applies to both active and deactivated Prepaid Cards.
- (4) Overdrafts (going into a negative balance) on a Prepaid Card is not permitted. However, a negative balance might occur but might occur if the Customer uses the Prepaid Card for Pre-Authorized Transactions (for example). In such cases Customer will be required to pay the overdraft amount plus this fee.

**DCBANK ACCOUNT VERIFICATION CHECKLIST (SIGNED BY AGENT OF DCBANK IF BANK ACCOUNT ALSO OPENED)**

- |                                                             |                                                                           |
|-------------------------------------------------------------|---------------------------------------------------------------------------|
| <input type="checkbox"/> Primary ID reviewed and complies   | <input type="checkbox"/> Copy of DCBank Account Agreement Terms Delivered |
| <input type="checkbox"/> Secondary ID reviewed and complies |                                                                           |

The undersigned representative for an agency/service bureau authorized to carry out bank account opening related services hereby certifies that (a) I have personally met with the Customer identified above (who is applying to open a bank account); (b) I examined 2 original pieces of acceptable (acceptable as per DCBank's policies) identification, one of which includes a picture of the Customer and was issued by a Federal or Provincial government in Canada, (c) the identification documents presented were not substantially damaged and did not appear to be altered and were in the same name as the name of the Customer above.

Name of Agent's Representative (print):

Date:

Signature of Agent's Representative:

**WALLET AGREEMENT TERMS AND CONDITIONS**

**1. Parties and Definitions.** By executing this Agreement and delivering it to DirectCash or to one of DirectCash's authorized distributors/merchants (a "Merchant") or using the Prepaid Card, the person identified above (the "Customer") is entering into an agreement with DirectCash and DCBank in respect of the matters set out herein. The delivery of a DirectCash branded ATM/Debit card or DirectCash MasterCard® card (each referred to as a "Prepaid Card") to the Customer shall constitute DirectCash's acceptance of this agreement. No alterations to this Agreement may be made without DirectCash's prior written approval (no Merchant has authority to agree to any such alterations on DirectCash's or DCBank's behalf). In this Agreement the words "You" or "Your" mean the Customer and any other person who gains access to the Prepaid Card and authorizes an advance/funds transfer transaction using the Prepaid Card (with or without the Customer's consent - see "Prepaid Card & PIN Care & Control" and "Authorized, Unauthorized or Fraudulent Use" and "Lost or Stolen Prepaid Card"). The Customer should keep a copy of this Agreement with the Customer's important records. Each Prepaid Card is issued by DCBank under authorization from the applicable banking or credit card network.

In this Agreement a "Politically Exposed Person" ("PEP") means (A) any person who holds or has ever held one of the following offices or positions in or on behalf of a country: (1) a head of state or government, (2) a member of the executive council of government or member of a legislature, (3) a deputy minister (or equivalent), (4) an ambassador or an ambassador's attach or counsellor, (5) a military general (or higher rank), (6) a president of a state owned company of bank, (7) a head of a government agency, (8) a judge, or (9) a leader or president of a political party in a legislature; or (B) any of the following family members of an individual described in (A)(1)-(9): (i) mother, (ii) father, (iii) spouse, (iv) common law partner, (v) spouse's or common law partner's mother or father, (vi) brother, (vii) sister, (viii) half-brother, or (ix) half-sister, (in all cases regardless of citizenship, residence status, or birth place). "Politically Exposed Canadian Person" or "Domestic PEP" means a PEP in/from/related to Canada. A "Politically Exposed Foreign Person" ("PEFP") means a PEP in/from/related to a country outside of Canada.

As indicated above, Customer represents to DirectCash and DCBank that the Customer is not a Politically Exposed Foreign Person or a Politically Exposed Canadian Person.

**2. Registration.** To receive a Prepaid Card the Customer must complete the registration process by providing DirectCash and DCBank (through the Merchant where applicable) with current, complete and accurate information as prompted by the registration form. The Customer agrees that any registration information which the Customer provides to DirectCash and DCBank shall be updated whenever the same is changed so that DirectCash's and DCBank's records are always current.

**3. Instant Issue Card.** In the case of MasterCard® Prepaid Cards only, DCBank (or a Merchant) may provide the Customer with a temporary "Instant Issue" MasterCard® Prepaid Card (an "Instant Issue Card") issued by DCBank. Subsequently DCBank may issue to the Customer by mail (to the address the Customer provides to the Merchant) a permanent MasterCard Prepaid Card with the Customer's name on it ("Permanent Card"). In this Agreement, the term "Prepaid Card" includes both an Instant Issue Card and the Permanent Card. The Instant Issue Card will operate until the earlier of 1 year from the date of issue and the date the Customer activates the Permanent Card. The Customer should sign the back of each MasterCard Prepaid Card immediately upon receipt.

**4. Prepaid Card Transaction Capabilities/Services.** Once the Customer has successfully completed the registration process, the Customer will be given custody of a Prepaid Card and may be provided (depending on the type of Prepaid Card) with a secret personal identification number or password ("PIN") that corresponds to the Prepaid Card. Depending on the type of transaction and the type of Prepaid Card several different types of transactions could be completed with a Prepaid Card. In all cases the transactions that can be authorized with a Prepaid Card are limited by the remaining amount of the advance limit authorized for that Prepaid Card from time to time (the "Advance Limit") less applicable service fees.

Both Interac™ based and MasterCard® based cards can provide access to any automated teller machine (an "ATM") which displays the applicable Interac™ logo or MasterCard® logo or the logo of an international network that routes transaction requests to Interac™ or MasterCard® to obtain cash advances. Completing this kind of transaction requires that the Prepaid Card be swiped and the secret PIN be entered. The minimum cash advance is determined by the dispensing capability of each ATM.

Interac™ based cards allow the Customer to use any direct payment terminal (a "Debit Card Terminal") which displays the Interac™ logo or the logo of an international banking network that routes transaction requests to Interac to facilitate the purchase of goods/services. Completing this kind of transaction requires that the Prepaid Card be swiped and the secret PIN be entered.

MasterCard® based cards allow the Customer to use any credit card terminal (a "Credit Card Terminal") which displays the MasterCard® logo or the logo of an international banking network that routes transaction requests to MasterCard® to facilitate the purchase of goods/services. Completing this kind of transaction requires that the Prepaid Card be swiped and may also require that the Customer provide a signature.

MasterCard® based cards allow the Customer to authorize payments without physically presenting the Prepaid Card ("Electronic Transactions"). Electronic Transactions could take the form of internet purchases, telephone purchases or fax purchases. Additional requirements may apply for Electronic Transactions (which may vary by transaction size, transaction type, merchant rules or other requirements) which may include provision of a PIN number or the disclosing of an additional security code printed on the Prepaid Card. When Prepaid Card is used to carry out an Electronic Transaction or mail order transaction (i.e. where the Prepaid Card is not physically presented), the legal effect of (and the Customer's liability for) the transaction are the same as if the Prepaid Card was physically presented in person by the Customer.

When a Customer presents a Prepaid Card to some goods/services providers, those goods/services providers may request a transaction authorization in advance and may estimate its final value not knowing what the actual final charge will be or whether there will be a charge at all (a "Pre-Authorized Transaction") (such as restaurants, rental car companies, hotels) ("Pre-Authorizing Retailers"). Not all networks permit Pre-Authorized Transactions (as of September 2011, this was permitted only through MasterCard® Prepaid Cards). DirectCash or DCBank may identify certain types of goods/services providers as being Pre-Authorizing Retailers which frequently authorize higher dollar amounts as compared to the originally estimated amount. Additionally, under applicable network rules it may be possible for a goods/service providers to specifically identify a transaction as being a Pre-Authorized Transaction. When the Customer requests authorization of a transaction which DirectCash or DCBank identifies as a Pre-Authorized Transaction DirectCash might: (a) refuse the transaction if there is not a specified percentage/amount of remaining Advance Limit associated with the Customer's Prepaid Card; and/or (b) put a hold on any further authorizations with the Prepaid Card for a period of time to provide time to determine whether the final actual charges put through for the Pre-Authorized Transaction will exceed the estimated amount. Applicable network rules determine how many days (15 days for MasterCard transactions as of September 2011) after the original estimate Pre-Authorized Transaction is entered the Pre-Authorizing Retailer can enter a follow up transaction with the actual amount (the "Authorization Deadline"). Applicable network rules also determine by what percentage (120% for MasterCard transactions as of September 2011) of the original estimated Pre-Authorized Transaction that the Pre-Authorizing Retailer is limited to when entering the follow up transaction (the "Authorization Limit"). DirectCash will typically put a hold on an amount of funds equal to the Authorization Limit until the Authorization Deadline (unless the Pre-Authorizing Retailer actually enters a cancellation request for the original Pre-Authorized Transaction. DirectCash will set the amounts and duration of holds put on funds in accordance with applicable network rules.

The Customer acknowledges that once a Pre-Authorized Transaction is approved for the Customer's Prepaid Card, the Authorization Limit will be unavailable for the Customer to use until the Authorization Deadline elapses without a follow up transaction being entered. For example, if the Customer allows a restaurant, rental car company, hotel, etc. to process a Pre-Authorized Transaction on the Customer's Prepaid Card, an amount equal to the Authorization Limit (for example 120% of the original amount) will not be useable by the Customer until after the Authorization Deadline (for example 15 days), even if the Customer ultimately never owes the restaurant, rental car company, hotel, etc. any money. If the ultimate amount DirectCash or DCBank is required to pay to a Pre-Authorizing Retailer is greater than the amount set aside by DirectCash or DCBank then the excess must be paid by Customer. If the Prepaid Card goes into negative balance/overdraft (i.e. the amount paid by DCBank/DirectCash exceeds the available Advance Limit at the time) then the Negative Balance/Overdraft Fee shall apply and Customer shall be required to repay the overdrawn amount.

In respect of all types of transactions, DirectCash and DCBank may also set limits for (a) maximum dollar amount of loads per day, (b) maximum number of loads per day, (c) minimum balance to keep card active, (d) maximum dollar amount of Electronic Transactions per day, (e) maximum number of Electronic Transactions per day, (f) maximum dollar amount of ATM withdrawals per day, (g) maximum number of ATM withdrawals per day, and (h) absolute maximum on useable Advance Limit on one card. These limits may be changed by DirectCash or DCBank from time to time.

A requested transaction may be refused by DirectCash or DCBank if the remaining Advance Limit left on the Prepaid Card is not sufficient to cover the amount of transaction and all applicable service fees. If a Prepaid Card transaction is reversed by a goods/services provider for some reason (including, for example, a refund for returned goods), the amount of the reversal shall be added back to the Advance Limit but any Service Fees previously charged are not reversed.

For certain types of cards and transactions DirectCash and DCBank may limit the transactions to those denominated in Canadian Dollars. If non-Canadian currency advances/funds (transfers are permitted, cash advances and purchases in non-Canadian currency will be subject to (a) different (usually higher) transaction fees, (b) a percentage surcharge fee based on the dollar value of the transaction; and (c) currency conversion rates set by DirectCash and DCBank from time to time (which may include a profit margin for DirectCash and DCBank).

DirectCash and DCBank may from time to time restrict the use of the Prepaid Card so that it only may be used in certain locations/countries. From time to time, DirectCash and DCBank may enable or disable the ability of the Prepaid Card to work in certain locations/countries.

**5. No Credit Provided.** Prepaid Cards do not include any ability for the Customer to borrow funds from DirectCash or DCBank by going into a negative balance on the Prepaid Card. If Customer receives cash in an ATM withdraw or completes a purchase transaction in excess of the remaining Advance Limit through error or mistake of DirectCash, DCBank or otherwise, DirectCash and DCBank may correct such error when discovered and adjust the balance available on the Prepaid Card. Customer agrees to reimburse DirectCash and DCBank for any excess cash or credit received forthwith upon demand.

**6. No Individual Deposit or Account & No CDIC Insurance.** Generally (i.e. for 2 out of the 4 kinds of Prepaid Cards), the funds (if any) or other consideration provided by (or for) the Customer to cause the Advance Limit associated with the Prepaid Card does not establish a separate individual deposit account held for the Customer by DirectCash, DCBank or any Merchant. Generally, the "Advance Limits" associated with all of these types of Prepaid Cards are EFT transferred/deposited into pooled/consolidated trust accounts at DCBank (issued in the name of DirectCash as trustee/agent for all of the cardholders). For these 3 of the types of Prepaid Cards, the Advance Limit associated with the Prepaid Card is not insured by the Canada Deposit Insurance Corporation.

However, IF (AND ONLY IF) the Customer is a DCBank account holder and the Prepaid Card is a debit card formally attached to the Customer's individual account with DCBank, then the unused Advance Limit deposited in the Customer account shall constitute an individual deposit and will qualify for CDIC insurance.

**7. No Interest On Advance Limit.** The Customer will not receive interest on the Advance Limit for the Prepaid Card.

**8. Web Site Access.** At the time that the Customer receives a Prepaid Card, the Customer may also be given the opportunity to set a password (the "Internet Password") which will enable the Customer to access certain information concerning the Prepaid Card and activities related to the Prepaid Card using an internet connection to access DirectCash's web site. The Internet Password should not be the same as the PIN and it is not currently anticipated that the web site access will be useable for anything other than access to information (i.e. the web site may not be set up to accept instructions for funds transfers). The Customer shall be responsible for any changes made to the information maintained by DirectCash in reliance upon internet communications received by DirectCash that are sent using the Customer's Internet Password. The Customer should assure that the Customer follows the same security precautions for the Internet Password as required for PINs.

**9. Prepaid Card Status.** The Prepaid Card (pursuant to applicable network regulations) remains the property of DCBank (i.e. the issuer of the Prepaid Card). Although DCBank has engaged DirectCash as a service bureau to carry out various functions on behalf of DCBank, DCBank remains financially responsible for the deposits of the Advance Limits associated with the Prepaid Cards once they are made.

**10. Wallet Additions.** The Customer may take any Prepaid Card to any Merchant authorized by DirectCash, and subject to the requirements of DirectCash and that Merchant, may arrange for additional amounts to be EFT transferred/added to the Advance Limit authorized for the Prepaid Card (a "Wallet Addition"). DCBank and DirectCash may also establish means for certain types of Prepaid Cards to deposit the Wallet Addition directly with DCBank, including by way of Electronic Funds Transfer ("EFT"). If Customer arranges for amounts to be EFT transferred/added to the Advance Limit associated with a Prepaid Card, the Advance Limit is not added to the Prepaid Card unless and until DirectCash or DCBank receives the actual funds (or other security acceptable to DCBank and DirectCash) from the Merchant where the Customer initially provides the funds to a Merchant or from the Customer where the Customer provides the funds directly to DCBank.

**11. Transaction Records & Errors.** Customer should receive a paper record of each transaction for which Customer uses the Prepaid Card. It is Customer's responsibility to obtain such record and ensure that it is accurate. DirectCash and DCBank are not responsible to provide Customer with any transaction record or periodic statement. If Customer identifies an error in any transaction record, the Customer must address such error with the applicable goods/services provider (i.e. POS device operator) or ATM operator. Furthermore, the Customer must notify DirectCash by calling toll free at the number indicated above or go online at web site indicated above within 30 days after the receipt was issued on which the problem or error appeared, failing which DirectCash and DCBank will have no responsibility to assist the Customer to rectify the situation.

**12. No Liability for Disputes with Vendors/ATM Cash Dispensers.** None of DirectCash, DCBank or the Merchant that delivered Prepaid Card will be liable in any way for any dispute arising out of the purchase of merchandise or services using the Prepaid Card or the failure of any goods/services provider to honour the Prepaid Card or the failure of an ATM machine to dispense cash. None of DirectCash, DCBank or the Merchant will be responsible for any failure to supply, lack of suitability or quality of any goods or services purchased from goods/services providers through the use of the Prepaid Card. None of DirectCash, DCBank or the Merchant will be liable for any action of failure to act of a goods/services provider or a refusal by a goods/services providers to honour the Prepaid Card whether or not such failure or refusal is as a result of any error or malfunction of equipment used to effect an authorization of the Prepaid Card. DirectCash and DCBank will not be liable for any damage, loss or inconvenience Customer may incur if Customer is unable to use the Prepaid Card as a result of any failure, error, malfunction or technical problem with or at a Merchant's or a goods/services provider's systems or equipment, or with an ATM, Debit Card Terminal or Credit Card Terminal.

**13. Prepaid Card & PIN Care & Control.** The Customer is solely responsible for care and control of the Prepaid Card and any associated PIN and password and is responsible for the full amount of all activity resulting from use of the Prepaid Card by any person (including any use of the Prepaid Card by persons to whom the Customer has made the Prepaid Card, PIN or password available).

Where a PIN number is issued with a Prepaid Card, Customer's Prepaid Card security depends on keeping physical security over the card (including avoiding situations where card information can be skimmed) and keeping the PIN secret. The Customer must never keep a record of the PIN near a Prepaid Card. The Customer must memorize the PIN and not tell anyone the PIN (including family members or friends). The Customer must ensure that no one finds out the PIN, including while the Customer keys in the PIN at an ATM or a Debit Card Terminal or Credit Card Terminal. The Customer should avoid selecting PIN combinations that may be easily determined by others. The Customer is liable for all transactions incurred using the PIN.

MasterCard® Prepaid Cards may facilitate a greater variety of transaction types (as compared to Interac™ Prepaid Cards). However, purchases with a MasterCard® Prepaid Card do not necessarily require the provision of a PIN number to complete the purchase (presentation of the card and signature may be all that is required).

Therefore, a MasterCard® Prepaid Card and the identifying numbers identified on the card should be treated with the same security as if it were cash. Also, purchases over the telephone, the internet or other electronic means may be possible which would not require the presentation of the MasterCard® Prepaid Card or a signature (i.e. provision of the card number may be all that is required). The Customer is responsible for all purchase transactions carried out using a MasterCard® Prepaid Card or card number of a MasterCard® Prepaid Card. The Advance Limit will be decreased by the amount of all purchase transactions carried out using the MasterCard® Prepaid Card or the card number of the MasterCard® Prepaid Card whether or not the Customer believes that the Customer authorized the purchase transactions or not. Therefore, the Customer should take great care to assure that a MasterCard® Prepaid Card is not lost and that the numbers on the card are not provided to others.

**14. Use of Card, Not For A Third Party.** The Customer represents that the reason that the Customer requires the Prepaid Card (and any associated account) is as set out under "Purpose For The Prepaid Card/Account" above. Customer covenants and agrees that the Prepaid Card will only be used for such specified purpose. The Customer also represents and agrees that Customer is not obtaining the Prepaid Card on behalf of a third party and that Customer will maintain possession and control over the Prepaid Card and will not allow any third parties to possess or use the Prepaid Card.

**15. Authorized, Unauthorized or Fraudulent Use.** The Customer is also responsible for the full amount of authorized and unauthorized activity resulting from the use of the Prepaid Card including due to fraudulent activity or theft of the Prepaid Card which occurs before the Customer provides DirectCash with actual notification that the Prepaid Card has been lost or stolen, provides necessary identification information, and DirectCash has been able to "deactivate" the Prepaid Card on the applicable banking or credit card system.

**16. Prepaid Card Deactivation or Advance Limit Reductions.** DirectCash and DCBank may reduce the Advance Limit authorized for the Prepaid Card if DirectCash is notified by a Merchant that the Customer has violated the agreement pursuant to which such Merchant provided the Prepaid Card to the Customer or authorized a Wallet Addition (including an EFT) for the Prepaid Card. Without limitation, if a cheque endorsed by the Customer in favour of the Merchant is not paid in full to the Merchant upon presentation (for whatever reason), the Merchant may direct DirectCash to reduce the Advance Limit of the Prepaid Card whereupon DirectCash's obligation to cause the authorize ATM Cash advances and Debit Card Terminal or Credit Card Terminal funds transfers to goods/services providers authorized by Customer shall be reduced accordingly. The Customer hereby irrevocably agrees that DirectCash and DCBank may accept any instructions received from any Merchant to reduce the Advance Limit for the Prepaid Card and that the Customer's sole recourse for such reduction in the Advance Limit, if any, shall be from such Merchant. Furthermore, DirectCash's obligation to authorize advances is subject to receipt from the Merchant of security (in the form of cash payment or other security acceptable to DirectCash) to cover all advances and service charges deductible hereunder. If the Merchant fails to provide or replenish such security then DirectCash may unilaterally reduce the Advance Limit and in such event the Customer's sole recourse shall be against the Merchant.

DirectCash and DCBank may in DirectCash's and DCBank's discretion refuse a request for authorization of any Prepaid Card transaction or may deactivate the Prepaid Card without notice and may notify third parties of such refusal or deactivation as DirectCash determines is necessary. The Prepaid Card always remains the property of DCBank. If DirectCash or DCBank asks the Customer to return the Prepaid Card, the Customer must do so immediately at the Customer's cost.

**17. DirectCash Record Correction.** If DirectCash or DCBank discovers that DirectCash or DCBank has added to the Prepaid Card's Advance Limit by mistake or made any other errors or omissions in connection with the activity related to the Prepaid Card, DirectCash and DCBank may reduce (or increase) the Advance Limit of the Prepaid Card to correct such error when it is discovered. If the Customer has used the Prepaid Card to facilitate advances/funds transfers using the Advance Limit added to the Prepaid Card in error, then the Customer shall repay the amount of the Advance Limit used to DirectCash on demand.

**18. Lost or Stolen Prepaid Card.** If the Prepaid Card is lost or stolen, the Customer should contact DirectCash or the Merchant from whom the Customer originally received the Prepaid Card. On receiving notice, DirectCash will promptly deactivate the Prepaid Cards ability to be utilized for further transactions. The Customer will be required to provide identification satisfactory to DirectCash before DirectCash can act on the Customer's instructions. Part of the identification process may require the Customer to correctly answer questions based on personal information set out in this Agreement or entered into DirectCash's database as part of the registration process - failure to answer such questions correctly may result in DirectCash refusing the Customer's deactivation instructions. Any transactions authorized using the Prepaid Card before DirectCash receives the necessary notice, verifies the Customer's identity, and enters the necessary deactivation codes into the system will reduce the remaining available Advance Limit of the Prepaid Card and will be solely the Customer's responsibility. Such losses if they occur are not insured.

**19. No Responsibility for Purchased Goods/Services.** None of DirectCash, DCBank or the Merchant is responsible for any failure to supply or lack of suitability or quality of any goods or services purchased from goods/services providers using funds transfers authorized through the Prepaid Card. The Customer will settle directly between the Customer and the goods/services provider any dispute with respect to any such purchase and any such claim or dispute shall have no effect on the reduction to the Advance Limit carried out when the transaction was authorized.

**20. Fees, Service Charges & Program Details.** DirectCash's and DCBank's current service charges for the services that DirectCash arranges through the use of the Prepaid Card will be charged to the Customer and will result in a reduction of the Advance Limit left on the Prepaid Card. The Customer agrees to pay to DirectCash or DCBank all relevant service charges (including all transactions imposed by others in connection with the use of Prepaid Card). Without limitation, fees may be charged for Prepaid Card issuance, Prepaid Card loading and reloading, monthly maintenance, transaction fees, ATM fees, Prepaid Card replacement, de-activation, re-activation, Prepaid Card statements, and any other fees published as described herein. DirectCash and DCBank may establish loyalty programs or rewards apply to the Prepaid Card from time to time. Please see the Current Fees & Program Details Table above for the current amount of DirectCash's and DCBank's common fees, service charges and any applicable loyalty

programs or rewards. Fees, service charges, loyalty programs and rewards may be added, discontinued or changed by DirectCash and DCBank from time to time by posting notice on the DirectCash website (see above) and such additions, discontinuations and changes will become effective 10 days after publication thereon (the "Effective Date"), whether or not the Customer has actually received such notice. By use of the Prepaid Card after the Effective Date, the Customer agrees to the additions, discontinuations and changes to the fees, services charges, loyalty programs and rewards.

**21. Prepaid Card to be Used for Legal Purposes Only.** The Customer will not use the Prepaid Card for legal, fraudulent or defamatory purposes or take any steps which could undermine the security or integrity of any credit card network, banking network, financial institution or the systems of DirectCash or DCBank.

**22. Dormant Prepaid Card.** The Customer acknowledges and agrees that DirectCash and DCBank may deactivate the Prepaid Card if no advance funds transfer has been authorized using the Prepaid Card for a 12 month period. Upon deactivation of the Prepaid Card pursuant to this provision, the Customer's ability to carry out transactions using the Prepaid Card will be suspended. Upon receipt of satisfactory identification and payment of applicable service fees, DirectCash will issue to the Customer a replacement Prepaid Card (or may reactivate the old Prepaid Card if the Customer still has it) with an Advance Limit equal to the limit of the old Prepaid Card at the time of its deactivation less any applicable service charges incurred in the interim. The current monthly service charge to be applied against Prepaid Cards is set out in the Fee Table.

**23. DirectCash is Service Bureau For DCBank.** The Prepaid Card (whatever the type) is issued by DCBank. As such DCBank has various statutory obligations to the Customer as the end user of the Prepaid Card including the liability to the Customer for the aggregate value (i.e. the "Advance Limit" as defined in this Agreement) of the Prepaid Card. DCBank has designated DirectCash as DCBank's service bureau for carrying out certain limited functions related to the running of the systems necessary for the Prepaid Card to work.

**24. Liability.** DirectCash and DCBank will not be liable for any damages (including special indirect or consequential damages) resulting from any failure, error, malfunction or inaccessibility of any ATM, Debit Card Terminal or Credit Card Terminal or any failure, error or delay in providing any ATM cash advances or completing other transactions with the Prepaid Card even if DirectCash or DCBank knew that damage was likely or the damage was a result of DirectCash's or DCBank's negligence or the negligence of their employees, agents or representatives.

DirectCash and DCBank shall not in any way be liable for any accident, act of aggression, theft, loss or damage the Customer may suffer while using the Prepaid Card. The Customer is responsible for any errors which result from the Customer having incorrectly selected the dollar amount or other information required for operation of the services related to the Prepaid Card.

The Customer agrees to pay DirectCash and DCBank for any cost to recover amounts that the Customer owes to DirectCash or DCBank. These costs include legal fees on a solicitor and his own client basis as well as those reasonable counsel fees charged by DirectCash's legal and collections department. If the Customer fails to pay DirectCash's and DCBank's costs, DirectCash and DCBank may direct funds available under any Advance Limit to the payment of such costs.

**25. Dispute Resolution.** DirectCash's and DCBank's transaction records shall be conclusive proof of the transactions carried out using the Prepaid Card. Subject to Section 16 (record correction) the Customer will be deemed to have approved all transactions authorized using the Prepaid Card.

There are various methods available to the Customer to report errors or to notify DCBank when the Customer disputes a transaction. There are also various government agencies which oversee chartered banks in Canada and which may be contacted if a Customer is not satisfied with the outcome when a dispute or error is brought to DCBank's attention. These methods (and the expected time frame to address complaints) and the contact information for the applicable government agencies is set out in the "Dispute Resolution Policy" available for download at DCBank's web site (<http://www.dcbank.ca>).

**26. Notice & Communication.** DirectCash or DCBank may effect notice to the Customer specifically by regular mail postage prepaid to the street mailing address or email address last provided by the Customer to the Merchant or DirectCash. Alternatively, DirectCash or DCBank may effect notice to the Customer as part of a class of cardholders by posting notice on the DirectCash (or DCBank) website. Notice will be deemed to be received by the Customer (a) 10 days after mailing to a street mailing address, or (b) the next business day after electronic mail or (c) 10 days after posting on the DirectCash or DCBank web site. The Customer may notify DirectCash and DCBank by regular mail, fax or by delivering notice to DirectCash or DCBank at the DirectCash website (other than notification of a lost or stolen Prepaid Card, which may only be done by telephone as set out above). Such notice to DirectCash or DCBank will be deemed to be received: (a) on the next business day after electronic mail through the DirectCash website, (b) on the next business day after successful sending of a fax to DirectCash, or (c) on the next business day after actual receipt by DirectCash or DCBank of mail sent to DirectCash's Calgary, Alberta head office street address.

Any Electronic Communication between the Customer and DirectCash or DCBank will take place according to the provisions of this Section. The term "Electronic Communication" means any communication of instructions by telephone, wire or other method of telecommunication or electronic transmission, including a facsimile transmission or personal computer. DirectCash and DCBank will consider any Electronic Communication apparently received from the Customer or in the Customer's name to be duly authorized by the Customer. The Customer authorizes DirectCash and DCBank to rely on and act on any such communication. If the communication is by facsimile transmission, DirectCash and DCBank will be entitled to act upon any signature purporting to be Customer's signature. If DirectCash or DCBank tries to verify Customer's signature on a facsimile transmission or the validity of any instructions Electronically Communicated (though DirectCash and DCBank are not obligated to do so) and is unable to do so to DirectCash's or DCBank's satisfaction, DirectCash and DCBank may delay in acting on or refuse to act on such instructions.

DirectCash or DCBank may, at the Customer's request, forward to the Customer copies of any statements, instruments or other documents by facsimile or other electronic transmission to the number or address provided by Customer from time to time.

For mutual protection, DirectCash and DCBank may record all telephone calls that relate to the use of or include instructions relating to the use of the Prepaid Card.

The Customer agrees that DirectCash's and DCBank's records regarding any electronic communication will be admissible in any legal, administrative or other proceedings as if such records were original written documents. DirectCash's and DCBank's records will be conclusive proof of the information contained in such electronic communications.

**27. Amendment to Agreement.** DirectCash and DCBank may change the provisions of this Agreement and the service charges from time to time. DirectCash will notify the Customer of any changes by:

- sending the Customer notice at the last street mailing address or email address notified by the Customer to DirectCash for the purposes of this Agreement; or
- posting a notice on DirectCash's web site.

If DirectCash mails a notice to a street address, it will be considered to have been received by the Customer 10 days after DirectCash deposits it in the mail. If DirectCash emails a notice it will be considered to have been received by the Customer 1 day after the email is sent. If the Customer uses the Prepaid Card after DirectCash (a) sends a notice of a change by regular mail or email, or (b) posts a notice on DirectCash's website (which has been posted for at least 10 days), the Customer is deemed to have accepted the change.

**28. No Assignment.** This Agreement is not assignable by the Customer. The Prepaid Card is provided to the Customer only. The Customer may not sell, assign, transfer or lend the Prepaid Card to others.

**29. Privacy Protection.** DirectCash and DCBank shall have the right to establish files on the Customer based upon information provided by the Customer in this Wallet Agreement and in connection with the Customer's application for a Prepaid Card. Further, DirectCash and DCBank will obtain information regarding when and where the Customer uses the Prepaid Card and when and where additional amounts are added to the Advance Limits of the Prepaid Card. All personal information collected is referred to as

"Personal Information". Within DirectCash, DCBank and their affiliate organizations the following categories of personnel shall have the ability to access Personal

Information: executive officers, call centre employees, members of the Prepaid Card operations, legal and technology departments ("Prepaid Card Personnel"). Personal Information will also be available to the Merchant, other financial institutions and other outside service providers ("Outside Service Providers") involved in providing

the Customer with the services associated with the Prepaid Card. DirectCash, DCBank and the Service Providers shall use Personal Information for the purpose of providing Prepaid Card Services to the Customer and to meet the requirements of applicable law (including the rules and regulations of any applicable banking network or credit card network accessible with a Prepaid Card). Furthermore, paper file records containing Personal Information may be kept at the Merchant's premises (or DirectCash's or DCBank's head office premises). DirectCash's privacy code "DirectCash Protecting Your Privacy" applies to how DirectCash collects, uses and distributes Customer Personal Information (the

"DirectCash Privacy Code"). DCBank's privacy code "Privacy Code" applies to how DCBank collects, uses and distributes Customer's Personal Information (the "DCBank Privacy Code"). In the DirectCash Privacy Code and DCBank Privacy Code it is explained why DirectCash and DCBank collect personal information, what information DirectCash and DCBank collect, how DirectCash and DCBank protect Personal Information, when DirectCash and DCBank release Personal Information and how the Customer can view, check and correct DirectCash's and DCBank's information regarding the Customer if needed. A copy of the DirectCash Privacy Code and DCBank Privacy Codes are available by contacting DirectCash and DCBank or downloading them from DirectCash's or DCBank's web site. By executing this Agreement the Customer consents to the collection, use and disclosure of the Customer's Personal Information as provided for in this Agreement and as outlined in the DirectCash Privacy Code and DCBank Privacy Code.

**30. Discontinuance of Service.** If for any reason DirectCash and DCBank cease to provide Prepaid Card services and as a result the Prepaid Card is deactivated while the Customer still has a possible Advance Limit authorized for the Prepaid Card, then DirectCash will either (a) arrange for a new Prepaid Card issued by a different Prepaid Card supplier to be issued to the Customer (subject to compliance with the supplier's card issuance requirements) or (b) advance a cash (or cheque) payment to the Customer for the remaining amount of the Advance Limit (subject to receipt of identification and return of the old card).

**31. Cancellation of Prepaid Card.** The Customer may at any time surrender the Prepaid Card to the Merchant from whom the Prepaid Card was acquired and the Merchant shall arrange for DCBank to reimburse the Customer in cash any outstanding Advance Limit remaining on the Prepaid Card less any outstanding fees. Alternatively, the Customer may call DirectCash's toll free number and cancel the Prepaid Card and a cheque will be mailed to the Customer within 60 days. DirectCash, DCBank or the Merchant may cancel the Prepaid Card at any time, at which time the Customer will immediately return the Prepaid Card to DirectCash or as DirectCash directs. DCBank or DCBank's agent shall reimburse the Customer any outstanding balance remaining on the Prepaid Card less outstanding fees. If there is not a sufficient balance on the Prepaid Card to pay monthly maintenance fees, DirectCash may de-activate the Prepaid Card without notice. The Customer may be required to pay a re-activation fee thereafter to use the Prepaid Card. This Agreement as a whole will not terminate except upon the written agreement of both DirectCash and the Customer.

**32. Termination of This Agreement.** This Agreement will not terminate except upon the written agreement of both DirectCash and the Customer.

**33. Quebec - Use of English Language.** The parties have required that this document be drawn up in English. Les parties ont demandé que ce contrat soit rédigé uniquement en anglais.

**34. Entire Agreement.** This Agreement constitutes the entire agreement between DirectCash/DCBank and Customer related to the Prepaid Card and there are no other written or verbal agreements or representations. However, if Customer opens an account with DCBank, then the various account, credit and other agreements entered into between DCBank and the Customer (including the Account Agreement Terms referred to above) may also apply in some aspects to the Prepaid Card.

**This is EXHIBIT 'C' referred to in the  
Affidavit of Timothy Yeoman  
sworn before me, this 29th day of  
January, 2014.**

  
*A Commissioner, etc.*

Court File No.: 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

**BETWEEN:**

**TIMOTHY YEOMAN**

**Plaintiff**

**- and -**

**THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP**

**Defendants**

**PLAINTIFF'S LITIGATION PLAN**

**(pursuant to Section 5(1)(e)(ii) of the *Class Proceedings Act, 1992*)**

**COMMUNICATION WITH PUTATIVE CLASS MEMBERS:**

1. Information will be made available online at [www.harrisonpensa.com](http://www.harrisonpensa.com) for this proposed class proceeding. Current information on the status of this action will be posted on the site and will be updated as the matter progresses. Court documents, notices and other documents regarding the action will be accessible from the website. The telephone number and e-mail contact information for Class Counsel will also be made available.

**PLEADINGS:**

2. The defendants shall deliver their Statements of Defence immediately following the certification order in the event that they were not delivered at an earlier time. Any reply by the plaintiff will follow within the time frame prescribed in the *Rules of Civil Procedure, R.R.O. 1990, Reg. 194*.

**DOCUMENTARY DISCOVERY AND PRODUCTION:**

3. The plaintiff proposes that the parties should work together to establish a documentary discovery plan and timetable. Failing agreement, the parties will seek a case conference to settle these issues.
4. The plaintiff shall seek an accounting of the defendants' books and records in order to acquire production of the identity and contact information of class members and the particulars of their loan transactions. The plaintiff seeks this accounting to support an aggregate assessment of damages.
5. The plaintiff will request that delivery of Affidavits of Documents and production of documents take place no later than 60 days following service of the Statements of Defence.
6. Counsel for the plaintiff will arrange and deliver their productions using document management software. All productions will be organized and produced electronically. The plaintiff proposes that the defendants similarly organize and produce all of their productions electronically.

**EXAMINATIONS FOR DISCOVERY:**

7. The plaintiff will request that examinations for discovery take place within 60 days from the date that documentary production has been completed.
8. The plaintiff anticipates that the examination for discovery of all parties will take a maximum of 10 days subject to refusals and undertakings.



9. The plaintiff proposes that all answers to undertakings be provided within 60 days of the conclusion of the examinations for discovery.

**NOTICE TO CLASS MEMBERS AND OPT-OUT PROCEDURE:**

10. As indicated above, Class Counsel will ask the defendants to produce the names, contact particulars and other identifying information of the class members. Class Counsel will use this contact information for the purpose of giving notice.
11. If this action is certified as a class proceeding, the plaintiff will ask the Court to:
- (a) settle the form and content of the notice after the certification decision is released (the "Notice of Certification");
  - (b) settle the means by which the Notice of Certification shall be disseminated to class members (the "Notice Plan"); and
  - (c) set a date for the expiry of the opt-out period of 60 days following the commencement of the Notice Program.
12. The plaintiff will request that the Notice of Certification be distributed via the following media:
- (a) by Press Release on Canada Newswire;
  - (b) sent by direct mail to each class member whose name and address is disclosed by the defendants;
  - (c) sent by e-mail blast to credit counseling organizations and advisors who may represent the interests of potential class members;
  - (d) posted on the websites of the defendants;
  - (e) published through media notices which generally reflect the geographical location of class members;
  - (f) posted on the website of Class Counsel at [www.harrisonpensa.com](http://www.harrisonpensa.com);
  - (g) posted through various forms of social media, including a dedicated webpage on Facebook and; and

(h) provided by Class Counsel to any person who requests it or any person who has previously contacted Class Counsel.

13. The plaintiff proposes the following opt-out procedure:
  - (a) a person may opt-out of the class proceeding by sending a written election to opt-out to a person designated by the Court before a date fixed by the Court; and
  - (b) no member of the Class may opt out of the class proceeding after the expiration of the opt-out period set by the Court except by Court order.
14. The plaintiff will ask the Court to appoint Harrison Pensa LLP to receive the written elections to opt-out of the class action and, within thirty (30) days after the expiration of the opt-out period, to deliver to the Court an affidavit providing information respecting the number of persons who have opted out of this class action.
15. The plaintiff will ask the Court to order the defendants to pay the costs of the Notice Program.

#### **PRIVACY AND CONFIDENTIALITY FOR CLASS MEMBER DATA:**

16. The plaintiff proposes that the parties work together to construct a privacy and confidentiality protection protocol for the handling of any data connected to class members and their loan transactions. That protocol will include a privacy and confidentiality protection Order made by the Court.

#### **CASE MANAGEMENT**

17. The plaintiff proposes to advance the matter in a fair and expeditious manner utilizing the case management tools contained in the *Class Proceedings Act*, 1992, SO. 1992, c.6.

18. The plaintiff proposes to schedule case management conferences as necessary between the parties and the Court to advise the Court on the progress of the litigation.
19. The plaintiff does not anticipate any motions at this time other than the motion for certification. The plaintiff acknowledges that motions may be necessary as the case progresses and proposes that each can be scheduled if and when issues arise

**DISPUTE RESOLUTION:**

20. The plaintiff is willing to participate with the defendants in a non-binding alternative dispute resolution mechanism following certification and the conclusion of documentary and oral discovery.

**EXPERT ASSISTANCE:**

21. The plaintiff anticipates that expert witnesses will be retained in various fields. Each witness will provide expert testimony at the trial of the common issues. It is anticipated that the defendants will require expert testimony as well. The plaintiff proposes the early exchange of expert reports guided by case management.

**TRIAL OF THE COMMON ISSUES:**

22. The plaintiff will ask the Court to fix the date for the trial of the common issues promptly following the conclusion of examinations for discovery, delivery of undertakings and any motions for refusals.
23. The plaintiff proposes the creation of a Trial Management Plan in advance of the trial under the supervision of the Case Management Judge. The Trial Management Plan shall pertain to the following issues, including but not limited to,
  - (a) Joint Document Brief;
  - (b) Chronology and Glossary;

- (c) Discovery Read-Ins;
- (d) Request to Admit and Notices;
- (e) List of Anticipated Witnesses;
- (f) Written Opening Briefs;
- (g) Trial Schedule;
- (h) Written Closing Submissions;
- (i) Digital Trial Management;
- (j) Protective Order; and
- (k) Further Directions

24. It is currently anticipated that the common issues trial will last approximately 3-5 weeks in duration.
25. If the plaintiff is successful at the trial of the common issues, it is anticipated that the resolution of the common issues will conclude the litigation, including settling on the manner in which each class member is to benefit from the remedies obtained. If damages are ordered by the Court, the plaintiff anticipates that such damages can be calculated and distributed to the class members through an aggregate plan of distribution pursuant to Section 24 of the *Class Proceedings Act, 1992*.
26. In the event that there are issues which are specific to individuals or subgroups of individuals as amongst the class, the plaintiff proposes that the Court should utilize the tools provided under Sections 25 and 26 of the *Class Proceedings Act*.

#### **NOTICE OF SETTLEMENT OR JUDGMENT**

27. If the plaintiff is successful at the trial of the common issues, the plaintiff will ask the Court to settle the general form and content of a notice to be delivered to class members (the "Notice of Resolution").

28. The plaintiff will ask the Court to order that the Notice of Resolution be distributed to class members substantially in accordance with the Notice Plan for the Notice of Certification as set out herein.

**REVIEW OF LITIGATION PLAN:**

29. The plaintiff proposes that this litigation plan should be reconsidered and revised as necessary under the continuing case management authority of the Court pursuant to the *Class Proceedings Act, 1992*.

**This is EXHIBIT "D" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*

**PRIVATE AND CONFIDENTIAL**  
**REGISTERED MAIL and E-MAIL**

IN THE MATTER OF the *Payday Loans Act, 2008*, S.O. 2008,  
Chapter 9 and regulations, as amended

AND IN THE MATTER OF the licensing of The Cash Store  
Inc., Licensee

AND IN THE MATTER OF the licensing of Instalozans Inc.,  
Licensee

**TO:** The Cash Store Inc.,  
c/o T. Pinos  
Legal Representative  
Cassels Brock & Blackwell  
2100 Scotia Plaza  
40 King Street West  
Toronto ON M5H 3C2

**AND TO:** Instalozans Inc.,  
c/o T. Pinos  
Legal Representative  
Cassels Brock & Blackwell  
2100 Scotia Plaza  
40 King Street West  
Toronto ON M5H 3C2

## TABLE OF CONTENTS

A. Notice of Proposal to Revoke Licences.....	1
B. Reasons.....	2
C. Particulars.....	4
Background.....	4
Interested Person.....	6
Contraventions of the <i>Payday Loans Act, 2008</i> and the Regulation....	8
Other Goods or Services.....	8
Bank Accounts.....	9
Debit and Credit Cards.....	10
Insurance.....	10
Public Statements.....	13
Cost of Borrowing.....	15
Loan Discounting.....	17
Delivery of Advance.....	18
The Payday Loan Agreement.....	22
False, Misleading or Deceptive Information or Documents....	25
Unlicensed Lenders.....	28
No Repeat Processing (Multiple PADs).....	31
Prohibited Contacts.....	33
Bank Accounts.....	34
Rights Relating to Devices.....	41
Collection Practices.....	42
Unlawful Charges.....	42
Content of Poster.....	43
Display of Poster.....	43
Posting of Certificate of Licence.....	44
Jurisdictions other than Ontario.....	44
Alberta.....	44
British Columbia.....	45
D. Right to a Hearing.....	47
E. Application of the Statutory Powers Procedure Act.....	48
F. Further Particulars/Supplemental Notice.....	49



**A. NOTICE OF PROPOSAL TO REVOKE LICENCES**

WHEREAS The Cash Store Inc. ("Cash Store") is licensed as a lender under the *Payday Loans Act, 2008* (the "Act");

AND WHEREAS Instaloans Inc. ("Instaloans") is licensed as a lender under the Act;

AND WHEREAS section 12 of the Act provides that, subject to section 13, the Registrar may revoke a licence if, in the opinion of the Registrar, the licensee is not entitled to a licence under section 10;

AND WHEREAS subsections 13(1) and 13(2) of the Act provide that the Registrar shall notify the licensee in writing if the Registrar proposes to revoke a licence and shall set out the reasons for the proposed action;

AND WHEREAS in the Registrar's opinion, Cash Store and Instaloans are not entitled to licences and the Registrar proposes to revoke the licences of Cash Store and Instaloans;

**NOW THEREFORE TAKE NOTICE THAT, PURSUANT TO SECTION 12 OF THE ACT, THE REGISTRAR IS PROPOSING TO REVOKE THE LICENCE OF THE CASH STORE INC. AS A LENDER UNDER THE ACT.**

**NOW THEREFORE TAKE FURTHER NOTICE THAT, PURSUANT TO SECTION 12 OF THE ACT, THE REGISTRAR IS PROPOSING TO REVOKE THE LICENCE OF INSTALOANS INC. AS A LENDER UNDER THE ACT.**

**B. REASONS**

1. In the Registrar's opinion, Cash Store is not entitled to a licence under section 10 of the Act as Cash Store is carrying on activities that are in contravention of the Act and the regulations made under the Act.
2. In the Registrar's opinion, Cash Store is not entitled to a licence under section 10 of the Act as Instalozans, an interested person in respect of Cash Store, is carrying on activities that are in contravention of the Act and the regulations made under the Act.
3. In the Registrar's opinion, Instalozans is not entitled to a licence under section 10 of the Act as Instalozans is carrying on activities that are in contravention of the Act and the regulations made under the Act.
4. In the Registrar's opinion, Instalozans is not entitled to a licence under section 10 of the Act as Cash Store, an interested person in respect of Instalozans, is carrying on activities that are in contravention of the Act and the regulations made under the Act.

5. In the Registrar's opinion, Cash Store is not entitled to a licence under section 10 of the Act as the past conduct of its officers or directors affords reasonable grounds for belief that its business will not be carried on in accordance with the law and with integrity and honesty.
6. In the Registrar's opinion, Cash Store is not entitled to a licence under section 10 of the Act as the past conduct of The Cash Store Financial Services Inc. ("CSF"), an interested person in respect of Cash Store, affords reasonable grounds for belief that Cash Store's business will not be carried on in accordance with the law and with integrity and honesty.
7. In the Registrar's opinion, Cash Store is not entitled to a licence under section 10 of the Act as the past conduct of Instalozans, an interested person in respect of Cash Store, affords reasonable grounds for belief that Cash Store's business will not be carried on in accordance with the law and with integrity and honesty.
8. In the Registrar's opinion, Instalozans is not entitled to a licence under section 10 of the Act as the past conduct of its officers or directors affords reasonable grounds for belief that its business will not be carried on in accordance with the law and with integrity and honesty.
9. In the Registrar's opinion, Instalozans is not entitled to a licence under section 10 of the Act as the past conduct of CSF, an interested person in respect of Instalozans, affords reasonable grounds for belief that

Instaloans business will not be carried on in accordance with the law and with integrity and honesty.

10. In the Registrar's opinion, Instaloans is not entitled to a licence under section 10 of the Act as the past conduct of Cash Store, an interested person in respect of Instaloans, affords reasonable grounds for belief that Instaloans' business will not be carried on in accordance with the law and with integrity and honesty.
11. In the Registrar's opinion, Cash Store is not entitled to a licence under section 10 of the Act as an officer, director, employee or agent of Cash Store made a false statement or provided a false statement in its application for a licence.
12. In the Registrar's opinion, Instaloans is not entitled to a licence under section 10 of the Act as an officer, director, employee or agent of Instaloans made a false statement or provided a false statement in its application for a licence.

### **C. PARTICULARS**

#### **IT IS ALLEGED AS FOLLOWS:**

##### **Background**

1. The Registrar first issued Cash Store a loan broker's licence on July 28, 2009. Cash Store was licensed as a loan broker under the Act until July

27, 2012. Cash Store has been licensed as a lender under the Act from July 5, 2012 to date.

2. The Registrar first issued Instaloans a loan broker's licence on July 28, 2009. Instaloans was licensed as a loan broker under the Act until July 27, 2012. Instaloans has been licensed as a lender under the Act from July 5, 2012 to date.

3. Cash Store is a wholly owned subsidiary of CSF. Instaloans is a wholly owned subsidiary of Cash Store.

4. The General Regulation ("Regulation") under the Act was amended and those amendments came into force on September 1, 2011.

5. On August 31, 2011, CSF, Cash Store and Instaloans commenced a Judicial Review Application ("Judicial Review") that seeks an order declaring that (a) certain provisions of the Regulation, as amended, are *ultra vires*; (b) the impugned provisions discriminate against the Applicants in the Judicial Review Application; and (c) debit cards and pre-paid cards issued and offered by third party service providers, are not a "device" within the meaning of the Act. CSF, Cash Store and Instaloans amended their Application for Judicial Review on January 18, 2013.

6. There has been considerable correspondence between Cash Store and Instaloans and the Registrar, either directly or through their legal counsel. There have also been meetings between Cash Store and Instaloans and their legal counsel and the Registrar and his legal counsel. Further, there have

been numerous inspections conducted at various branches of Cash Store and Instalozans.

7. On October 26, 2012, the Registrar sent a letter ("Registrar's Letter") to Cash Store and Instalozans advising that their conduct in the payday marketplace in Ontario "is such that, as Registrar under the *Payday Loans Act, 2008*, I have no choice but to consider whether to propose to revoke or suspend the licenses of Cash Store and Instalozans, and whether the public interest requires that I order an immediate suspension of those licences". The Registrar invited Cash Store and Instalozans "to provide any information that you wish me to consider in making these decisions" and set a fourteen day deadline for reply. The Registrar then set out in the letter, examples of the past and/or continuing conduct of Cash Store and Instalozans that would inform the exercise of his discretion.

8. After being granted an extension of time within which to reply to the Registrar's letter, Cash Store and Instalozans submitted a reply on November 23, 2012 (the "Reply").

#### **Interested Person**

9. As Cash Store is controlled directly by CSF, CSF and Cash Store are associated persons within the meaning of paragraph 4 of subsection 1(2) of the Act. As such, CSF is an interested person in respect of Cash Store within the meaning of the opening of subsection 10(2) of the Act.

10. As Installoys is controlled directly by Cash Store which is controlled directly by CSF, CSF and Installoys are associated persons within the meaning of paragraph 4 of subsection 1(2) of the Act. As such, CSF is an interested person in respect of Installoys within the meaning of the opening of subsection 10(2) of the Act.

11. As Installoys is controlled directly by Cash Store, Cash Store and Installoys are associated persons within the meaning of paragraph 4 of subsection 1(2) of the Act. As such, Cash Store is an interested person in respect of Installoys within the meaning of the opening of subsection 10(2) of the Act.

12. As Cash Store and Installoys are corporations and both are controlled directly or indirectly by CSF, Cash Store and Installoys are associated persons within the meaning of paragraph 5 of subsection 1(2) of the Act. As such, Cash Store is an interested person in respect of Installoys and Installoys is an interested person in respect of Cash Store, both within the meaning of the opening of subsection 10(2).

13. In the opinion of the Registrar, CSF has a beneficial interest in the business of Cash Store. As such, CSF is an interested person in respect of Cash Store within the meaning of clause (a) of subsection 10(2) of the Act.

14. In the opinion of the Registrar, CSF has a beneficial interest in the business of Installoys. As such, CSF is an interested person in respect of Installoys within the meaning of clause (a) of subsection 10(2) of the Act.

15. In the opinion of the Registrar, Cash Store has a beneficial interest in the business of Instalozans. As such, Cash Store is an interested person in respect of Instalozans within the meaning of clause (a) of subsection 10(2) of the Act.

16. In the opinion of the Registrar, CSF "exercises control either directly or indirectly" over Cash Store. As such, CSF is an interested person in respect of Cash Store within the meaning of clause (b) of subsection 10(2) of the Act.

17. In the opinion of the Registrar, CSF "exercises control either directly or indirectly" over Instalozans. As such, CSF is an interested person in respect of Instalozans within the meaning of clause (b) of subsection 10(2) of the Act.

#### **Contraventions of the *Payday Loans Act, 2008* and the Regulation**

18. Cash Store and Instalozans have, both as licensed loan brokers and as licensed lenders, continually and persistently breached numerous provisions of the Act and the Regulation.

#### **Other Goods or Services**

19. **Subsection 27(3) of the Regulation** reads "A licensee, acting on the licensee's own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in connection with a payday loan



agreement, other than the payday loan, whether or not it is provided for consideration”.

20. Borrowers dealing with Cash Store and Instalozans regularly purchase and are offered, in connection with the payday loan agreement, the following: the setting up of bank accounts; debit or credit cards, and insurance.

#### Bank Accounts

21. With respect to the setting up of bank accounts, Cash Store’s counsel stated the following in his letter of November 30, 2011: “Cash Store, in its capacity as an agent for DC Bank, will from time to time, assist customers of DC Bank in the set-up of a bank account or other service.” – and – “Other than the fact that an individual account holder might receive in their account the proceeds of a payday loan from any payday lender there is no connection whatsoever between a DC bank account and a payday loan agreement that Cash Store has with an individual consumer.” (emphasis added)

22. Borrowers who wish to receive their payday loan advance immediately upon entering into the payday loan agreement (as required of licensees by ss. 29(2) of the Act) and who do not have an existing DC Bank account must either (a) accept the offer of Cash Store/Instalozans to assist them to set up a DC Bank account and must incur the related costs, or (b) agree to have their advance made accessible to them by way of a pooled/consolidated trust account at DC Bank and must incur the related costs.

23. Borrowers dealing with Cash Store and Instalozans have no contact with DC Bank or other third parties. Any good or service offered to borrowers or provided to those borrowers in connection with the payday loan agreement are offered or provided through Cash Store and Instalozans. That the borrower enters into a contract with a third party (and not Cash Store or Instalozans) for those goods and services is irrelevant.

As such, Cash Store and Instalozans contravene subsection 27(3) of the Regulation.

#### Debit and Credit Cards

24. With respect to debit and credit cards, these are associated with the DC bank account into which the borrower's advance is transferred. Whether a new or existing DC bank account, borrowers incur fees to use the cards associated with their account.

As such, Cash Store and Instalozans contravene subsection 27(3) of the Regulation.

#### Insurance

25. With respect to insurance, Cash Store's counsel stated the following in his letter of November 30, 2011:

“Direct Cash provides insurance to its customers to provide coverage for advance limits connected to card products supplied to the customer by Direct Cash. This insurance is in no way connected to the payday loan nor is it provided directly or indirectly by the Cash Store. We understand that Direct Cash provides this insurance as an agent for Trans Global Insurance Group (“TGI”). Cash Store sells DC Bank products through an agency agreement with the Bank. Both TGI and Direct Cash are third-party and arm’s length to the Cash Store. Cash Store is therefore not authorized to provide details of any arrangements between these two arm’s length parties. However, for your reference, we have provided a copy of the Direct Cash Payment Protection Plan Certificate of Insurance which explains the details of the plan. This document is provided to customers who choose to purchase the optional product from Direct Cash”.

26. A document signed by Cash Store and Instaloans customers is titled above the signature line “Optional Advance Card Limit Creditor Protection”. A preamble line below the signature line reads “Regarding The Advance Card Limit Credit Insurance Protection (“the Plan”), which protects my card advance limits (overdraft) ...”.

27. The Payment Protection Plan Certificate of Insurance (the “Plan”) provided to borrowers states that:

“The Payment Protection Plan (the “Plan”) is available only to customers of DC Bank, DC ATM Processing Partnership and DC ATM Management Partnership (collectively “Direct Cash”) who have requested the optional coverage and agreed to pay the required premium referred to herein as the Loan Protector Fee”.

-- and --

“If You do not want this insurance and Your loan is not due nor repaid, return this Certificate within 10 days of receiving this Certificate and ask Us or Direct Cash in writing to cancel the Plan, and the Loan Protector Fee billed relating to Your loan pursuant to the Group Policies and to this Certificate will be credited to Your account with the Lender”.

-- and --

“CLAIM FORMS may be obtained from a Cash Store or Instaloans store or by calling The Trans Global Insurance Group at 1-888-226-7876”.

28. The Plan defines the "Beneficiary" and "Total Indebtedness" as set out below:

**BENEFICIARY**

You agree that the benefits payable under Parts A, B, C, D and E of the Plan shall be paid to the Lender, as irrevocable beneficiary under the Master Policy. The Lender is obliged to pay the Benefits towards the outstanding amount of Your Total Indebtedness. However, interest continues to run on Your Total Indebtedness until paid in full, notwithstanding any delay in receipt by the Lender of the Benefits hereunder.

**TOTAL INDEBTEDNESS**

is the total of the Loan Amount, Broker Fee, Interest Fee, and Loan Protector Fee premium along with any applicable provincial sales tax as shown on the Customer Receipt issued to You by a Cash Store or Instalozans store.

29. It is indisputably the case that the insurance or protection plan offered or sold to borrowers by Cash Store and Instalozans, on behalf of third parties, is in connection with the payday loan agreement.

As such, Cash Store and Instalozans contravene subsection 27(3) of the Regulation.

30. In the Judicial Review, Cash Store and Instalozans concede that providing these services to borrowers is prohibited under the Regulation:

"The New Regulations purport to entirely eliminate the ability of consumers to purchase optional goods or services "in connection with" payday loans. The stated purpose and effect of the New Regulations will be to prohibit optional services currently offered by Cash Store Financial to its customers, including a prohibition on optional insurance products and banking services".

### Public Statements

31. Cash Store's and Instalozans' position that there is no connection whatsoever between a DC bank account and a payday loan agreement (per paragraph 21 of these Allegations) – and – that insurance is in no way connected to the payday loan (per paragraph 25 of these Allegations) is also refuted by the numerous public statements made by CSF, Cash Store and Instalozans, which are set out below:

“Revenue from other services (including fees from financial product insurance, cheque cashing, bank accounts, money transfers, pre-paid master cards, debit cards, term loans and prepaid phone cards) for the fifteen month period ended September 30, 2010, increased 79.6% to \$50.2 million or 22.6% of revenue, up from \$27.9 million or 18.6% of revenue for the year ended June 30, 2009. Other revenues have increased significantly as a result of the introduction of new products and other product enhancements as well as the longer fiscal period. These new products and enhancements are part of our long term strategy to diversify revenue streams through providing our customers with a broader suite of financial services and products.

We have made significant improvements in products and services which complement our existing product lines. We will continue to progress towards our objectives of diversifying our revenue stream with products which enhance and complement our core products and increasing the value generated from our existing suite of products”.

-- and --

“We are confident that our continued focus on expanding other revenue from our banking product line and continued branch expansion will drive revenue growth. However, growth in revenue from loan fees was constrained by compression on rates related to the implementation of rate caps in the provinces of British Columbia, Alberta, Ontario and Nova Scotia, over the past year, and specifically Manitoba which implemented its caps in October,” said Gordon J. Reykdal, Chairman and CEO. “Our focus in the coming quarters will be to offset the impact of rate compression with increased loan volumes and increased revenue from ancillary financial products.”

Mr. Reykdal also said: “A key ongoing strategic priority for management has been the development and roll-out of new products to both mitigate rate

compression in the payday loan category and to add, incrementally, to overall margins. Recent robust gains in other revenue are directly attributable to the introduction in fiscal Q3 2010, of a bank account product, which has been very well received by our customers. We are developing an additional bank account product that is in testing in selected branches. We anticipate that this product will be ready for roll-out on a national basis by the third quarter of 2011."

-- and --

"Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) in the three months ended June 30, 2011, increased 29.5% to \$15.8 million or 31.8% of revenue, up from \$12.2 million or 25.8% of revenue in the same quarter last year. Other revenues have increased significantly as a result of the introduction of new products and other product enhancements namely bank accounts."

-- and --

"The most significant components of "other" revenue were agency fees at \$46.8 million in the year, which represented 87.9% of other revenue for the year or a 17.8% increase in the year. Compared to the twelve month period last year, agency fees were \$42.2 million or 74.6% of other revenue. Agency fees include fees earned from the provision of debit and prepaid credit cards and all other agency fees we earn from financial product insurance, money transfers and prepaid phone cards. The largest contributor to the increase was the introduction of bank accounts being offered to our customers. For the year, 99% of customers who secured a loan also purchased one or more of the following optional financial services: bank accounts, financial product insurance, pre-paid master cards, and/or debit cards, which is similar to the twelve and fifteen months ended September 30, 2010."

-- and --

"We are currently, we are now, an agent for DC Bank, and we now offer our customers bank accounts in our branches as well. And our customers have to, as part of one of the pre-qualifying conditions, have to have a bank account to obtain a loan, so we've got a captive audience there... so we actually share in the economics of this—60% of the cost overall, the cost to the customer, we get paid as a, as a, commission." Mr. Reykdal.

-- and --

"In addition to meeting our customers' needs by providing small, short-term loans which can be accessed quickly, we also offer bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing products and prepaid phone cards.

A key component of our long-term business strategy has been product diversification. This strategy has and should continue to assist us in offsetting downward pressure on revenue and earnings resulting from provincially regulated rate caps on payday loans”.

.....

“For the current quarter, 97% of customers who secured a loan also purchased one or more of the following optional financial services: bank accounts, financial product insurance, pre-paid master cards, and/or debit cards”.

-- and --

“This increase [in revenue] is primarily due to the sale of banking products that Cash Store Financial makes available to its customers through an agency agreement with DC Bank...” Gordon Reykdal

-- and --

“(in thousands, except share and per share amounts)

.....

#### **Due from Vendors**

Due from vendors includes \$16,387 (September 30, 2011 - \$11,143) of short term receivables from our vendors, with which we have agency arrangements, that provide bank accounts, debit and prepaid mastercard and insurance products that have occurred in the normal course of business. Included in this amount is a due from DirectCash Payments Inc. in the amount of \$14,625 (September 30, 2011 - \$10,091). Subsequent to quarter end, the Company received \$5,600 of this outstanding amount”.

#### **Cost of Borrowing**

32. Ss. 32(2) of the Act states that “The lender under a payday loan agreement shall ensure that the cost of borrowing under the agreement does not exceed the prescribed limits”. Ss. 32(3) of the Act provides that “No loan broker shall facilitate a contravention of subsection (2)”.

Section 23 of the Regulation states “The prescribed limit on the cost of borrowing under a payday loan agreement for the purposes of subsection 32(2) of the Act is \$21 per \$100 advanced under the agreement”.

33. Ss. 1(1) of the Act defines “cost of borrowing” as “means the total of all amounts that a borrower is required to pay under, or as a condition of entering into, a payday loan agreement and all amounts that are prescribed as included in the cost of borrowing, but does not include default charges and the repayment of the advance”.

34. Section 17 of the Regulation prescribes amounts included in the cost of borrowing:

“17(1) The following amounts are prescribed as included in the cost of borrowing with respect to a payday loan agreement:

1. Any amount payable by the borrower, upon entering into the agreement, to process a payment provided by the borrower under the agreement.
2. Any other amount that is connected directly or indirectly to the payday loan agreement and,
  - i. that the borrower has paid upon entering into the agreement, or
  - ii. for which the borrower’s obligation to pay exists upon entering into the agreement.

(2) Without limiting the generality of paragraph 2 of subsection (1), the amount described in that paragraph includes any amount in relation to a device”.

35. Most borrowers dealing with Cash Store and Instaloes are charged anywhere from \$23 to \$110 per \$100 advanced as a result of (a) incurring an obligation to pay for other goods or services (e.g., bank accounts, debit or card credits and/or insurance) upon entering into a payday loan agreement; or (b) making payments in respect of the payday loan agreement upon entering into the agreement.



As such, Cash Store and Instaloans contravene ss. 32(2) or ss. 32(3) of the Act, as the case may be.

### Loan Discounting

36. Section 30.1 of the Regulation prohibits loan discounting. A licensee is prohibited (whether directly or indirectly; whether on their own behalf or on behalf of any other person) from requiring, requesting, or suggesting to the borrower that the borrower repay the advance or pay the cost of borrowing before the end of the term of the payday loan agreement. This prohibition applies whether payment is made to the lender or anyone else.

37. By way of letters in October and November 2011, the Registrar flagged breaches of s. 30.1 of the Regulation in that inspections revealed that borrowers acknowledged, in writing, receipt of their payday loan in an amount less than the amount actually borrowed.

38. By way of letter from Cash Store's counsel (November 30, 2011), the Registrar was advised that that the documents the Registrar relied on were not accurate and the discrepancy noted above was the result of a computer error which would be corrected expeditiously.

39. By way of further letter dated April 4, 2012, Cash Store's counsel advised that "The error in our computer system was corrected on December 29, 2011".

40. Many documents underlying a payday loan transaction ceased to reflect the practice of loan discounting. While in its Reply, Cash Store and Instaloans assert that loan “discounting *does not in fact occur*,” inspections reveal that, *in fact*, borrowers dealing with Cash Store and Instaloans make payments on their payday loan before the end of the term of the agreement. As a result, the cost of goods or services provided to borrowers is deducted before borrower receives the advance.

As such, Cash Store and Instaloans contravene section 30.1 of the Regulation.

41. Subsection 31(1) of the Act contains a narrower prohibition against loan discounting. It states “... a lender under a payday loan agreement shall not receive or demand payment of any portion of the cost of borrowing from the borrower until the end of the term of the agreement”. Inspections reveal that payday loans provided by Cash Store and Instaloans on and subsequent to July 5, 2012 (after which they were licensed as lenders) are discounted.

As such, Cash Store and Instaloans contravene subsection 31(1) of the Act.

#### Delivery of Advance

42. Subsection 29 (2) of the Act reads “A lender under a payday loan agreement shall ensure that the advance is delivered to the borrower no later than upon entering into the agreement”. Subsection 29(3) reads “No loan broker shall facilitate a contravention of subsection (1) or (2)”.

43. Additionally, subsection 21(1) of the Regulation reads "Subject to subsection (2), it is deemed that a lender under a payday loan agreement has not delivered the advance to the borrower upon entering into the agreement unless the advance is immediately accessible by the borrower at that time".

44. Subsequent to September 1, 2011, borrowers dealing with Cash Store and Instalozans are advised that if they "use a bank account offered by DC Bank the funds will be transferred immediately to your account. It only takes a moment to set up. Let's start the paperwork".

45. If a borrower wants the advance to go into their non-DC bank account they are advised "I will immediately send instructions to our financial institutions to get these funds transferred to your bank account but it won't be in your bank account today. That is up to your bank".

46. Borrowers dealing with Cash Store and Instalozans who opt to have their advance transferred to into their non-DC bank account, do not receive their advance no later than upon entering into the payday loan agreement within the meaning of ss. 29(2) of the Act.

As such, Cash Store and Instalozans contravene ss. 29(2) or ss. 29(3) of the Act, as the case may be.

47. Cash Store met with the Registrar on November 3, 2011. At that meeting, the timing of the delivery of the advance to the borrower was raised. Specifically, the following language in an Employee Guide was raised: "I will immediately send instructions to our financial institutions to

get these funds transferred to your bank account but it won't be in your bank account today. That is up to your bank".

48. Subsequently, in a letter dated November 30, 2011, Cash Store's legal counsel addressed this point as follows: "As we indicated during our discussion, the Cash Store has structured training materials in the manner highlighted as a service to customers, so that they may be aware of any potential delay in the receipt of funds into their account. As discussed during our meeting, Cash Store will adjust its sales script to remove any suggestion that funds will not be delivered in a manner consistent with the Act".

49. In its Reply, Cash Store and Instaloans stated "By necessity, to ensure full customer satisfaction, we have trained our staff to warn consumers that we cannot guarantee the time it will take for monies to be transferred to their accounts". – and – "Many thousands of our customers have chosen to receive electronic fund transfers to bank accounts held by federal institutions other than DC Bank. They have done so in full knowledge of the limitations. They have clearly done so with a view that they have a practical and real option about how to receive their funds". (emphasis added).

As such, Cash Store and Instaloans have contravened ss. 29(2) or ss. 29(3) of the Act many thousands of times, as the case may be.

50. Note that it is irrelevant what borrowers dealing with Cash Store and Instaloans "have chosen". Subsection 39(1) of the Act does not recognize a borrower's waiver of his/her rights. Ss. 39(1) reads "The substantive and

procedural rights given under this Act apply despite any agreement or waiver to the contrary”.

51. In its Reply, Cash Store and Instalozans state that effective October 26, 2012, “our loan agreements have been changed, such that the agreement is deemed to have been entered into only when monies are actually received in a customers’ accounts”. Cash Store and Instalozans then provide the relevant excerpt from the contract which is now found in their payday loan agreements:

“Loan proceeds will be delivered to you by way of Electronic Fund Transfer (EFT) to your account with a Canadian Financial Institution that you identified to us as the account to which we should deliver funds. From time to time, and for reasons outside of our control, delays may occur in the delivery of these funds. This loan agreement is entered into and becomes effective as of the date and time that the loan proceeds are deposited by your Financial Institution into the account you identified to us.

Your cancellation rights in this loan are disclosed below. For purposes of exercising these rights, you agree that this agreement is entered into and becomes effective as of the date and time that the loan proceeds are deposited by your financial institution into the account you provided to us. You further agree that by signing this agreement and accepting a signed copy of this agreement today you will be taking possession of the loan agreement in advance of its effective date and that a second copy of the loan agreement need not be provided to you on the effective date of this loan agreement and that this is the same as receiving a copy of the loan agreement at the moment it becomes effective”. (emphasis added).

52. Subsection 64(1) of the *Legislation Act, 2006* reads “An Act shall be interpreted as being remedial and shall be given such fair, large and liberal interpretation as best ensures the attainment of its objects”. The object of the *Payday Loans Act, 2008* is consumer protection.

53. The payday loan agreements referenced by Cash Store and Instalozans in paragraph 51 above, are entered into when the parties to the agreement are *ad idem* and not at some artificial and arbitrary date and time in the future.

54. Cash Store and Instalozans, rather than complying with the straightforward provisions of the Act and Regulation, now require borrowers to agree to a fictional legal construct as borrowers do not, *in fact*, receive their advance immediately upon entering into the payday loan agreement.

As such, Cash Store and Instalozans contravene section 29(2) of the Act.

55. By requiring borrowers to agree to the fictional legal construct that results in a breach of ss. 29(2) of the Act, Cash Store and Instalozans are attempting to require borrowers waive their rights under the Act. Again, ss. 39(1) of the Act does not recognize a borrower's waiver of his/her rights.

#### **The Payday Loan Agreement**

56. **Subsection 29 (1) of the Act** reads "A lender under a payday loan agreement shall ensure that the agreement is in writing and meets the prescribed requirements, if any, and shall deliver a copy of the agreement to the borrower no later than upon entering into the agreement". Subsection 29(3) reads "No loan broker shall facilitate a contravention of subsection (1) or (2)".

57. Borrowers dealing with Cash Store and Instalozans are not always provided with a copy of their payday loan agreement.

As such, Cash Store and Instalozans have contravened ss. 29(1) or ss. 29(3) of the Act, as the case may be.

58. The prescribed requirements referred to in ss. 29(1) of the Act are set out in section 18 of the Regulation. Payday loan agreements used with borrowers who deal with Cash Store and Instalozans fail or have failed to meet the following requirements set out in s. 18:

- the requirement to set out the true cost of borrowing in the table, required by paragraph 1 of ss. 18(1)
- signature of lender under the agreement not provided, required by paragraph 4 of ss. 18(1)
- failure, when a device is used, to provide the information required by paragraph 7 of ss. 18(1); such as information about how the borrower can verify the amount of the balance on the device or accessible by the device
- failure to include the information for contacting the Registrar, required by paragraph 11 of ss. 18(1)
- failure to include the website address of the Ministry, required by paragraph 12 of ss. 18(1) and
- using too small a font size contrary to ss. 18(3).

59. In its Reply, Cash Store and Instalozans state that effective March 29, 2012, they had corrected four of the matters set out above. Not included in

these four matters are the true cost of borrowing required by para. 1 of ss. 18(1) and the information required in respect of “devices” per para. 7 of ss. 18(1).

60. Cash Store and Instalozans say nothing in their Reply about their failure to state the true cost of borrowing in the table required by para. 1 of ss. 18(1) of the Regulation. In regard to devices, Cash Store and Instalozans state in their Reply that they do not use devices and that loan proceeds are always deposited into a bank account via an electronic funds transfer (“EFT”). The transfer is either into the customer’s personal account or to a pooled/consolidated trust account at DC Bank (issued in the name of DirectCash as trustee/agent for all of the cardholders).

61. Cash Store and Instalozans state in their Reply “As the funds are deposited into a bank account via an EFT, it is the EFT that is the method of delivery and not a “device””.

62. “Devices” are defined in ss. 1(1) of the Regulation as “means an instrument, including a debit card or a cheque, that the lender under a payday loan agreement uses to deliver or provide access to all or part of the advance to the borrower in a form other than cash”.

63. Borrowers who are required to use a card to access their loan proceeds from the pooled/consolidated trust account are using a device to access their loan proceeds in a form other than cash.



As such, Cash Store and Instalozans contravene ss. 29(1) or ss. 29(3) of the Act, as the case may be.

**False, Misleading or Deceptive Information or Documents**

64. *Subsection 27 (2) of the Act* reads “No licensee shall furnish, assist in furnishing or induce or counsel another person to furnish or assist in furnishing any false, misleading or deceptive information or documents relating to a payday loan or a payday loan agreement”.

65. Loan applications completed by borrowers of Cash Store and Instalozans contain the text set out below:

Your signature on this form provides us with consent to contact such parties as your financial institution, employer, references, spouse/common-law partner, and landlord and authorizes us to release any information, financial, personal or otherwise, as required for the purposes of assessing or verifying your loan eligibility and the information you have provided to us. Your signature on this form grants any such organization we contact permission to provide all information we request to us with respect to our inquiry. As well, we may share your personal and financial information with customer service representatives acting on our behalf who may contact you to monitor and assess customer satisfaction levels. We will continue to collect, use and disclose your personal information until such time as your loan has been repaid”. (emphasis added).

66. Subsection 26(2) of the Regulation prohibits licensees from contacting or attempting to contact the borrower’s spouse, a member of the borrower’s family or household, or a relative, friend, neighbour or acquaintance of the borrower in respect of a payday loan. Subsection 39(1) of the Act does not recognize a borrower’s waiver of his/her rights.

As such, Cash Store and Instaloans have contravened subsection 27(2) of the Act by furnishing in their loan applications the false, misleading or deceptive information that borrowers can consent to Cash Store and Instaloans contacting their family, etc. in respect of the payday loan.

67. In their Reply, Cash Store and Instaloans state that in practice they do “not use this consent as permission to call a borrower’s family or acquaintances to discuss any matter connected with their payday loan. If we do call a borrower’s references it’s for the purpose of determining the whereabouts of the borrower.” and that “At no point during such calls is the recipient notified that the call is regarding the collection of an account”.

68. In their Reply, Cash Store and Instaloans state that on their revised application form, the relevant excerpt reads as follows:

“When you apply for a loan we collect the information given during the application process. Your signature on this form provides us with consent so that we or our service vendors (whether engaged by or on behalf of us or any of our assignees) can use it in the following ways: (i) to open, maintain, service, and collect on a loan or account; (ii) to contact such parties as your financial institution, employer, references, spouse/common-law partner, and landlord in order to verify your identity and credit worthiness; (ii) to share application and transaction information with consumer reporting agencies and other parties who have financial, employment or business dealings with you; (iv) to determine your eligibility, administer and contact you for the purposes of marketing, promotions, or research; (v) to identify your preferences and determine your eligibility for special offers and discounts, if approved, or to make another offer to you or analyze your application (including your credit reports) even if you are declined for this application. And, (vi) to use for any purpose required by law”. (emphasis added)

As such, Cash Store and Instaloans continue to contravene subsection 27(2) of the Act by furnishing in their loan applications the false, misleading or

deceptive information that borrowers can consent to Cash Store and Instaloans contacting their family, etc. in respect of the payday loan.

69. Subsection 27(1) of the Regulation reads: "A lender shall ensure that all applications for a payday loan and all documentation relating to such an application or a payday loan agreement are not used for any purpose other than providing a payday loan and are not used in connection with any other good or service".

As such, Cash Store and Instaloans contravene subsection 27(2) of the Act by furnishing in their revised loan applications the false, misleading or deceptive information that Cash Store and Instaloans may use information provided by borrowers for purposes other than providing a payday loan.

70. Loan applications completed by borrowers of Cash Store and Instaloans also contain the text set out below:

"The Cash Store/Instaloans shall charge a brokerage fee based on a percentage of the total amount of the advance as shown on the Disclosure Receipt. This fee is to be paid to the Cash Store/Instaloans immediately following receipt of the advancement."

71. Subsection 28(1) of the Act reads "No loan broker shall receive or demand any payment from a borrower for assisting the borrower in obtaining a payday loan".

As such, Cash Store and Instaloans contravene subsection 27(2) of the Act by furnishing in their loan applications false, misleading or deceptive

information in respect of the payday loan agreement, being that Cash Store and Instalozans can directly collect payment, being a brokerage fee, from the borrower.

### **Unlicensed Lenders**

72. **Subsection 6(1) of the Act** reads: "No person or entity shall act as a lender unless the person or entity, (a) is licensed as a lender and, subject to section 17, has received notice in writing from the Registrar of the licence; or (b) is deemed to be licensed under section 18."

73. On January 25, 2010, K. Palumbi, Material and Assets Manager with CSF wrote to S. Jack, Registration and Compliance Officer with the Ministry, stating "Could you please tell me the steps that would need to be taken should The Cash Store Inc. and Instalozans Inc. ever decided to become their own lenders? Would it be a simple notice of change as we are already licensed and it would just be the lender name that changes? We have been discussing this possibility for the future but would like to know what steps would be involved if we were to make the change".

74. S. Jack replied by way of e-mail dated January 26, 2010 stating "If The Cash Store Inc. and Instalozans Inc. decided to become their own lenders, a new application for each main office and branch office would need to be completed as the broker and lender licences are two separate licences".

75. On February 28<sup>th</sup>, 2012 the Registrar received an e-mail from J. Roczkowsky, Vice-President of Compliance with CSF who advised that "For Cash Store Financial this represents a transition from the broker-model to the direct-lending model in Ontario and elsewhere. Effective February 1, 2012 The Cash Store Inc. and Instalozans Inc. began lending their own money to consumers".

76. Although Cash Store and Instalozans began lending their own money to consumers on February 1, 2012, they were not licensed as lenders under the Act. Nor had they applied for a licence as a lender under the Act.

77. There was correspondence between counsel for the Registrar and counsel for Cash Store and Instalozans concerning this issue. Finally, on May 2, 2012, counsel for Cash Store and Instalozans advised that "My clients have asked me to inform you that they are prepared to submit applications for lenders' licences and are preparing those applications now. They do so on a without prejudice basis".

78. Cash Store and Instalozans were not licensed as lenders until July 5, 2012.

As such, Cash Store and Instalozans contravened subsection 6(1) of the Act every day between February 1, 2012 and July 4, 2012 by acting as unlicensed lenders in the payday marketplace.

79. There is an outstanding Information before the court in Guelph charging that on March 7, 2012, Cash Store acted as an unlicensed lender.

The same Information charges Edward McClelland, a Director of Cash Store, with failing to take reasonable care to prevent Cash Store from acting as an unlicensed lender.

80. There is an outstanding Information before the court in Brantford charging that on April 12, 2012, Instaloans acted as an unlicensed lender. The same Information charges Edward McClelland, a Director of Instaloans, with failing to take reasonable care to prevent Instaloans from acting as an unlicensed lender.

81. There is an outstanding Information before the court in Sarnia charging that on March 26, 2012, Instaloans acted as an unlicensed lender. The same Information charges Edward McClelland, a Director of Instaloans, with failing to take reasonable care to prevent Instaloans from acting as an unlicensed lender.

82. Subsection 7(2) of the Act states "For the purposes of this Act, no loan broker shall deal with or through a lender who is not licensed."

83. Between February 1, 2012 and July 4, 2012, Cash Store and Instaloans, by lending directly to borrowers while licensed as loan brokers, were therefore dealing with or through a lender who was not licensed.

As such, Cash Store and Instaloans contravened ss. 7(3) of the Act every day between February 1, 2012 and July 4, 2012.

**No Repeat Processing (Multiple PADs)**

84. **Section 31(1) of the Regulation** reads "No lender under a payday loan agreement shall attempt to process the same payment instrument provided by the borrower under the agreement in exchange for the advance more than once if such a subsequent attempt would result in any charge being levied against the borrower, other than the amount of the payment". Subsection 31(2) provides "No loan broker shall facilitate a contravention of subsection (1)".

85. Borrowers dealing with Cash Store and Instalozans enter into a Pre-Authorized Debit Agreement. Set out below is an extract from that Agreement:

"1. Pre-Authorized Debits (PADs)

I agree to have my deposit account debited at Set Intervals, as the term Set Interval is defined in Section 5(u) of Part 1 of rule H1 of the Canadian Payments Association rules manual. "Set Interval" means occurring at specified, set or predictable periods or times or upon the occurrence of such criteria and / or events as may be set out in a Payor's PAD agreement. This PAD agreement specifies those events, which should they occur, constitute the Set Interval at which you agree to have your deposit account debited.

- a) In the event, that I do not pay ... in relation to loan, I authorize and direct you to debit the deposit account to pay all amounts that I owe in connection with the loan.
- b) In the event that a PAD in clause (a) is returned NSF by my financial institution, I acknowledge that this event will render me in default of the loan agreement and I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing, as specified in the loan agreement pertaining to Loan.
- c) i) In the event that a PAD described in clause b) is returned NSF by my financial institution, I agree that this constitutes a new event, and I authorize you to have my deposit account debited as a result of that event in an

amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing, as specified in the loan agreement pertaining to the Loan.

ii) I agree that subsequent to an event defined in clause c) i) that each instance in which a PAD is returned NSF by my financial institution constitutes a new event. In each instance that a new event occurs, I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing as specified in the loan agreement pertaining to the Loan.

- d) You and I waive the requirement for pre-notification of the PAD authorized in clause (a) and any PADs authorized in clauses (b) and (c)". (emphasis added)

86. As indicated in the above Pre-Authorized Debit Agreement, borrowers dealing with Cash Store and Instalozans find their account subject to multiple PADs if their payday loan goes into default. In the normal course, there will be a charge levied against the borrower for each NSF response.

87. In its Reply, Cash Store and Instalozans cite a letter from their legal counsel dated April 4, 2012, in which he stated:

"When a customer signs a PAD agreement, they make a commitment that funds will be available in the identified account and they provide permission for my client to access that account for retrieval of funds. When The Cash Store and Instalozans PAD an account, they do so on the basis of an expectation that funds will be available and on that basis that a fee will not be levied by a customer's financial institution. On these grounds, Cash Store and Instalozans maintain their position that it is not in contravention of s. 31(1)".

As clauses 1(b), 1(c)(i) and 1(c)(ii) of the Pre-Authorized Debit Agreement are predicated on the fact that a prior PAD was returned NSF, Cash Store and Instalozans cannot realistically have an expectation that when they PAD the borrower's account yet again, "that funds will available and on that basis that a fee will not be levied by a customer's financial institution".



As such, at a minimum, multiple processing of a borrower's PADs shows a reckless disregard by Cash Store and Instalozans for the consumer protection provided by section 31 of the Regulation.

### **Prohibited Contacts**

88. **Subsection 26(2) of the Regulation** reads "No licensee shall contact or attempt to contact the borrower's spouse, a member of the borrower's family or household, or a relative, friend, neighbour or acquaintance of the borrower in respect of a payday loan".

89. Cash Store and Instalozans do contact the persons indicated in respect of a payday loan.

As such, Cash Store and Instalozans contravene subsection 26(2) of the Regulation.

90. **Subsection 26(3) of the Regulation** reads:

" Except with the consent of the borrower, no licensee shall contact an employer of a borrower or any employees of that employer unless,

(a) the contact occurs before the borrower enters into a payday loan agreement;

and

(b) the contact is for the sole purpose of confirming the borrower's employment, length of employment, employment income, occupation or business address".

91. When Cash Store and Instalozans collect on a delinquent payday loan, they typically contact, without consent, the borrower's employer or employees of that employer.

As such, Cash Store and Instalozans contravene subsection 26(3) of the Regulation.

### **Bank Accounts**

92. Subsection 11(1) of the Regulation reads "A licensee shall maintain an account in respect of the activity for which the licensee is licensed; the account must be in the legal name of the licensee, must be in Ontario and must be located in a bank or an authorized foreign bank within the meaning of section 2 of the *Bank Act* (Canada) or in a credit union as defined in the *Credit Unions and Caisses Populaires Act, 1994*". (emphasis added)

93. Subsection 11(2) of the Regulation reads "A licensee may maintain more than one account under subsection (1) but shall not use more than one such account for any one of the licensee's offices".

94. Cash Store and Instalozans each submitted an application for licensing as a lender and these were received by the Registrar on May 23, 2012. The Registrar on May 31, 2012 returned these applications as they were improperly completed ("Incomplete Lender Applications").

95. In the Incomplete Lender Applications, both Cash Store and Instaloans identified two separate bank accounts as their accounts for their main office.

As such, Cash Store and Instaloans contravened subsection 11(2) of the Regulation which requires that a licensee not use more than one account for any one of the licensee's offices.

96. In the Incomplete Lender Applications, the two separate bank accounts that Cash Store and Instaloans identified as their accounts for their main office were both located in Alberta.

As such, Cash Store and Instaloans contravened subsection 11(1) of the Regulation which requires that a licensee's bank accounts be located in Ontario.

97. In the Incomplete Lender Applications, both Cash Store and Instaloans identified the same bank accounts as the bank accounts for their main office. Subsection 11(1) of the Regulation requires licensees to "maintain an account in respect of the activity for which the licensee is licensed". Sharing an account with a separate corporate entity does not constitute maintaining an account in respect of the activity for which a licensee is licensed.

As such, Cash Store and Instaloans contravened subsection 11(1) of the Regulation.

98. All of the contraventions described in the prior three paragraphs were addressed by the Registrar in a letter (dated May 31, 2012) that accompanied the Incomplete Lender Applications returned to Cash Store and Instaloans. In that letter, the Registrar also inquired as to whether the six persons identified as having signing authority for each of the branch office bank accounts did, in fact, “ ... have signing authority for each of the listed accounts located throughout Ontario? Are there no other signing authorities for each of these accounts? (Are there no person(s) located in close proximity to the branch offices with signing authority?)”

99. Cash Store and Instaloans each submitted an application for licensing as a lender and these were received by the Registrar on June 21, 2012 (the “Lender Applications”). Submitted with the Lender Applications was a letter from Mr. Thompson dated June 19, 2012 (Senior Vice-President, Corporate Affairs of CSF).

100. In respect of the contravention of ss. 11(2) of the Regulation evidenced by each of Cash Store and Instaloans having two bank accounts for their main office, Mr. Thompson maintained that the Registrar’s interpretation of ss. 11(2) of the Regulation is incorrect.

101. In respect of the requirement that a licensee’s bank accounts be located in Ontario, Mr. Thompson advised “We will adjust our main accounts structure so that these main accounts are located in Ontario. We will inform you when this change has been made”.

102. In respect of the impermissible sharing of bank accounts (main offices) between Cash Store and Instalozans, an attachment to the Lender Applications disclosed that Cash Store and Instalozans no longer shared their main account at the CIBC. In respect of the Royal Bank account, Mr. Thompson advised "Cash Store Inc. and Instalozans Inc. presently share a main account with the Royal Bank. We will separate this account and will inform you when this has been completed".

103. The Registrar received a letter dated September 5, 2012 from Mr. Thompson in which he advised that the CIBC main accounts that Cash Store and Instalozans maintain are now located in Ontario and that they are separate accounts.

104. In respect of the Registrar's inquiry about those persons with signing authority for each of the branch office bank accounts, Mr. Thompson replied that the same six individuals do not have signing authority for each of the listed accounts throughout Ontario (letter of June 19, 2012).

As such, the replies provided by each of Cash Store and Instalozans in the Incomplete Lender Applications, in regard to the "names of all persons with signing authority" over the listed branch office bank accounts, were false.

As such, the replies provided by each of Cash Store and Instalozans in the Lender Applications, in regard to the "names of all persons with signing authority" over the listed branch office bank accounts, were also false.

105. Clause (a) of subsection 11(3) of the Regulation requires that licensees ensure that all amounts received or disbursed in connection with the activity of the licensee for which an account is maintained be deposited into and disbursed from that account.

106. In respect of the Registrar's inquiry about those persons with signing authority for each of the branch office bank accounts, Mr. Thompson also stated in his letter of June 19, 2012 "The listed accounts in Ontario are deposit accounts only. There is no need to have a person in close proximity to the branch locations with signing authority. This is a control measure".

As such, Cash Store and Instalozans contravene clause (a) of subsection 11(3) as, in respect of bank accounts related to its branch offices, only deposits and no disbursements are made in connection with the payday loan activity for which the accounts are maintained.

107. Clause (b) of subsection 11(3) of the Regulation requires that licensees ensure that no amounts, other than those in respect of the activity for which the licensee is licensed, are deposited into or disbursed from the account. Cash Store and Instalozans mixes funds from its payday activity with funds from its non-payday activity (other product lines).

As such, Cash Store and Instalozans contravene clause (b) of subsection 11(3) of the Regulation.

108. In its Reply, Cash Store and Instalozans make some general comments about s. 11 of the Regulation:

"We concede that our banking arrangements do not fully comply with Ontario requirements".

....

"As a publicly listed enterprise CSF, its officers and directors have numerous duties and obligations under both Canadian and American securities laws ..."

....

"Cash Store Financial, its officers and directors, take the above noted duties seriously and accordingly have developed sound systems of internal controls. Given the nature of its business, a key component of that internal control system is its bank account structure and the associated system of checks and balances. With over 500 individual branches in Canada, which includes 178 in Ontario, it is vitally important that the corporation control its bank accounts properly".

....

"The purpose of providing you with the above information is to put the ss 11 banking requirements of the 98/09 Regulations into their proper context. CSF is a major business enterprise with significant reporting obligations under securities law and accordingly it has a large, sophisticated and complex banking structure that is difficult to change".

109. In its Reply, Cash Store and Instalozans admit to their contraventions of clauses (a) and (b) of ss. 11(3) of the Regulation and provide various justifications:

"The companies concedes that it's banking structure, both before and after September 17, 2012, does not meet all of the banking requirements outlined by the Consumer Protection Branch in that amounts funded to borrowers are disbursed from a corporate office bank account while amounts repaid by borrowers are deposited to the branches bank account.

Furthermore, funds from the branches' payday lending activities are comingled with funds from non-payday lending activities. It is the companies' position that its banking requirements under Ontario's payday lending regulations are in conflict with its requirement to maintain properly working systems of internal controls under securities regulation. CSF believes that its business model requires it to fund loans from a head office account that is separate from the branches deposit account. Similarly, to separate payday lending activities from non-payday

lending activities would require wholesale changes in CSF's information systems and needlessly complicate branch accounting processes and in CSF's opinion would result in numerous errors in the books of account.

The Cash Store and Instaloans feel that Ontario's payday lending requirements are designed for, and aimed at, small mom-and-pop operations that lack sophisticated accounting systems. The theory being that if a payday lender keeps all of the funds in a single bank account and doesn't commingle those funds it should be simple for the regulator to do a proper accounting even in the absence of a sound accounting system. On the other hand, large operators like Cash Store have sophisticated accounting systems and strong systems of internal controls that can be relied upon to produce accurate financial records for each of its licensees. In other words, in so far as accurate financial records are required, the interests of the Ontario consumer and the Consumer Protection Branch are met through the companies' compliance with Canada's securities law.

....

"What CSF needs from the Consumer Protection Branch is an understanding of the underlying policy objectives of ss11 so that it can provide the Branch with an explanation of how its banking structure and its accounting systems meet those policy objectives, or how it can adjust its systems to meet these policy objectives".

110. The requirements and prohibitions of the Act and Regulation apply equally to all licensees and must be adhered to by all licensees, whether a "mom-and-pop" operation or a "publically traded" operation.

111. In the text quoted in paragraph 109 of these allegations, Cash Store and Instaloans indicate their willingness to meet their interpretation of the policy objectives, but not the express requirements, of ss. 11(3) of the Regulation.

As such, Cash Store and Instaloans signal their intent to continue to contravene the actual legal requirements of subsection 11(3) of the Regulation.



### **Rights Relating to Devices**

112. **Subsection 22(0.1) of the Regulation** reads “Upon delivering or providing access to all or part of the advance under a payday loan agreement to the borrower by way of a device, the lender shall ensure that the borrower is informed orally of the borrower’s rights under subsections (1), (2), (3) and (5)”. Subsection 22(4) provides that “If a loan broker assisted the borrower in obtaining the payday loan, the loan broker shall facilitate compliance with subsections (0.1) and (3)”.

113. In essence, when delivery or access to the advance (or part of it) is made by way of a device, the borrower must be informed of his/her entitlement to receive in cash the advance or the balance of the advance that is on or accessible by the device. Upon making a request for cash, the borrower is entitled to receipt of the same immediately and at no charge.

114. As set out in paragraphs 62 and 63, borrowers dealing with Cash Store and Instaloans are sometimes provided with their advance by way of a device. However, Cash Store and Instaloans do not provide cash to borrowers and do not orally inform borrowers of their rights under section 22 of the Regulation.

As such, Cash Store and Instaloans contravene ss. 22(0.1) or 22(4) of the Regulation, as the case may be.

### **Collection Practices**

115. **Subsection 32(3) of the Regulation** sets out prohibited methods of collection. Specifically, paragraph 2 of ss. 32(3) prohibits a licensee from contacting “ ... the borrower more than three times in a seven-day period, except that contact made by ordinary mail shall not be counted as contact”.

116. Cash Store and Instaloans contact borrowers with delinquent payday accounts, by telephone, more than three times in a seven-day period.

As such, Cash Store and Instaloans contravene paragraph 2 of subsection 32(3) of the Regulation.

### **Unlawful Charges**

117. **Subsection 30(1) of the Regulation** reads “No licensee in respect of a payday loan agreement in which the licensee was involved shall refuse to disclose the balance on the device or accessible by the device to the borrower at the request of the borrower or shall charge the borrower a fee for disclosing that balance”.

118. When Cash Store and Instaloans use a device to make the payday loan available to the borrower, the borrower may determine the outstanding balance by making an inquiry using that device. When such an inquiry is made, a charge of approximately \$1.75 is imposed.

As such, Cash Store and Instaloans contravene ss. 30(1) of the Regulation.

**This is EXHIBIT "E" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

  
\_\_\_\_\_  
**A Commissioner, etc.**

## News Article

### [All News](#)

#### Cash Store Financial introduces its expanded line of credit products to Ontario consumers

2/1/2013 12:00:00 AM

EDMONTON, Feb. 1, 2013 /CNW/ - The Cash Store Financial Services Inc. ("Cash Store Financial") (TSX:CSF) (NYSE:CSFS) today announced that it has launched a new suite of line of credit products in Ontario. These line of credit products are designed to better serve the under-banked consumers through flexible medium term credit products and help build a credit history and move toward lower cost mainstream credit.

"This suite of unsecured line of credit products enables consumers to move up the credit ladder toward credit-scored products that will eventually enable access to mainstream lending products. With each step up the ladder consumers get better rates and more flexible repayment terms," said Gordon J. Reykdal, Chairman and CEO.

"Over the past 10 years Cash Store Financial has leveraged the popularity of payday loan products to build a network of 178 branches in the province of Ontario. We have distinguished ourselves from our competitors by building a branch environment, much like a bank, that enables consumers to conduct their affairs in a private and respectful manner. Customers appreciate this approach and they have demanded better products and access to more bank-like services. Expanding our focus to emphasize a more mainstream approach has been a long-term priority for the Company. The potential to more effectively leverage our branch network is significant."

Mr. Reykdal added: "Our ultimate goal is to lengthen the relationship with the customer and to reduce their future borrowing costs with a more traditional source of funding. We believe this product offering is a great first step toward this goal."

Cash Store Financial's line of credit products have been tested nationally for over a year. The full suite of products was introduced in Manitoba in the fall of 2012, where the Company no longer offers payday loans. Consumer acceptance of the product offerings has been strong. The Company intends to establish lines of credit products in Ontario as its primary product offering. Payday loans are no longer being offered but the Company intends to maintain a payday loan license in the Province of Ontario, at least until such time that the success of the new product offering has materialized as the Company anticipates. The lines of credit are traditional, revolving loans, with regular minimum payments tailored to customers' needs and profiles. Management has determined that the restrictive nature of Ontario's payday loan regulatory scheme prevents it from meeting consumer demands. These new product offerings fall under relevant Federal laws. This provides the Company with the requisite flexibility to effectively serve a broader customer base with better products, at rates that are appropriate to the credit risk associated with each line of credit advanced.

#### About Cash Store Financial

Cash Store Financial is the only lender and broker of short-term advances and provider of other financial services in Canada that is listed on the Toronto Stock Exchange (TSX: CSF). Cash Store Financial also trades on the New York Stock Exchange (NYSE: CSFS). Cash Store Financial operates 512 branches across Canada under the banners "Cash Store Financial", "Instaloans" and "The Title Store". Cash Store Financial also operates 25 branches in the United Kingdom.

Cash Store Financial and Instaloans primarily act as lenders and brokers to facilitate short-term advances and provide other financial services to income-earning consumers who may not be able to obtain them from traditional banks. Cash Store Financial also provides a private-label debit card (the "Freedom" card) and a prepaid credit card (the "Freedom MasterCard") as well as other financial services, including bank accounts.

Cash Store Financial employs approximately 1,900 associates and is headquartered in Edmonton, Alberta.

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store". Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

*This news release contains "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning United States federal securities legislation, which we refer to herein, collectively, as "forward-looking information". Forward-looking information includes, but is not limited to, information with respect to our objectives, strategies, operations and financial results, competition as well as initiatives to grow revenue or reduce retention payments. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "estimates", "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". In particular this news release contains forward-looking information with respect to our goals and strategic priorities, introduction of products, share repurchase initiatives, branch openings and competition as well as initiatives to grow revenue or reduce retention payments. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Cash Store Financial, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions,*

and other factors described under the heading "Risk Factors" in our Annual Information Form, which is on file with Canadian provincial securities regulatory authorities, and in our Annual Report on Form 40-F filed with the U.S. Securities and Exchange Commission. All material assumptions used in providing forward-looking information are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including our knowledge of the current credit, interest rate and liquidity conditions affecting us and the general economic conditions in Canada, the United Kingdom and elsewhere. Although we believe the assumptions used to make such statements are reasonable at this time and have attempted to identify in our continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material factors or assumptions are applied by us in making forward-looking information, include without limitation, factors and assumptions regarding our continued ability to fund our payday loan business, rates of customer defaults, relationships with, and payments to, third party lenders, demand for our products, as well as our operating cost structure and current consumer protection regulations. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.

SOURCE: The Cash Store Financial Services Inc.

For further information:

Gordon Reykdal, Chairman and CEO, at 780-408-5118, or  
 Craig Warnock, Chief Financial Officer, at 780-732-5683

Investor Relations are provided by Hayden IR. Contact is Brett Maas, Managing Partner. Contact: (646) 536-7331 (Office); or, (480) 861-2425 (Mobile).



[About Us](#)
[Corporate Information](#)
[Financial Products](#)
[Careers](#)
[Find A Canadian Branch](#)
[Home](#)  
[Contact Us](#)
 Site contents © Cash Store Financial Inc. 2008. All rights reserved.

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store." Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

**This is EXHIBIT "F" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

A handwritten signature in black ink, consisting of several loops and a large circular flourish at the end, positioned above a solid horizontal line.

***A Commissioner, etc.***

## **Ontario's Payday Lending Industry**

March 13, 2009 11:35 a.m.

### ***Payday loans***

A payday loan is a short-term loan for a small amount of money. The average payday loan in Canada is about \$300 for a term of two weeks.

This money is advanced in exchange for a post-dated cheque, a pre-authorized debit or a future payment of a similar nature.

Lenders typically require a borrower to show pay stubs proving three months of continuous employment, supply proof of address, such as a recent utility bill and have an active chequing account.

### ***A profile of Ontario's payday lending industry***

Canada's payday lending industry has grown rapidly, first appearing in western Canada in the early 1990s and migrating eastward.

There are about 1,350 payday loan storefronts in Canada -- with about 750 of these stores operating in Ontario. The payday lending industry also offers loans through the internet and by telephone.

The total payday loan volume in Canada is estimated at \$2 billion per year. The average payday loan storefront lends about \$1.5 million and makes 5,000 individual loans per year, based on an average loan of \$300.

### ***The Payday Loans Act, 2008***

Certain provisions under the Payday Loans Act, 2008, come into force beginning April 1, 2009.

This legislation:

- Creates a licensing regime for payday lenders and payday loan brokers
- Requires lenders to include in the total cost of borrowing all amounts the borrower is required to pay as a condition of entering into a payday loan agreement
- Prohibits certain industry practices, including "rollover" loans. "Rollover" loans occur when a consumer already has one payday loan, and before that loan is paid off in full, receives another payday loan from the same lender

- Provides for enforcement through prosecutions and the ability, subject to appeal, to revoke the licenses of payday lenders and loan brokers
- Establishes the Ontario Payday Lending Education Fund, made up of mandatory financial contributions from licensees, to promote understanding of the Payday Loans Act, 2008 and general financial planning
- Will increase public confidence in the payday lending market
- Allows borrowers to cancel payday loan agreements -- without penalty -- during a two-day cooling-off period.

Licensing provisions under the Payday Loans Act, 2008, come into force beginning April 1, 2009.

On August 1, 2007, new regulations under the Consumer Protection Act, 2002, came into force.

These regulations required: lenders to post information that enables borrowers to compare lending costs; specific information to be set out on the first page of the payday credit agreement; the payday credit agreement to be delivered to the borrower upon entering into the agreement.

The Government of Canada's Bill C-26, An Act to Amend the Criminal Code provides provinces across Canada with the opportunity to set the maximum total cost of borrowing for payday loan agreements in their own jurisdictions if they meet specific requirements and request designation. British Columbia, Manitoba, Saskatchewan, New Brunswick and Nova Scotia have enacted payday lending legislation that is consistent with requirements for designation under Bill C-26. Ontario's Payday Loans Act, 2008, which received royal assent on June 18, 2008, provided for the setting of limits to the total cost of borrowing for payday loan agreements in Ontario. Ontario has been working in close cooperation with other provinces for several years to ensure a harmonized approach to credit agreements and the protection of borrowers.

#### ***The Maximum Total Cost of Borrowing Advisory Board***

In April 2008, Ontario established a Maximum Total Cost of Borrowing Advisory Board to recommend an upper limit to the maximum total cost of borrowing for payday loan agreements in Ontario. The board consulted and heard from over 20 community advocacy groups, industry representatives, along with experts from both the financial and academic communities.

The board recommended Ontario set a maximum total cost of borrowing cap for payday loan agreements at \$21 per \$100 borrowed. This approach balances the need to ensure the competitiveness of the payday lending industry while making sure consumers who need access to this type of credit enjoy strong protections. The report is available on the Ministry of Small Business and Consumer Services website.



The maximum total cost of borrowing cap for payday loan agreements in Ontario will come into force upon designation of Ontario under the Criminal code of Canada (as amended by Bill C-26).

***Jurisdictional Comparisons***  
***Maximum total cost of borrowing for payday loan agreements***

<b>Manitoba</b>	<b>Ontario</b>	<b>British Columbia</b>	<b>Nova Scotia</b>
\$17 per \$100 borrowed	\$21 per \$100 borrowed	\$23 per \$100 borrowed	\$31 per \$100 borrowed

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**Available Online**  
**Disponible en Français**

**This is EXHIBIT "G" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
\_\_\_\_\_  
**A Commissioner, etc.**

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**Regulation - LGIC**


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**Proposed Regulatory Amendments to the General Regulation (O. Reg. 98/09) of the Payday Loans Act, 2008**

**Ministry:** Ministry of Consumer Services

**Regulation Number(s):** Reg. 98/09  
316/11

**Bill or Act:** Payday Loans Act, 2008

**Summary of Decision:** Amendments were made to the General Regulation to increase the protections extended to borrowers under the Payday Loans Act, 2008. This was done, for example, by adding to the disclosure obligations of payday lenders and by adding to the prohibited practices of licensees. Also, an amendment was made to the provision dealing with the amounts prescribed as included in the cost of borrowing with respect to a payday loan agreement.

**Further Information:** [📄 Ontario Regulation 316/11](#)  
[📄 Ontario Regulation 98/09](#)  
[📄 Payday Loans Act, 2008](#)

**Proposal Number:** 11-MCS005

**Posting Date:** June 7, 2011

**Summary of Proposal:** In 2008, the government enacted legislation to protect users of payday loans. The General Regulation under the Payday Loans Act, 2008 (the Act) prescribes, amongst other matters, licensing requirements for all payday lenders and loan brokers, consumer protection features that include enhanced disclosure requirements and the maximum total cost of borrowing limit for payday loan agreements.

The Ministry of Consumer Services is proposing to amend the General Regulation to clarify what is included in the maximum total cost of borrowing limit so that borrowers pay no more than the maximum, which is \$21 per each \$100 advanced under a payday loan agreement. Under the proposal, borrowers could not be charged fees, either directly or indirectly, that increase the cost of borrowing for a payday loan over the legal limit.

The proposed regulatory amendment would also clarify that borrowers must receive access to the full amount of the advance under the payday loan agreement, without deduction, at the time of entering into a payday loan agreement.

The Ministry of Consumer Services seeks comments on the government's intent to proceed with regulatory amendments to address this issue. To view Ontario's Payday Loans Act, 2008, see link below. To view Ontario's General Regulation of the Payday Loans Act, 2008, see the link below.

**Contact Address:** Ministry of Consumer Services  
Consumer Policy and Liaison Branch  
Consumer and Business Policy  
777 Bay Street, 5th Floor  
Toronto, ON M7A 2J3  
Attention: Samantha Pinto, Senior Policy Advisor

**Effective Date:** September 1, 2011

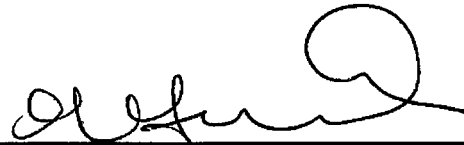
**Decision:** Approved

**This is EXHIBIT "H" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

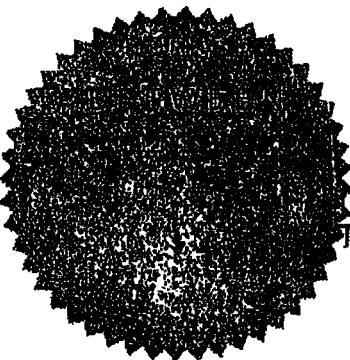
**February, 2014.**

A handwritten signature in black ink, appearing to be "A. Bowden", written over a horizontal line.

***A Commissioner, etc.***

Court File No.: 409/11

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
DIVISIONAL COURT**



**THE CASH STORE FINANCIAL SERVICES INC.,  
THE CASH STORE INC. and INSTALOANS INC.**

Applicants

- and -

**HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO  
as represented by the MINISTER OF CONSUMER SERVICES  
and the LIEUTENANT GOVERNOR IN COUNCIL OF ONTARIO**

Respondents

**NOTICE OF APPLICATION TO DIVISIONAL COURT  
FOR JUDICIAL REVIEW**

**TO THE RESPONDENTS**

A LEGAL PROCEEDING HAS BEEN COMMENCED by the Applicant. The Claim made by the Applicant appears on the following page.

THIS APPLICATION for judicial review will come on for a hearing before the Divisional Court on a date to be fixed by the registrar at the place of hearing requested by the Applicant. The Applicant requests that this application be heard at Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the *Rules of Civil Procedure*, serve it on the Applicant's lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in the office of the Divisional Court, and you or your lawyer must appear at the hearing.

-2-

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the Applicant's lawyer or, where the Applicant does not have a lawyer, serve it on the Applicant, and file it, with proof of service, in the office of the Divisional Court within thirty days after service on you of the Applicant's application record, or not later than 2 p.m. on the day before the hearing, whichever is earlier.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date

August 31/2011

Issued by



Registrar

Address of  
court office:Osgoode Hall  
130 Queen Street West  
Toronto ON M5H 2N5

TO: The Honourable John Gerretsen  
Minister of Consumer Services  
6th Floor, Mowat Block  
900 Bay Street  
Toronto ON M7A 1L2

AND TO: Lieutenant Governor in Council  
Office of the Lieutenant Governor of Ontario  
Legislative Building, Room 131  
Queen's Park  
Toronto, Ontario M7A 1A7

AND TO: Attorney General of Ontario  
Law Office – Civil  
720 Bay Street  
8<sup>th</sup> Floor  
Toronto, Ontario M5G 2K1

**APPLICATION**

1. The Applicants make this application for:
  - (a) An order declaring that, in respect of Ontario Regulation 98/09 as amended by 316/11 ("New Regulations") made under the *Payday Loans Act, 2008*, S.O. 2008, c. 9 (the "Act"):
    - (i) The combined effect of the definition of "device" in s. 1 and section 17 seek to include third party fees and charges in the calculation of the total cost of borrowing, and is *ultra vires* and of no force and effect;
    - (ii) Section 22 effectively requires payday loans to be offered as a "cash only" business and is *ultra vires* and of no force and effect;
    - (iii) Section 27 prohibits the sale of any form of optional good or service in connection with a payday loan and is *ultra vires* and of no force and effect;
  - (b) A declaration that the impugned provisions of the New Regulations discriminate against the Applicants specifically and exceed the explicit regulation-making powers under the Act, and are *ultra vires* and of no force and effect;
  - (c) A declaration that debit cards and pre-paid credit cards issued and offered by third party service providers, are not a "device" within the meaning of the Act;

- 2 -

- (d) A order for an interim or interlocutory injunction or a declaration staying the force and effect of the New Regulations;
  - (e) The costs of this proceeding, plus all applicable taxes; and,
  - (f) Such further and other relief as to this Honourable Court may seem just.
2. The grounds for the application are:

***The Applicants***

- (a) Cash Store Financial Services Inc. is a publically traded company listed on the Toronto Stock Exchange and the New York Stock Exchange. Cash Store Inc. and Instalozans Inc. are wholly-owned subsidiaries of Cash Store Financial Services Inc. (collectively, "Cash Store Financial");
- (b) Cash Store Financial is licensed in the province of Ontario to carry on the business of brokering short-term loans to borrowers in Ontario in amounts of \$1,500 or less. Such loans are commonly referred to as "payday" loans. Cash Store Financial operates in over 200 branches in Ontario and has over 750 employees in Ontario;

***The impugned regulations***

- (c) Ontario's payday lending industry is regulated by the combined effect of the *Payday Loans Act* and its associated regulations;
- (d) The Act establishes licensing requirements and provides for the regulation of licensed payday lenders and loan brokers. The Act, *inter alia*, contains



- 3 -

express rights and remedies for borrowers, procedures for making and handling complaints, inspection and investigation powers vested in the province, and enforcement mechanisms including the ability to levy administrative penalties. The Act further establishes an Ontario Payday Lending Education Fund;

- (e) Ontario Regulation 98/09 is the general regulation made under the Act (the "General Regulation"). Among other things, the General Regulation sets specific conditions of lending on licensees. These conditions include rigorous and specific requirements as to the contents of payday loan agreements and the terms of those agreements, disclosure requirements, and limits on the cost of borrowing;
- (f) On September 1, 2011, certain amendments to the General Regulation are to come into force and effect. These amendments contain broad changes to the payday lending regulations that specifically affect the business of Cash Store Financial;
- (g) The New Regulations purport to entirely eliminate the ability of consumers to purchase optional goods or services "in connection with" payday loans. The stated purpose and effect of the New Regulations will be to prohibit optional services currently offered by Cash Store Financial to its customers, including a prohibition on optional insurance products and banking services;

- 4 -

- (h) The New Regulations further purport to require Cash Store Financial to make all loan funds advanced available to borrowers by way of cash, payable immediately upon request. Cash Store Financial's business is distinguishable from its competitors in the marketplace in that it specifically does not provide advances in cash, but rather provides advances by way of cheque or other optional electronic funds transfer mechanisms. This allows Cash Store Financial to eliminate the need for customers to conduct loan transactions in high security premises, which is necessary for a cash business, and generally provides a more customer-service oriented experience. The requirement to make cash immediately available upon request will force Cash Store Financial to cease operating in this manner and instead will require it to conform to the particular business model of its competitors.
- (i) Neither the Act nor the regulations contain an express statement of its purpose or objective. The *Payday Loans Act* has been described in Ontario's legislative assembly as intending to create "a licensing regime for payday lenders to ensure fairness in the provision of payday loans," to provide consumers "with the information they need to protect themselves and make more informed choices," and to set a "maximum total-cost-of borrowing cap to limit the amount payday lenders can charge;"
- (j) The New Regulations are *ultra vires* the purpose and objectives of the Act, which are to govern payday loan transactions and place a cap on the total

- 5 -

cost of borrowing for those loans, not to limit other forms of commercial activity;

- (k) The New Regulations are *ultra vires* in that they effectively prohibit the sale of any form of optional good or service in connection with a payday loan. This constitutes an unlawful interference with the property and commercial rights of licensees and of third parties in the business of providing insurance and banking services in ways that are not expressly authorized by the Act;
- (l) The New Regulations are *ultra vires* in that they seek to include, in the maximum allowable total cost of borrowing, fees, charges or other amounts paid entirely to third parties for optional services and which are not within the scope of the Act;
- (m) The New Regulations are *ultra vires* in that they require that payday loans be immediately available to borrowers in cash, upon request, *de facto* mandating that payday loans be a "cash only" business;
- (n) The New Regulations appear to improperly target Cash Store Financial specifically, to the exclusion of other licensees, and therefore amount to a form of regulatory discrimination;
- (o) Cash Store Financial will be required to effect significant changes to its operations in order to comply with the New Regulations, and accordingly is directly affected and prejudiced by the amendments;

- 6 -

- (p) Such further and other grounds as counsel may advise and this Honourable Court permits.
3. The following documentary evidence will be used at the hearing of the application:
- (a) The Applicants' Application Record;
  - (b) Such further and other evidence as counsel may advise and this Honourable Court permits.

August 31, 2011

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THE CASH STORE FINANCIAL INC., THE CASH STORE  
and INSTALOANS INC.

Applicants

and

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO as  
represented by the MINISTER OF CONSUMER SERVICES and  
the LIEUTENANT GOVERNOR IN COUNCIL OF ONTARIO  
Respondents

Court File No.:

ONTARIO  
SUPERIOR COURT OF JUSTICE  
DIVISIONAL COURT

PROCEEDING COMMENCED AT  
TORONTO

NOTICE OF APPLICATION TO DIVISIONAL COURT  
FOR JUDICIAL REVIEW

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TIMOTHY YEOMAN

Plaintiff

v. THE CASH STORE FINANCIAL SERVICES INC., et al.  
Defendants

Court File No. 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

PROCEEDINGS COMMENCED AT LONDON

**MOTION RECORD  
(for Certification)  
(VOLUME 1)**

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Lawyers for the Plaintiff

**This is EXHIBIT "I" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*

Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. (applicants) v. Her Majesty the Queen in Right of Ontario (Minister of Consumer Services) and Lieutenant Governor in Council (respondents)

Court File No. 409/11

Heard: December 21, 2012

This application was started more than 15 months ago. Some progress has been made in recent months towards readiness for hearing, but there are outstanding issues regarding the evidentiary record. It seems the application could be ready to be heard in this court by next April or May.

The Supreme Court of Canada is scheduled to hear the *Shoppers Drug Mart* case next May. At this stage, the applicants' view is that the disposition of that case will be highly significant for this one, whereas the respondent says it is unlikely the *Shoppers Drug Mart* case will have any determinative consequence here. When the panel hears this application it will be in a much better position to appreciate the significance of the *Shoppers Drug Mart* case to the similar, but different, issues raised in this case. I am not persuaded that *Shoppers Drug Mart* will necessarily be dispositive of the issues in this case. The fact that it could be significant would be more important to the discretion I am now exercising on this motion but for other factors:

1. There has been no cogent explanation for the original delay; that is to say no evidence the applicants were diligently proceeding with the application before receiving notice of a possible dismissal for delay twelve months after the application was started;
2. It is telling in my opinion that the applicants do not assert that they are complying with the impugned regulations, or will comply with them, pending the determination of this application. I draw an adverse inference in that regard, buttressed by the cross-examination refusals by Mr. Thompson.
3. On their face, the impugned regulations are clearly intended as consumer protection;
4. The delay sought may be temporary but it is indeterminate; and
5. The panel hearing this application, with a fuller understanding of the legal issues than I can glean from a time limited motion, could reserve its decision if it seems appropriate to await the Supreme Court of Canada's decision in the *Shoppers Drug Mart* case.

The motion is therefore dismissed with costs fixed in the amount of \$5,000 in favour of the respondent, a figure agreed upon by counsel.

December 21  
2012

  
Aston J.



**This is EXHIBIT "J" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**



***A Commissioner, etc.***

CITATION: The Cash Store Financial Services Inc. v. Ontario (Consumer Services), 2013  
ONSC 6440  
DIVISIONAL COURT FILE NO.: 409/11  
DATE: 20131105

ONTARIO  
SUPERIOR COURT OF JUSTICE  
DIVISIONAL COURT

A.C.J.S.C. Marrocco, Pardu and Sachs JJ.

BETWEEN:

THE CASH STORE FINANCIAL  
SERVICES INC., THE CASH STORE  
INC. and INSTALOANS INC.

Applicants

)  
)  
)  
) *Timothy Pinos & Jason Beitchman, for the*  
) *Plaintiffs*  
)

- and -

HER MAJESTY THE QUEEN IN RIGHT  
OF ONTARIO as represented by the  
MINISTER OF CONSUMER SERVICES  
and the LIEUTENANT GOVERNOR IN  
COUNCIL OF ONTARIO

Respondents

)  
) *Bill Manuel & Emtiaz Bala, for the*  
) *Respondents*  
)  
)  
)  
)  
)  
)  
)

) **HEARD at Toronto: October 2, 2013**  
)

**H. SACHS J.:**

**Overview**

- [1] The Applicants (collectively "Cash Store") bring this application for judicial review in which they challenge the validity of amendments made to Ontario Regulation 98/09 (the "Regulation") by Ontario Regulation 316/11 (the "Amending Regulation"), both of which were enacted under the *Payday Loans Act, 2008*, S.O. 2008, c. 9 (the "Act").
- [2] Until recently, Cash Store was a licensed payday lender in Ontario. The effect of the Amending Regulation was to limit certain practices employed by Cash Store in its

dealings with its payday loan customers. According to the Respondent, these practices had the effect of increasing the cost of borrowing for payday loans beyond the legislated maximum.

- [3] Cash Store argues that the process of enacting the Amending Regulation was unfair and breached its legitimate expectations because the Respondent failed to comply with a published government policy providing for notice and consultation about regulations affecting businesses.
- [4] Cash Store also submits that certain provisions of the Amending Regulation are *ultra vires* as they exceeded the authority of the Lieutenant Governor in Council to make regulations under the *Act*.
- [5] For the reasons that follow, I would dismiss the application.

### **Background**

#### ***Payday loans and their regulation in Ontario***

- [6] In its report, *Capping Borrowing Costs, A Balanced Approach to Payday Loans in Ontario* (February 6, 2009), the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the "Advisory Board") explained payday loans as follows, at p. 7:

A payday loan is a short-term loan for a small sum of money advanced in exchange for a post-dated cheque, pre-authorized debit or similar future payment. The loan is not secured by property. The payment the borrower is required to make includes the principal amount plus all interest and fees charged. Payment is made by post-dated cheque or pre-authorized debit dated on the borrower's next payday and provided when the loan agreement is made.

Typically, lenders require the borrower to show pay stubs proving three months of continuous employment, supply proof of address such as a recent utility bill, and have an active chequing account. A credit check is rarely performed. The borrower receives the funds in cash, by direct deposit or on a preloaded debit card that can be accessed immediately. The money cannot be advanced through a credit card or line of credit.

In Canada, loans typically range up to 60 per cent of the borrower's net pay. Both federal and Ontario legislation restrict payday loans to \$1,500 or less, for a term of 62 days or less. However, these ceilings are seldom reached. The average loan in Canada is approximately \$300 for a term of two weeks.

- [7] Prior to 2006, Ontario regulated several aspects of payday loans through its consumer protection legislation. What it did not regulate was the cost of a payday loan. This was governed across Canada by s. 347 of the *Criminal Code*, R.S.C. 1985, c. C-46, which set the criminal interest rate.
- [8] In 2006, the federal government amended the *Criminal Code* to allow for designated provinces to regulate payday loans and license payday loan lenders. A province could only be designated if it had enacted legislative measures that would “protect the recipients of payday loans” and provide for limits on the total cost of borrowing under payday loan agreements: *Criminal Code*, s. 347.1(3).
- [9] Ontario consulted broadly on the need for payday loan regulation in 2007 and, in 2008, the *Act* was passed. Ontario was designated under s. 347.1(3) of *Criminal Code* on October 1, 2009. The province then appointed the Advisory Board to recommend a cap on borrowing costs and, following their report, Ontario passed the Regulation, which set the total cost of borrowing for payday loans at \$21 per \$100 borrowed (s. 23).

### ***Cash Store's business model***

- [10] Cash Store was a licensed payday lender in Ontario until July 2013, when it allowed its licence to lapse. According to Cash Store, it operated as a “cashless” business. What this meant was that payday loan proceeds would only be advanced to customers by way of cheque or electronic funds transfer (“EFT”). The EFT would deliver the funds into a consolidated trust account at DirectCash Bank (“DC Bank”), a federally-chartered Schedule 1 Bank pursuant to the *Bank Act*, S.C. 1991, c. 46.
- [11] According to Cash Store, it operated as an agent for DC Bank in taking its payday loan customers’ applications for certain DC Bank products, including bank accounts and cash cards. Customers could then elect to have their loan proceeds deposited directly into their DC Bank bank account or loaded onto their DC Bank cash card. Fees for the acquisition and use of the DC Bank products and services, including cash cards, were collected by DC Bank and its related companies. These fees, if included in the total cost of borrowing, took the cost of a Cash Store payday loan above the prescribed limit of \$21 per \$100 borrowed.
- [12] DC Bank provided Cash Store with a commission for every customer who opted into DC Bank’s services. Cash Store’s 2012 third-quarter financial statements showed receivables of \$10,091,000 from DirectCash Payments Inc. (Charges in respect of DC Bank cash cards were remitted directly to Direct Cash Management Inc.).
- [13] Prior to January of 2010, Cash Store offered insurance, provided by TGI Insurance, on every payday loan. In January of 2010, they were informed by a Ministry Compliance Inspector that this practice was prohibited. Thereafter, Cash Store continued to offer optional insurance on its payday loans via a separate contract that was included in the

standard loan documents received by its customers. This insurance increased the customer's cost of borrowing by 3.77%.

### ***The Amending Regulation***

- [14] The Amending Regulation provides that the definition of the "total cost of borrowing" includes any "amount that is connected directly or indirectly to the payday loan agreement", and that is paid by the borrower or for which the borrower is obligated to pay "upon entering into the agreement". It also amends the definition of "device" to include all types of debit cards and prepaid credit cards and requires that all licensees provide cash for the unused balance on a "device" if requested by the customer, regardless of whether any funds have been withdrawn. As well, under the Amending Regulation, licensees are prohibited from selling any other products on behalf of themselves or third parties in connection with a payday loan agreement.
- [15] The combined effect of these amendments was two-fold for Cash Store. First, the fees levied by DC Bank, TGI Insurance and other third parties are now included in the total cost of borrowing capped at \$21 per \$100 borrowed, and Cash Store can no longer offer these services on behalf of third parties. Second, Cash Store is obligated to ensure that, if requested, their payday loan borrowers can immediately access the proceeds of their loans in cash from Cash Store. This, according to Cash Store, affected their ability to operate as a "cashless business", a business model it had deliberately adopted to make its physical environment more welcoming to customers and less driven by security concerns.

### ***Government consultation regarding the Amending Regulation***

- [16] At the heart of Cash Store's submission regarding procedural fairness is the Ontario Regulatory Policy ("ORP"). The ORP applies to "regulations that affect business" and provides that a summary of regulations that are deemed to affect business will be posted for consultation purposes for a mandatory period of 45 days.
- [17] Notice of Ontario's proposal to amend the Regulation was provided to the public on June 7, 2011, via a document summarizing the proposed changes. The Notice indicated that the amendments would "clarify what is included in the maximum total cost of borrowing" and "clarify that borrowers must receive access to the full amount of the advance under the payday loan agreement, without deduction, at the time of entering into a payday loan agreement".
- [18] A nine-day period for public comment was provided. A Cabinet Briefing Note prepared in respect of the proposed amendments was signed by the Deputy Minister of Consumer Services on June 13, 2011, six days after the Notice was posted. The Note acknowledged that the amendments would have a significant effect on "one large industry operator", *i.e.*, Cash Store. The Note approved of the amendments and was signed by the Minister on June 20, 2011.
- [19] Cash Store's CEO wrote to Ministry officials regarding the proposed amendments on June 7, 2011. Ministry officials discussed the amendments with Cash Store on June 10,

2011, and the CEO followed up with an email that day summarizing Cash Store's position on the amendments.

- [20] The Amending Regulation was published on June 29, 2011, and came into effect two months later on September 1, 2011.

### Analysis

#### ***Did Cash Store have a legitimate expectation of more consultation prior to the publishing of the Amending Regulation?***

- [21] Cash Store submits that the ORP created a legitimate expectation that no amendments to the Regulation would be made without first providing a 45-day period to consult with Cash Store and other stakeholders. This expectation was breached when the Amending Regulation was published after only a nine-day public comment period. On this basis, Cash Store is seeking a declaration that a breach of its legitimate expectations occurred, an order quashing or setting aside the Amending Regulation and an order requiring the Respondent to abide by the ORP.
- [22] The doctrine of legitimate expectations is part of the duty of procedural fairness. The Supreme Court of Canada recently described its scope in *Canada (Attorney General) v. Mavi*, 2011 SCC 30, [2011] 2 S.C.R. 504, at para. 68, per Binnie J.:

Where a government official makes representations within the scope of his or her authority to an individual about an administrative process that the government will follow, and the representations said to give rise to the legitimate expectations are clear, unambiguous and unqualified, the government may be held to its word, provided the representations are procedural in nature and do not conflict with the decision maker's statutory duty. Proof of reliance is not a requisite. It will be a breach of the duty of fairness for the decision maker to fail in a substantial way to live up to its undertaking. [Citations omitted]

- [23] The first problem with Cash Store's submission is that the doctrine of legitimate expectations does not apply to the exercise of powers of a legislative nature. Cash Store argues that the Amending Regulation does not represent the exercise of a legislative power that would exclude the application of the doctrine. In doing so, they rely on the following excerpt from the *obiter* comments of Evans J.A. in *Apotex Inc. v. Canada (Attorney General)*, [2000] 4 F.C. 264 (F.C.A.), at para. 126:

Therefore, in the absence of binding authority to the contrary, I conclude that the doctrine of legitimate expectations applies in principle to delegated legislative powers so as to create participatory rights when none would otherwise arise, provided that honouring the expectation would not breach some other legal

duty, or unduly delay the enactment of regulations for which there was a demonstrably urgent need.

- [24] While it is not necessary for me to rule on the question of whether the doctrine of legitimate expectations can ever be applied to subordinate legislation, I would note that the other two judges in *Apotex* expressed “serious reservations as to the applicability of the doctrine of legitimate expectations to Cabinet in the exercise of its regulation-making power” (para. 21).
- [25] This view is certainly the dominant one in the case law, which has never applied the doctrine to set aside a regulation that had been passed by Cabinet. In *Apotex* even Evans J.A. refused to set aside the regulations in question because they had already been approved by Cabinet. According to Evans J.A., if that approval was made in ignorance of the assurance that the Minister was alleged to have given, there could not be said to be an abuse of statutory power. Further, given the confidential nature of Cabinet proceedings, it would be impermissible for the courts to inquire into the state of mind of Cabinet when it passed the regulations, including whether it was aware of the undertaking or not.
- [26] The second problem with Cash Store’s submissions on this point is that in *Amalorpavanathan v. Ontario (Minister of Health and Long-term Care)*, 2013 ONSC 5415 (Div. Ct.), the Divisional Court found that the ORP could not form the basis for an argument based on the doctrine of legitimate expectations. Its reasons for doing so apply equally in this case. First, the ORP is not a representation that was made directly to Cash Store individually or as a member of a specific group. As put by the court in that case, at para. 10, “[t]he policy is one of general application made to all the citizens of the Province.” Second, the ORP is not a “clear, unambiguous and unqualified” representation. It specifically contains a non-exhaustive list of exceptions, one of which the Respondent claims applies in this case. Whether the exception does or does not apply, or whether the exception was or was not obtained does not matter. As Nordheimer J. noted in *Amalorpavanathan*, it is the fact that the ORP contains a non-exhaustive list of exceptions that makes it incapable of being considered either clear or unqualified.
- [27] The third problem with Cash Store’s position on this issue is that even if Cash Store were successful in establishing a breach of its legitimate expectations based on the ORP, the question would still remain as to whether this court should grant the remedies requested. In effect, these remedies would afford Cash Store the opportunity to consult. In this case, the record shows that Cash Store had the opportunity to meet with and write to the government before the Amending Regulation was passed.

***Are certain provisions of the Amending Regulation ultra vires?***

- [28] Cash Store submits that three sections of the Amending Regulation are *ultra vires* the *Act*. The first provision that is subject to this challenge is s. 3(1) of the Amending Regulation, whereby the amount prescribed as included in the cost of borrowing with respect to a payday loan agreement is amended to include an amount that is connected

“directly or indirectly to the payday loan agreement” (the “Cost of Borrowing Amendment”). The second is s. 5 of the Amending Regulation, the section providing that the borrower is entitled to receive cash for any advance made by way of a device (the “Delivery of Advance Amendment”). The third is s. 6(1) of the Amending Regulation that prohibits a licensee from offering or providing any service in connection with a payday loan agreement other than the payday loan, whether that service is offered on its own or someone else’s behalf (the “Third Party Services Amendment”).

- [29] Cash Store argues that these provisions are *ultra vires* because they are inconsistent with the object and purposes of the *Act* and are prohibitory rather than regulatory in nature.

#### The Purpose of the Act

- [30] The *Act* itself does not contain a “purpose” section. However, the legislative history set out above highlights that in order to become a designated province authorized to govern the cost of borrowing in payday loan transactions, Ontario had to enact legislative measures that protected the recipients of payday loans and ensured that the costs associated with these loans did not exceed certain limits. Ontario became a designated province because it had enacted legislation that achieved these two purposes.
- [31] In a discussion paper released by the Ontario Ministry of Government Services, dated April 27, 2007, the Ontario government initiated a public review and requested comments related to the regulation of payday lenders in Ontario. According to this discussion paper, which solicited feedback used to evaluate whether Ontario should seek designation under section 347.1 of the *Criminal Code*, payday lending reform in Ontario would achieve the following objectives: providing appropriate consumer protection for those who use payday loans; promoting fair market practices by payday lenders; ensuring a responsive and effective legal framework to govern payday lending; and promoting compliance with the law: Ontario, Ministry of Government Services – Policy and Consumer Protection Services Division, *Consumer Protection in the Payday Lending Sector*, (27 April, 2007).
- [32] On March 31, 2008, the *Act* received First Reading, wherein all three speakers focused their statements on vulnerable consumers. The Minister’s comments read as follows:

[The Act] would protect thousands of Ontarians who, from time to time, rely on payday loans to help them through a short-term financial squeeze...

[T]o highlight some of the initiatives in our proposed plan...

First, it would create a licensing regime for payday lenders to ensure fairness in the provision of payday loans...[and] immediately provide all users of payday loans with the same strengthened protection.

Second, it would ban a variety of harmful practices that currently exist in the industry...



Third, the legislation would aim to educate the public, providing consumers with information they need to protect themselves and make more informed choices...

In our 2007 throne speech, we committed to begin the long, hard process of addressing poverty in Ontario. We cannot, and will not, allow people to take further advantage of the most economically vulnerable consumers in our society.

Ontario, Legislative Assembly, *Official Report of Debates (Hansard)*, No. 18 (31 March 2008) at 602-604 (Hon. Steve Peters).

[33] On June 9, 2008, during Third and Final Reading, Minister McMeekin and Parliamentary Assistant Sousa confirmed that the main objectives of the *Act* are as follows:

- To “protect those of Ontarians who, from time to time, rely on payday loans to help them through a short-term financial squeeze”;
- To ensure “a fair and stable marketplace that will prevent consumers from going underground to get short-term loans”;
- To protect Ontarians that “have short-term requirements for payday lending services. They sometimes need money for necessities, something to tide them over before the next payday”; and
- To “strengthen protections for...our most vulnerable consumers, that this bill is particularly intended to protect”.

Ontario, Legislative Assembly, *Official Report of Debates (Hansard)*, No. 55 (9 June 2008) at 2401-2403 (Hon. Steve Peters).

[34] On June 18, 2008, the *Act* received Royal Assent. Subsequently, Ontario appointed the Advisory Board to recommend a cap on borrowing rates. In February 2009, the Advisory Board proposed that the total cost of borrowing be limited to \$21 per \$100 advanced. In doing so the Advisory Board sought a balance between protecting consumers and facilitating the industry in regards to the cost of borrowing component of the *Act*, but stressed that the overall legislative objective was to protect consumers:

[Our] task is to recommend a maximum total cost of borrowing that will be fair for borrowers while preserving a competitive payday lending industry...

[T]he task is to find the right balance. We stress that a ceiling on the total cost of borrowing is only one aspect of a comprehensive consumer protection regime being put in place by the Ontario government...[and] other safeguards, especially the ban on rollovers, are just as important as

the upper limit on borrowing costs in protecting the interests of consumers. [Emphasis added]

*Capping Borrowing Costs*, at p. 11

- [35] On October 1, 2009, Ontario became a “designated” province under the *Criminal Code* by Privy Council Order 2009-1628. Canada’s Regulatory Impact Analysis Statement issued with this order highlights the priority of consumer protection :

**Cost-benefit statement:** The Order facilitates the implementation of improved consumer protection in Ontario. Consumers there will benefit from the implementation of a limit on the cost of payday loans (\$21 per \$100 loaned), and a number of other regulatory requirements to protect recipients of payday loans.

Costs will be accrued principally by payday lenders, who will have to adjust their business practices according to the new provincial requirements. [Emphasis added]

Order Designating Ontario for Purposes of the Criminal Interest Rate Provisions of the *Criminal Code*, SOR/2009-277, Consolidated Index of Statutory Instruments, Vol. 143, No. 21 (October 14, 2009).

#### The Cost of Borrowing Amendment

- [36] Pursuant to section 32(2) of the *Act*, a “lender under a payday loan agreement” is required to “ensure that the cost of borrowing under the agreement does not exceed the prescribed limits.” In s. 1(1) of the *Act*, “cost of borrowing” is defined as “the total of all amounts that a borrower is required to pay under, or as a condition of entering into, a payday loan agreement and all amounts that are prescribed as included in the cost of borrowing...” [Emphasis added].
- [37] Clause 1 in s. 77 of the *Act* provides that the Lieutenant Governor in Council may make regulations
1. governing any matter or thing that this Act describes as being prescribed, done in accordance with the regulations or provided for in the regulations, other than a matter or thing that this Act describes as being prescribed by the Minister. [Emphasis added]
- [38] Under this authority, the Lieutenant Governor in Council passed s. 17 of the Regulation, which provided the amounts “prescribed as included in the cost of borrowing with respect to a payday loan agreement”. The amounts included the following:
1. Any amount payable by the borrower, upon entering into the agreement, to process payment provided by the borrower under the agreement.

2. Any other amount payable by the borrower upon entering into the agreement, in connection with the agreement.

[39] The Cost of Borrowing Amendment replaces clause 2 of s. 17(1) in the Regulation with the following:

2. Any other amount that is connected directly or indirectly to the payday loan agreement and
  - i. that the borrower has paid upon entering into the agreement,
  - or
  - ii. for which the borrower's obligation to pay exists upon entering into the agreement.

[40] In addition the Cost of Borrowing Amendment provides that the amount described in cl. 2 above also includes any amount in relation to a device, which is now defined as "an instrument, including a debit card or a cheque, that the lender under a payday loan agreement uses to deliver or provide access to all or part of the advance to the borrower in a form other than cash".

[41] Section 29(2) of the *Act* requires the lender under a payday loan agreement to "ensure that the advance is delivered to the borrower not later than upon entering into the agreement". Clause 18 in s. 77 of the *Act* gives Cabinet the authority to specify "what constitutes delivery of the advance to the borrower at the time that the parties enter into a payday loan agreement" and s. 21 of the Regulation makes it clear that there is no delivery unless the advance "is immediately accessible to the borrower" at the time of entering into the agreement.

[42] Cash Store's prior practice of providing cheques did not ensure immediate access to the advance. Cheques must be deposited and then the customer must wait for a cheque to clear. Its alternative practice of providing cash cards (with the need to open up another bank account) provided immediate access to the advance but at a cost, which increased the cost of borrowing for their payday borrowers beyond the prescribed limit.

[43] The purpose of the "Cost of Borrowing Amendment" is to ensure that the payday loan borrower gets access to his or her money on the day that he or she enters into the agreement (as required by the *Act*) and that, in doing so, his or her costs of borrowing do not exceed the prescribed limit of \$21 per \$100. This purpose is clearly consistent with and rationally connected to the consumer protection purpose of the *Act*. Further, as outlined above, the *Act* gives the Lieutenant Governor in Council the authority to enact the "Cost of Borrowing Amendment".

#### The Delivery of Advance Amendment

[44] As already noted, s. 29(2) of the *Act* requires the lender to deliver the advance under a payday loan agreement when the loan agreement is entered into. Clause 18 in s. 77 of the

*Act* gives Cabinet the authority to specify what constitutes delivery of an advance and s. 21 of the Regulation states that there is no delivery of an advance without immediate access. None of these provisions are the subject of a challenge before us.

[45] Prior to amendment, s. 22 of the Regulation provided as follows:

(1) If a lender under a payday loan agreement delivers all or any part of the advance by way of a device, the borrower is entitled to receive in cash that part of the advance that is still accessible by way of the device upon making a request,

(3) When a borrower makes a request under subsection (1), the lender shall, immediately and at no charge to the borrower, provide in cash to the borrower that part of the advance that is still accessible by way of the device.

[46] While the intent of s. 22 was to ensure that payday loan customers could access their loans in cash if they wished to do so, the wording of s. 22 suggested that it only applied if the borrower had already accessed at least some part of the loan. As a result, Cabinet passed the Delivery of Advance Amendment that revoked s. 22(1) and (3) above and replaced them with the following:

(1) If a lender under a payday loan agreement delivers or provides access to all or part of the advance to the borrower by way of a device and if the borrower makes a request to the applicable one of the following persons, the borrower is entitled to receive in cash the balance of the advance that is on the device or that is accessible by the device at the time of the request, whether that balance represents all or part of the advance.... (Emphasis added)

(3) When a borrower makes a request under subsection (1), the lender shall, immediately and at no charge to the borrower, provide in cash to the borrower the balance of the advance that is on the device or that is accessible by the device at the time of the request.

[47] The purpose and effect of the Delivery of Advance Amendment is to ensure that payday loan borrowers can access their advances immediately and in cash if they wish to do so. This does not mean that payday loan lenders can only deliver an advance by way of cash. What it means is that if they deliver the advance by some other means (such as a cheque or a device), they have to give the borrowers cash for part or all of the advance if that is what the borrower requests.

[48] Given that people enter into payday loans because of an immediate need for money, this purpose is clearly connected to the consumer protection purpose of the *Act* and Cabinet clearly had the authority to enact the Amendment in question.

### The Third Party Services Amendment

- [49] Clause 33 in s. 77 of the *Act* gives the Lieutenant Governor in Council the authority to make regulations “prohibiting licensees from engaging in practices specified in the regulation, in addition to practices in which this Act prohibits them from engaging, and specifying the consequences from engaging in those additional practices.”
- [50] Section 27(3) of the Regulation prohibited a lender “under a payday loan agreement” from providing to the borrower “in the agreement...any good or service, other than the payday loan”.
- [51] Cash Store began offering its borrowers services such as insurance on behalf of third parties. Documents regarding these services were included in the standard loan documents that were provided to its customers. Payday loan borrowers were buying these services, thereby increasing their cost of borrowing to beyond the prescribed limit.
- [52] The Third Party Services Amendment states that:
- A licensee, acting on the licensee’s own behalf or on behalf of any other person, shall not offer to provide or provide any good or service in connection with a payday loan agreement, other than a payday loan, whether or not it is provided for consideration.
- [53] This amendment is rationally connected to one of the consumer protection purposes of the *Act*, which is to ensure that the cost of borrowing does not exceed the prescribed limit. The Regulation gives Cabinet the authority to prohibit practices, as long as they are within the scope of the *Act*. The amendment only prohibits the offering of a good or service “in connection with a payday loan agreement”, which is clearly within the scope of the *Act*. Third party goods and services may still be offered in other contexts.

### ***Is the Amending Regulation ultra vires because it is prohibitory rather than regulatory?***

- [54] Cash Store submits that the Amending Regulation prohibits otherwise lawful activities by preventing Cash Store from operating as a “cashless” business and from offering goods and services that ought not to fall within the scope of the *Act* or the Regulation.
- [55] A “grant of authority to *regulate* through subordinate legislation does not authorize measures that have the effect of *prohibiting* the activity...[h]owever, subordinate legislation will only be invalid if the prohibition is absolute”: Donald Brown and John Evans, *Judicial Review of Administrative Action in Canada*, Vol. 3, looseleaf (Toronto: Canvasback Publishing, 1998) at 15-68 – 15-69; See also Paul Salembier, *Regulatory Law and Practice in Canada*, (Canada: LexisNexis Canada, 2004) at 337. This high threshold is required because “every power to regulate necessarily implies power to restrain the doing of that which is contrary to the regulation authorized, and in that sense and to that extent involves the power to prohibit”: *Montreal (City) v. Morgan* (1920), 60 S.C.R. 393, at p. 400, per Anglin J..

- [56] In this case, as already discussed, the *Act* expressly grants the Lieutenant Governor in Council the authority to prohibit the practices that the Third Party Services Amendment covers. In any event, the Third Party Services Amendment does not absolutely prohibit the offering of third party services.
- [57] With respect to the alleged prohibition of a cashless model, it is first worth noting that in the fourteen months that Cash Store operated after the Amending Regulation came into effect, it did not become a cash-based business. Logically, this flows from the fact that the Amending Regulation does not absolutely prohibit Cash Store from delivering its payday loan advances by way of cheque or some other device. For many customers, this may well be the preferred form of delivery. Cash is only required under the Amending Regulation if requested.

**Conclusion**

- [58] For these reasons, the application is dismissed. The parties have agreed that the successful party is entitled to costs fixed in the amount of \$25,000, inclusive of disbursements and taxes. On this basis, Cash Store shall pay the Respondent its costs fixed in the amount of \$25,000, all inclusive.

\_\_\_\_\_  
 SACHS J.

\_\_\_\_\_  
 A.C.J.S.C. MARROCCO

\_\_\_\_\_  
 PARDU J.

**CITATION:** The Cash Store Financial Services Inc. v. Ontario (Consumer Services), 2013  
ONSC 6440  
**DIVISIONAL COURT FILE NO.:** 409/11  
**DATE:** 20131105

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**DIVISIONAL COURT**

**A.C.J.S.C. Marrocco, Pardu and Sachs JJ.**

**BETWEEN:**

**THE CASH STORE FINANCIAL SERVICES INC.,  
THE CASH STORE INC. and INSTALOANS INC.**

**Applicants**

**- and -**

**HER MAJESTY THE QUEEN IN RIGHT OF  
ONTARIO as represented by the MINISTER OF  
CONSUMER SERVICES and the LIEUTENANT  
GOVERNOR IN COUNCIL OF ONTARIO**

**Respondents**

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**REASONS FOR JUDGMENT**

---

**SACHS J.**

**Released: 20131105**

**This is EXHIBIT "K" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*





## **News Release**

July 3, 2013

### **The Cash Store Financial Services Inc. Provides Ontario Regulatory Update**

EDMONTON, July 3, 2013 / CNW / -- The Cash Store Financial Services Inc. ("Cash Store Financial" or the "Company") (TSX:CSF; NYSE:CSFS) today provided an update on regulatory matters related to The Cash Store Inc. and Instalozans Inc. chains that operate in Ontario.

Effective July 4, 2013, The Cash Store Inc. and Instalozans Inc. will allow their respective payday loan licenses in Ontario to expire. Neither company has offered payday loans in Ontario since February 1, 2013. On that date, the Company made available to consumers a suite of unsecured line of credit products that enables consumers to move up the credit ladder towards credit-scored products that will eventually enable access to mainstream lending products. At that time, the Company also stated that it would retain payday loan licenses for The Cash Store Inc. and Instalozans Inc. in Ontario until such time that the performance of the new product offering in that market materialized as the Company anticipated.

Cash Store Financial has evaluated the success of the line of credit products in Ontario. It is now satisfied that there is no need to renew its payday loan licenses and will allow its current licenses to expire.

"We have been very pleased with consumer acceptance of the lines of credit products distributed through our branches in Ontario which serve a large consumer segment not currently accommodated by traditional banks or credit unions," said Gordon J. Reykdal, CEO.

#### **About Cash Store Financial**

Cash Store Financial is the only lender and broker of short-term advances and provider of other financial services in Canada that is listed on the Toronto Stock Exchange (TSX:CSF). Cash Store Financial also trades on the New York Stock Exchange (NYSE:CSFS). Cash Store Financial operates 513 branches across Canada under the banners "Cash Store Financial" and "Instalozans". Cash Store Financial also operates 27 branches in the United Kingdom.

Cash Store Financial and Instalozans primarily act as lenders and brokers to facilitate short-term advances and provide other financial services to income-earning consumers who may not be

able to obtain them from traditional banks. Cash Store Financial also provides a private-label debit card (the "Freedom" card) and a prepaid credit card (the "Freedom MasterCard") as well as other financial services, including bank accounts.

Cash Store Financial employs approximately 1,900 associates and is headquartered in Edmonton, Alberta.

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store." Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

**For further information, please contact:**

Peter Block, NATIONAL Public Relations, at 416-848-1431

#### **Forward-Looking Information**

*This news release contains "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of United States federal securities legislation, which we refer to herein, collectively, as "forward-looking information". Forward-looking information includes, but is not limited to, information with respect to our objectives, strategies, operations and financial results, competition, as well as initiatives to grow revenue or reduce retention payments. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "estimates", "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". In particular, this news release contains forward-looking information with respect to our goals and strategic priorities, introduction of products, share repurchase initiatives, branch openings and competition, as well as initiatives to grow revenue or reduce retention payments. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Cash Store Financial, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions, and other factors described under the heading "Risk Factors" in our Annual MD&A, which is on file with Canadian provincial securities regulatory authorities, and in our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. All material assumptions used in providing forward-looking information are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including our knowledge of the current credit, interest rate and liquidity conditions affecting us and the general economic conditions in Canada, the United Kingdom and elsewhere. Although we believe the assumptions used to make such statements are reasonable at this time and have attempted to identify in our continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material factors or assumptions are applied by us in making forward-looking information, including without limitation, factors and assumptions regarding our continued ability to fund our payday loan business, rates of customer defaults, relationships with, and payments to, third party lenders, demand for our products, as well as our operating cost structure and current consumer protection regulations. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.*

**This is EXHIBIT "L" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

***A Commissioner, etc.***

Court File No.:

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

**The DIRECTOR designated under the  
MINISTRY OF CONSUMER AND BUSINESS SERVICES ACT**

**Applicant**

- and -

**THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC., and  
INSTALOANS INC.**

**Respondents**

**NOTICE OF APPLICATION  
PURSUANT TO SECTION 54(1) OF THE PAYDAY LOANS ACT, 2008**

**TO THE RESPONDENTS**

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The claim made by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing on \_\_\_\_\_, \_\_\_\_\_ at \_\_\_\_\_, at 393 University Ave., 10<sup>th</sup> Floor, M5G 1E6, Toronto, Ontario.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the

applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but at least four days before the hearing.

IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date June 7, 2013

Issued by N. MOHAMMED-RAHAMAN  
Registrar

Address of  
court office: 393 University Avenue – 10<sup>th</sup> Floor  
Toronto, ON M5G 1E6

TO: The Cash Store Inc.  
c/o T. Pinos  
Legal Representative  
Cassels Brock & Blackwell  
2100 Scotia Plaza  
40 King Street West  
Toronto, ON M5H 3C2

AND TO: Instalozans Inc.  
c/o T. Pinos  
Legal Representative  
Cassels Brock & Blackwell  
2100 Scotia Plaza  
40 King Street West  
Toronto, ON M5H 3C2

AND TO: The Cash Store Financial Services Inc.  
c/o T. Pinos  
Legal Representative  
Cassels Brock & Blackwell  
2100 Scotia Plaza  
40 King Street West  
Toronto, ON M5H 3C2

## APPLICATION

The applicant makes application for:

1. A declaration that the Respondents' (collectively "Cash Store") "Basic Line of Credit" ("BLOC") financial product constitutes a "payday loan" under subsection 1(1) of the *Payday Loans Act, 2008* ("PDLA");
2. A declaration that the Cash Store's BLOC is subject to:
  - i. The PDLA, its General Regulation 98/09, and its Administrative Penalties Regulation 209/09 where the amount of the loan is \$1,500 or less and the term of the agreement is 62 days or less; and,
  - ii. Section 347 of the *Criminal Code*, section 2 of the *Interest Act*, the PDLA (except for section 32), its General Regulation 98/09, and its Administrative Penalties Regulation 209/09 where the amount of the loan is more than \$1,500 or the term of the agreement is more than 62 days;
3. An order, pursuant to subsection 54(1) of the PDLA, that Cash Store must obtain a payday loan broker licence under the PDLA to act as loan brokers of the BLOC pursuant to section 6(2) of the PDLA;
4. An Order, pursuant to subsection 54(1) of the PDLA, restraining Cash Store from acting as a loan broker of the BLOC without a loan broker's license, contrary to section 6(2) of the PDLA;

5. An Order for an interim interlocutory injunction restraining Cash Store from acting as a loan broker of the BLOC without a loan broker's license, contrary to section 6(2) of the PDLA;
6. The costs of this proceeding; and,
7. Such further and other relief as this Honourable Court may deem just.

The grounds for the application are:

The Parties

1. The Applicant, the Director under the *Ministry of Consumer and Business Services Act*, is responsible for enforcement of the PDLA. Subsection 54(1) of the PDLA permits the Director to apply to the Superior Court for an Order "if it appears to the Director that a person or entity is not complying with this Act or the regulations".
2. "Cash Store" includes the three named respondents to this application. Instaloans Inc. is a wholly owned subsidiary of The Cash Store Inc., which in turn, is a wholly owned subsidiary of The Cash Store Financial Services Inc. The Cash Store Inc. and Instaloans Inc. were licensed under the PDLA as payday loan "brokers" until July 27, 2012 and have been licensed as payday loan "lenders" since July 4, 2012.

Cash Store's Basic Line of Credit ("BLOC")

3. The PDLA defines "payday loan" as:

[A]n advancement of money in exchange for a post-dated cheque, a pre-authorized debit or a future payment of a similar nature... but not through a margin loan, pawnbroking, a line of credit or a credit card [*emphasis added*].

4. In determining whether the PDLA and its Regulations apply to a transaction, section 4 of the PDLA requires the court to look at the "real substance" of the agreement or transaction rather than its outward form.
5. On February 1, 2013, in the face of the Registrar's proposed action to revoke its payday lender licenses, Cash Store purportedly switched from offering "payday loans" to "lines of credit".
6. Cash Store's BLOC is in substance a "payday loan" and should be regulated to protect financially vulnerable consumers, as the Legislature intended. It is the latest method by which Cash Store has circumvented the requirements of the PDLA since most consumer protection provisions came into force in July 2009 and the cap to the total cost of borrowing came into force December 2009. Cash Store's business practices have resulted in selling other goods and services in connection with a payday loan agreement, loan-discounting, and exceeding the statutory maximum cost of the loan, all contrary to the PDLA and its Regulations.
7. With the BLOC, Cash Store also engages in business practices such as rollover loans (the outstanding balance on one loan is "rolled" into the next) and concurrent loans (two



outstanding loans at the same time). These practices are prohibited under the PDLA because financially vulnerable consumers then spiral into a cycle of debt.

8. Cash Store's BLOC is not a "line of credit", which is excluded under the PDLA's definition of "payday loan". Rather, it is in substance the same as Cash Store's previous payday loan product:

- i. Both are short-term loans for small amounts with some of the highest costs of borrowing on the market;
- ii. Both serve the same market – Canadians with the lowest credit scores. Cash Store markets the BLOC as a "payday loan alternative";
- iii. Both provide advances up to 60% of a borrower's net income per month;
- iv. Both are provided in exchange for a pre-authorized debit;
- v. Cash Store purports to charge a broker fee of 21% on the BLOC, and purported to charge \$21 per \$100 advanced on the payday loan;
- vi. Under both, immediate access to the loan requires purchasing additional services, such as credit cards, debit cards and bank accounts, which increase the cost of borrowing beyond the \$21 per \$100 limit under the PDLA and its Regulations;
- vii. Under both, repayment is tied to the borrower's next payday;
- viii. Borrowers require Cash Store's permission to make draws on the BLOC, a process similar to obtaining one payday loan after another; and,
- ix. Cash Store's payday loan involved advances of less than \$1,500 and for terms of 62 days or less (the time and quantum outlined in the *Criminal Code* and the Cost of Borrowing provisions of the PDLA). Of the BLOC transactions reviewed by the Ministry, approximately 114 of 118 involved advances of less than \$1,500, and in every BLOC transaction, borrowers were required to repay between 99% and 99.99% of the advance within 60 days.

9. Furthermore, the exclusionary term "line of credit" in the PDLA, although not defined in the Act, refers to a loan facility in which borrowers have *discretion* as to when and how

much money to draw, up to a predetermined limit. Under Cash Store's BLOC product, the predetermined credit limit is not adhered to and borrowers do not have any discretion:

- i. Cash Store Must Approve Each "Draw": Borrowers are given a fixed amount in the first advance, and require CSF's permission to draw from the line of credit every subsequent time, with attendant fees. This is identical to obtaining one payday loan after another; and,
- ii. 99.99% Paid Back within 60 Days: Customers must make a "minimum payment" within each 30 day period on the borrower's next payday. The "minimum payment" is 90% of the Principal Outstanding + Accrued Interest + Any outstanding fees. Individuals on a 14 day repayment schedule make four "minimum payments" within 56 days (99.99%), and individuals on the longest 30 day repayment schedule pay 99% of the loan on the 60<sup>th</sup> day.

#### Cash Store's business practices

10. Cash Store has persistently sold third-party products (i.e., goods or services) in connection with its payday loans, which increases the cost of borrowing ("COB") beyond the \$21 per \$100 limit. It has resisted Ontario's efforts to prohibit these practices through enactment of the PDLA, amendments to its General Regulation 98/09 and a proposal to revoke its payday lender licences.

#### *July 2009 – Response to PDLA*

11. Most of the PDLA's consumer protections came into force in July 2009. These included a prohibition against lenders providing, in the payday loan agreement, any good or service other than the payday loan and a prohibition against lenders engaging in "loan-discounting". It also included a strict COB limit of \$21 per \$100 advanced.

12. In response, Cash Store initiated what it describes as an “agency agreement” with DC Bank. Cash Store sold products on behalf of this third party that were connected to the payday loan agreement, such as bank accounts and debit and credit cards. Borrowers were compelled to purchase these DC products to obtain immediate access to their payday loan; otherwise, they may have waited up to a week to receive the advance, contrary to the statute which requires that they have immediate access to the funds. When the cost of these DC products was added to the loan, the COB exceeded the statutory maximum of \$21 per \$100 advanced, and, in many cases, was more than doubled.
13. Cash Store’s relationship with DC Bank gave it the ability to engage in “loan-discounting” (recovering part of the loan prior to the due date), whereby the portion of the payday loan proceeds used to purchase DC products and insurance was collected seconds or minutes after the loan was electronically advanced to the borrower.
14. DC Bank products were (and still are) sold by Cash Store employees to Cash Store customers, in connection with the payday loan transaction. Cash Store received and/or was owed commissions of \$10,091,000 from DC Bank as of September 2011. Despite this, Cash Store’s position was that the DC Bank products fell outside the scope of the PDLA as it was “a third-party offering”.
15. Additionally, Cash Store partnered with another company, TransGlobal Insurance, for whom it sold insurance on the payday loan. Again, this insurance product increased the

however, it continued to sell those products on behalf of third parties. Specifically, Cash Store states:

- The combined effect of the definition of "device" in s. 1 and section 17 seek to include third party fees and charges in the calculation of the total cost of borrowing...;
  - Section 27 prohibits the sale of any form of optional good or service in connection with a payday loan...;
  - The New Regulations are *ultra vires* in that they effectively prohibit the sale of any form of optional good or service in connection with a payday loan;
  - The New Regulations purport to entirely eliminate the ability of consumers to purchase optional goods or services "in connection" with payday loans. The stated purpose and effect of the New Regulations will be to prohibit optional services currently offered by Cash Store Financial to its customers, including a prohibition on optional insurance products and banking services; [and,]
  - The New Regulations are *ultra vires* in that they seek to include, in the maximum allowable total cost of borrowing, fees, charges or other amounts paid entirely to third parties for optional services.
18. In addition to commencing the judicial review application, Cash Store changed its business model and instituted the practice of providing payday loans solely by electronic funds transfer ("EFT"). The EFT is not received by the customer immediately as required by the legislation, unless the borrower has or acquires DC Bank products. The fees associated with maintaining or purchasing DC Bank products increased the cost of borrowing beyond the maximum of \$21 per \$100 permitted by the PDLA and its Regulations. Under this new business model, Cash Store also continued to engage in the prohibited practice of loan discounting and the prohibited practice of offering and providing products to borrowers in connection with the payday loan agreement.

*October 2012 to Present – Proposal to revoke lender licenses of The Cash Store Inc. and Instaloans Inc. under the PDLA*

19. On October 26, 2012, the Registrar advised Cash Store that he was considering whether to issue a Proposal to Revoke or Suspend its payday lenders' licenses, and invited any submissions that Cash Store sought to make in this regard. On January 21, 2013, after some written correspondence, the Registrar advised Cash Store: "in light of your offer to change certain of your business practices, I am prepared to forgo proceedings to revoke your licences provided Cash Store and Instaloans consent to the enclosed Conditions of License."
20. On February 1, 2013, Cash Store agreed to some but not all of the Conditions of Licence, and stated that, in any event, it was out of the payday loan market and corresponding regulatory oversight:
- Effective February 1, 2013, the Cash Store Inc. and Instaloans Inc. are no longer offering payday loans in the Province of Ontario...
- I will be forwarding to you a press release to be issued by Cash Store Financial Inc., regarding the line of credit products that the Cash Store Inc. and Instaloans Inc. are now offering in Ontario.
- That press release stated that its new line of credit products are regulated federally, but that Cash Store would maintain its payday loan licenses.
21. On February 4, 2013, the Registrar issued a Proposal to Revoke the payday lender licenses of The Cash Store Inc. and Instaloans Inc. on the basis that, *inter alia*, even after the regulatory amendments in September 2011, Cash Store continued to sell insurance and DC bank products in connection with the payday loan agreement, engage in loan

discounting, and exceed the maximum COB, all contrary to the PDLA. This proceeding is presently before the License Appeal Tribunal.

The following documentary evidence will be used at the hearing of the application:

1. The Applicant's Application Record;
2. The Affidavit of Gary DeMers; and,
3. Such further and other evidence as counsel may advise and this Honourable Court permits.

**June 07, 2013**

**MINISTRY OF THE ATTORNEY GENERAL**  
Crown Law Office - Civil  
8th Floor, 720 Bay Street  
Toronto, Ontario M7A 2S9

W.J. Manuel, LSUC #16446I  
T: 416-326-9855

Emtiaz Bala, LSUC #55452M  
T: 416-327-4885  
F: 416-326-4181

Counsel for the Applicant

CV-13-482242

Court File No.:

The DIRECTOR designated under the  
MINISTRY OF CONSUMER AND BUSINESS  
SERVICES ACT

- and -

THE CASH STORE FINANCIAL SERVICES INC.,  
THE CASH STORE INC., and INSTALOANS INC.

Applicant

Respondents

ONTARIO

SUPERIOR COURT OF JUSTICE

Proceeding commenced in Toronto, Ontario

NOTICE OF APPLICATION  
PURSUANT TO SECTION 54(1) OF THE PAYDAY  
LOANS ACT, 2008

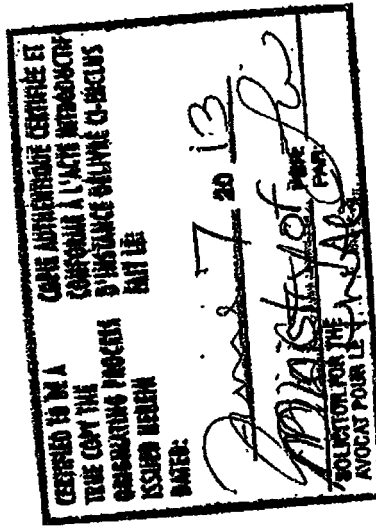
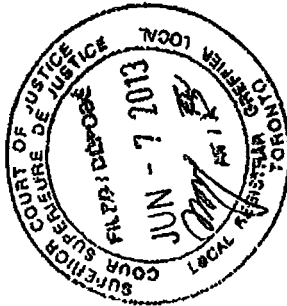
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Counsel for the Applicant

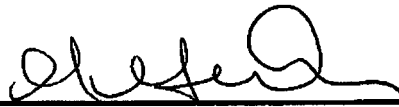


**This is EXHIBIT "M" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**



**A Commissioner, etc.**



# Management's Discussion and Analysis



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For the three months and year ended September 30, 2013

**December 11, 2013**

The following discussion of the financial condition and results of operations of The Cash Store Financial Services Inc. ("Cash Store Financial" or "Company") should be read in conjunction with the Company's audited consolidated financial statements for the year ended September 30, 2013.

The Company's board of directors (the "Board of Directors"), on the recommendation of the Company's audit committee (the "Audit Committee"), approved the content of this MD&A on December 11, 2013.

All figures are presented in thousands of Canadian dollars, unless otherwise specified, and are reported in accordance with United States generally accepted accounting principles ("U.S. GAAP").

<b>Table of Contents</b>	
The Business	<u>3</u>
Strategy	<u>5</u>
Performance	<u>8</u>
Selected Annual Information	<u>9</u>
Results of Operations	<u>10</u>
Summary of Quarterly Results	<u>14</u>
Fourth Quarter	<u>15</u>
Liquidity and Capital Resources	<u>18</u>
Off-Balance Sheet Arrangements	<u>24</u>
Other Financial Information	<u>26</u>
Controls and Procedures	<u>35</u>
Risks and Uncertainties	<u>37</u>

and future prospects, this MD&A includes "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian and United States federal securities legislation. Management refers to these types of statements collectively, as "forward-looking information". Forward-looking information includes, but is not limited to: information with respect to our objectives, strategies, operations and financial results, competition; initiatives to grow revenue or reduce retention payments and other costs; the Company's strategy to enable customers to access mainstream credit products in the section entitled "Strategy"; and the Company's financial results in the sections entitled "Performance" and "Liquidity and Capital Resources."

Forward-looking information can generally be identified by the use of words such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases. They may also be identified by statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved".

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied. These risks and uncertainties may include (but are not limited to) changes in economic and political conditions, legislative or regulatory developments, technological developments, third party arrangements, competition, litigation, market conditions, the availability of alternative transactions, shareholder, legal, regulatory and court approvals and third party consents and other factors described under the heading "Risks and Uncertainties".

Management has attempted to identify the important factors that could cause actual results to differ materially from those contained in forward-looking information, but other factors unknown to us at the time of writing could cause results to vary. There can be no assurance that forward-looking information will prove to be accurate. Actual results could differ materially. Management cautions readers not to place undue reliance on forward-looking information. Unless required by law, the Company does not undertake to update any forward-looking information.

**Other Information**

Additional information about Cash Store Financial, including our annual information form, information circular, and annual and quarterly reports, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and EDGAR at <http://www.sec.gov/edgar.shtml>.

**Non-GAAP Performance Measures**

Throughout this MD&A, terms that are not specifically defined under U.S. GAAP are referenced and used. These non-U.S. GAAP measures may not be comparable to similar measures presented by other companies. These non-U.S. GAAP measures are presented because the Company believes that they provide investors with additional insight into the Company's financial results. For a definition of these measures, refer to the subsection entitled "Non-GAAP Performance Measures".

**Note**

Cash Store Financial is a Canadian corporation and is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store". Cash Store Financial does not conduct business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

**Forward-Looking Information**

In order to help investors understand the Company's current results

## The Business

*NOTE: This section contains forward-looking information. By its nature, forward-looking information requires that certain assumptions be made and is subject to inherent risks and uncertainties. Please see "Forward-Looking Information" and "Risks and Uncertainties" for additional information on the factors that could cause results to vary.*

Cash Store Financial is a leading provider of alternative financial products and services, serving everyday people for whom traditional banking may be inconvenient or unavailable. The Company owns and operates Canada's largest network of retail branches in the alternative financial products and services industry, with 510 branches across Canada under the banners "Cash Store Financial", "Instaloans" and "The Title Store." Cash Store Financial also owns and operates 27 branches in the United Kingdom (the "UK") under the banner "Cash Store Financial".

The Company is listed on both the Toronto Stock Exchange (TSX:CSF) and New York Stock Exchange (NYSE:CSFS).

Cash Store Financial acts as both a broker and lender of short-term advances and offers a range of other products and services to help customers meet their day to day financial service needs. The Company employs a combination of payday loans and lines of credit as its primary consumer lending product offerings and earns fees and interest income on these consumer lending products. Cash Store Financial also offers a wide range of financial products and services including bank accounts, prepaid MasterCard, private label credit and debit cards, cheque cashing, money transfers, payment insurance and prepaid phone cards. The Company has agency arrangements with a variety of companies to provide these products.

The table below illustrates the Company's primary consumer lending offerings summarized by jurisdiction since October 1, 2011:

Jurisdiction	Branches	Oct 1, 2011 to Jan 31, 2012	Feb 1, 2012 to Sep 30, 2012	Oct 1, 2012 to Jan 31, 2013	Feb 1, 2013 to Present
British Columbia, Alberta Saskatchewan Nova Scotia	278	Payday Loans (Brokered)		Payday Loans (Brokered)	
Manitoba	25	Payday Loans (Brokered)	Payday Loans (Brokered)	Payday Loans (Brokered)	Payday Loans (Brokered)
Ontario	174	Payday Loans (Brokered)	Payday Loans (Brokered)	Payday Loans (Brokered)	Payday Loans (Brokered)
New Brunswick Newfoundland Prince Edward Isl. Yukon / NWT	33			Payday Loans (Brokered)	
United Kingdom	27			Payday Loans (Brokered)	

## Regulatory Environment

Management views regulations affecting its primary product offerings of payday loans and lines of credit as the most critical factor affecting the Company's ability to successfully operate and execute its business strategy.

In Canada, certain provinces have developed regulations specific to payday loans. The key components of payday loan regulations are caps on the loan size, length and fees that can be charged. Typically regulations limit payday loans to a maximum of \$1,500 and 62 days in duration, as well as providing a rate cap. The following table shows the rate caps in the provinces where the Company currently offers payday loans:

Province	Rate Cap (per \$100)
British Columbia	\$23
Alberta	\$23
Nova Scotia	\$25
Saskatchewan	\$23

The Company is subject to class action proceedings initiated in the Canadian provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario, alleging non-compliance with rate caps in those provinces. The Company believes that it has complied with all applicable provincial regulations and is defending these actions vigorously.

The Company's newly introduced primary product offering of lines of credit in Ontario, where approximately one third of the Company's branch network is located, has been subject to examination by the Ontario Minister of Consumer Services and the Registrar of payday loans (the "Ontario Regulator"), who is responsible for regulating the payday loans sector in that province. The Ontario Regulator has proposed amended regulations which may capture the lines of credit under the existing Payday Loans Act and may require the Company to re-apply for licenses to continue to offer its products and comply with payday loans regulations. The new regulations do not propose a rate cap for the lines of credit. The Ontario Regulator is currently considering industry feedback on the proposed amendments and the content and timing of such amended regulations is not yet known.

The UK does not currently have specific regulations for payday loans, however in April 2014 the Financial Conduct Authority ("FCA") will assume responsibility for regulating the sector. The FCA has proposed new payday lender measures that will include limiting to two the number of loan rollovers and the number of times that lenders can access a borrower's bank account for payment, both of which have an implementation date of July 1, 2014. The FCA will also require a borrower affordability assessment before payday lenders can extend a loan and will require that lenders include clear risk warnings on advertisements. In addition, the FCA plans to put in place dedicated supervision and enforcement teams. The FCA opened its proposed rules for comment and is expected to publish final guidance in February 2014. The Company has obtained interim licenses to operate as a payday lender in the UK in advance of the regulations. On November 25, 2013, legislators in the UK announced that a rate cap setting power for payday loans will be included through amendments to the Banking Reform Bill which is currently before the House of Lords. It has been reported that the rate cap will be set by the FCA and address the total cost of borrowing. The Banking Reform Bill is expected to receive final reading on December 9, 2013 and rate caps are expected to come into force during 2015.

Loan rollovers (extensions of existing loans for a fee and/or provision of new loans to pay out previous loans) are prohibited in certain Canadian provinces. Cash Store Financial does not engage the practice of rollovers in any Canadian province and limits the number of rollovers to four for consumers in the UK. Although the proposed regulations in the UK would represent a change from current practice, the Company does not expect a material negative impact given that only approximately 5% of its branch network is located in the UK.

Please see "Risks and Uncertainties" for additional information on regulations and litigation.

## Giving Back

Cash Store Financial is proud to be partnered with the Canadian Diabetes Foundation. Part of the Company's fundraising activities is to host Freedom Runs across Canada. In FY2013, Cash Store Financial hosted 15 Freedom Runs and sponsored 5 runs for diabetes. To date, these efforts have helped contribute over \$1 million to this cause.

## Strategy

*NOTE: This section contains forward-looking information. By its nature, forward-looking information requires that certain assumptions be made and is subject to inherent risks and uncertainties. Please see "Forward-Looking Information" and "Risks and Uncertainties" for additional information on the factors that could cause results to vary.*

The Company's long-term goal remains unchanged: to become the premier financial service provider to consumers in its target market by complementing the products and services of traditional banks and providing a step up for those consumers who do not have access to traditional bank products.

### A Look Back

The Company's objective for FY2013 was to continue to move upstream by building on its differentiated branch environment, introducing new products and services that will maintain customer relationships for longer time periods and shifting the focus from short-term payday loans to longer term line of credit products.

In keeping with this objective, on October 1, 2012 and February 1, 2013, the Company launched a new suite of line of credit products in Manitoba and Ontario, respectively, and payday loans are no longer being offered in those provinces at this time. The lines of credit are traditional, unsecured, medium-term revolving credit lines, with regular minimum payments tailored to customers' needs and profiles. This suite of line of credit products enables consumers to move up the credit ladder toward credit-scored products that will eventually enable access to other mainstream lending products.

The lines of credit were designed to offer the following benefits:

Benefits to Consumers	Public Policy Objectives	Benefits for the Company
<ul style="list-style-type: none"> <li>- Access to flexible credit products that did not previously exist in the marketplace</li> <li>- Lower credit costs through a graduated line of credit suite that rewards good payment behavior</li> <li>- Ability to reduce borrowing costs that will improve overall indebtedness</li> <li>- Opportunities to rebuild credit</li> </ul>	<ul style="list-style-type: none"> <li>- Bring consumers with no, limited, or poor credit into mainstream economic products</li> <li>- A mechanism for consumers to save money and rebuild their creditworthiness</li> <li>- Innovative products for the underserved lower-end of the credit market</li> <li>- Reduce indebtedness and encourage savings</li> </ul>	<ul style="list-style-type: none"> <li>- Diversification beyond payday lending and a growing recognition as a full-service financial services provider</li> <li>- Access to a broader segment of the consumer market</li> <li>- Delivery of a broader spectrum of financial services products</li> <li>- Extended customer relationships reduces high acquisition costs and adds incremental revenue</li> <li>- Uniform platform and delivery of consistent consumer experience</li> </ul>

In Manitoba and Ontario, the Company has graduated customers from its Basic line of credit to its Progressive line of credit that offers better rates and more flexible minimum repayment terms. These lines of credit supplement the Company's lowest cost Elite line of credit that has been offered to qualifying customers across Canada starting in Q1 of FY2012.

The following is a summary of the Company's progress in relation to the four strategic priorities in FY2013:

Element	Progress
<p><b>Platform &amp; Distribution Growth</b></p> <ul style="list-style-type: none"> <li>- Continue to optimize branch operations.</li> <li>- Continue methodical expansion into underserved markets.</li> <li>- Grow branch network through training and incentive programs.</li> <li>- Develop online lending platform and internet presence.</li> </ul>	<ul style="list-style-type: none"> <li>- Increased revenue per branch compared to the same period last year.</li> <li>- Launched consumer testing for online payday lending in Alberta and in the UK. Hired Dean Ozanne, an experienced banking executive, as Senior VP of Virtual Operations and Innovation.</li> <li>- Hired Michael Baker, an experienced executive in the financial services and banking sector as Senior VP of Canadian Operations.</li> <li>- Launched "the Title Store" banner in Alberta brokering short term loans secured against motor vehicles in 10 locations.</li> </ul>
<p><b>Product Growth</b></p> <ul style="list-style-type: none"> <li>- Continue to focus on other financial products and services.</li> <li>- Continue to move upstream and bridge the gap between payday loans and the products of traditional banks.</li> <li>- Help customers achieve greater financial freedom through graduated products at reduced costs that will help them rebuild their credit.</li> </ul>	<ul style="list-style-type: none"> <li>- Introduced new lines of credit in Manitoba and Ontario that will help customers rebuild their credit rating.</li> <li>- Graduated customers in Manitoba and Ontario from the Basic line of credit to the lower cost Progressive line of credit.</li> </ul>
<p><b>Improved Margin Management</b></p> <ul style="list-style-type: none"> <li>- Continue to focus on cost savings and branch operating metrics.</li> <li>- Improve collections.</li> </ul>	<ul style="list-style-type: none"> <li>- Reduction in sales expenses of 8% compared to last year.</li> </ul>
<p><b>Financial Risk Management and Funding Model</b></p> <ul style="list-style-type: none"> <li>- Continue to proactively manage risk to protect Cash Store Financial from changes in funding markets, interest rate fluctuations and regulatory environment.</li> </ul>	<ul style="list-style-type: none"> <li>- Exited from direct lending of payday loans in Manitoba and Ontario and introduction of brokered lines of credit.</li> </ul>

## The Road Ahead

In FY2013, the Company made significant progress in key areas that lay the foundation for transforming the business for the future, including the transition to lines of credit and new product introductions.

The Company will continue to move upstream by building on its differentiated branch environment and expanding new products and services that will maintain customer relationships for longer time periods and shifting the focus from short-term payday loans to longer term line of credit products.

Management has worked closely with the Board of Directors to develop a tactical plan of actions and accountabilities for FY2014. Progress towards the achievement of the tactical plan is monitored monthly. The strategies addressed in this tactical plan for FY2014 include:

### Financial Priorities

- Growth in loan fees with the roll-out of a suite of line of credit products to attract new customers.
- Grow other income by developing other service offerings such as bank accounts, payment card products, payment insurance that focus on providing long term value for customers and result in increased customer retention.
- Reduce corporate expenses through a reduction in external professional fees.
- Stabilize and reduce credit losses through improvements in underwriting and operational improvements in branch and centralized collections processes.
- Improve UK financial performance through customer growth and more cost effective business partners to provide other financial products and service offerings.

### Growth Opportunities

- Carefully pursue UK growth through branch network growth.
- Grow revenue from the Title Store through network expansion and marketing to existing customer base.
- Complete testing phase of online lending in the UK and Canada and expand online lending volumes profitably through a "bricks and clicks" strategy to leverage the Company's existing physical branch network.

## Performance

*NOTE: This section contains forward-looking information. By its nature, forward-looking information requires that certain assumptions be made and is subject to inherent risks and uncertainties. Please see "Forward-Looking Information" and "Risks and Uncertainties" for additional information on the factors that could cause results to vary.*

FY2013 consolidated revenue of \$190.8 million increased by 1.8% compared to \$187.4 million in FY2012 despite a 2.0% decline in loan volume. Loan fee revenue increased by \$14.4 million, offsetting a reduction in other income of \$11.1 million. FY2013 revenue from Canadian operations increased by \$3.2 million while revenue from UK operations was flat compared to FY2012.

Branch sales expenses of \$110.4 million for the year ended Sept 30, 2013 decreased by 8% compared to \$120.5 million in the same period last year as a result of the 63 branch consolidations that occurred during FY2012 and an increased focus on cost control.

On an adjusted basis, the FY2013 provision for credit losses as a percentage of direct loan volume was stable at 5.2% compared to 5.1% in FY2012. As of September 30, 2013, the Company recorded an additional provision for credit losses of \$5.2 million resulting from a change in estimation methodology to charge-off advances at 90 days past due.

Retention payments increased to 4.8% of brokered loan volume in FY2013 compared to 3.6% in FY2012 as a result of the Company's efforts to manage its overall credit loss exposure to third-party lenders.

EBITDA for FY2013 was negative \$1.0 million, up from negative \$31.7 million in FY2012. Significant items that impacted FY2013 reported EBITDA were as follows:

- A reduction in other income;
- Increased provision for credit losses resulting from the estimation methodology change to charge-off advances at 90 days past due;
- Impairments on acquired advances and certain long-lived assets;
- Increased corporate salaries and legal costs;
- Costs associated with restatements of previously issued financial statements and the special investigation; and
- Allowances for significantly aged receivables from a vendor.

In FY2012, the Company recorded \$44.8 million of charges, primarily comprised of a \$36.8 million expense for the settlement of pre-existing relationships with third-party lenders and \$5.0 million related to asset impairments and branch consolidations.

Diluted EPS for FY2013 was a \$2.02 loss compared to a loss of \$2.50 in FY2012.

Cash at September 30, 2013 decreased by \$7.7 million to \$11.5 million from \$19.1 million at September 30, 2012. Cash used in operating activities during FY2013 was negative \$0.7 million, down from \$15.0 million provided by operating activities in FY2012. The Company has secured credit facilities subsequent to September 30, 2013 to assist in meeting ongoing working capital requirements and fund strategic growth initiatives.

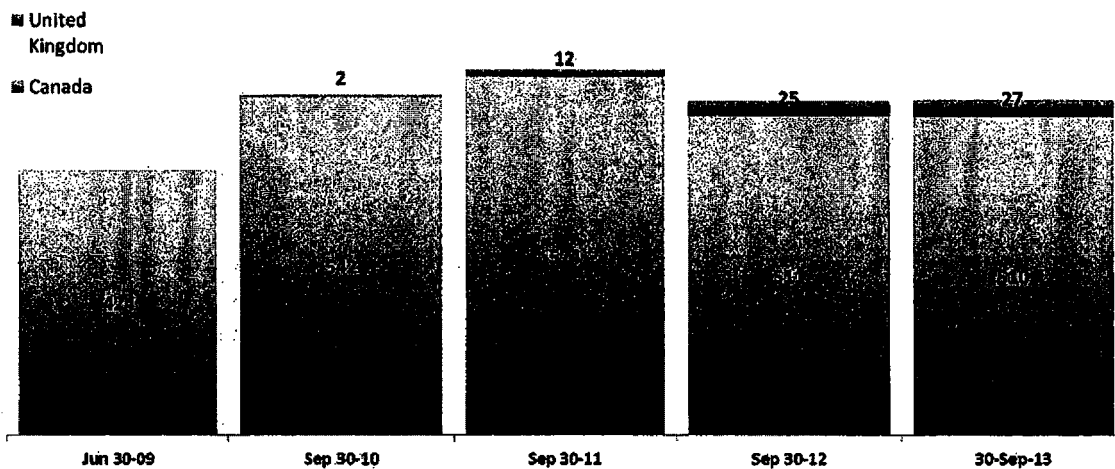


## Selected Annual Information

(\$000s, except for per share amounts, number of loans and branch count)		Year Ended September 30, 2012	Year Ended September 30, 2013	2013 vs. 2012 % change
<b>Consolidated results</b>				
No. of branches	Canada	511	510	— %
	United Kingdom	25	27	8 %
		536	537	— %
Loan volume	Direct	\$ 517,075	\$ 540,427	5 %
	Brokered	280,637	241,371	(14)%
		797,712	781,798	(2)%
<b>Revenue</b>				
Loan fees		\$ 137,994	\$ 152,430	10 %
Other income		49,418	38,335	(22)%
		187,412	190,765	2 %
<b>Sales expenses</b>				
Salaries and benefits		65,944	58,653	(11)%
Rent		18,940	18,581	(2)%
Selling, general and administrative		23,595	20,449	(13)%
Advertising and promotion		5,180	6,307	22 %
Depreciation of property and equipment		6,843	6,366	(7)%
		120,502	110,356	(8)%
Provision for credit losses		31,004	36,607	18 %
Retention payments		9,968	11,659	17 %
Corporate expenses		22,684	38,142	68 %
Interest expense		12,339	18,583	51 %
Branch closures costs		1,574	123	(92)%
Impairment of property and equipment		3,425	1,236	(64)%
Expense to settle pre-existing relationships with third-party lenders		36,820	—	(100)%
Class action settlements		—	—	— %
Other depreciation and amortization		835	1,794	115 %
Loss before income taxes		\$ (56,877)	\$ (35,252)	(38)%
Net loss and comprehensive loss		(43,522)	(35,532)	(18)%
EBITDA		(31,722)	(992)	(97)%
Adjusted EBITDA		25,749	22,651	(12)%
Weighted average number of shares outstanding	- basic	17,432	17,564	1 %
	- diluted	17,432	17,564	1 %
Basic earnings (loss) per share		\$ (2.50)	\$ (2.02)	(19)%
Diluted earnings (loss) per share		\$ (2.50)	\$ (2.02)	(19)%
<b>Consolidated Balance Sheet Information</b>				
Working capital		58,720	35,564	(39)%
Total assets		202,444	164,585	(19)%
Total long-term financial liabilities		129,641	130,623	1 %
Total long-term liabilities		137,375	137,161	— %

## Results of Operations

### Branches



Total branch count of 537 reflects the FY2013 addition of 2 new branches in the United Kingdom as well as 10 new Title Store branches and a new Cash Store Financial branch offset by the closure of 12 branches in Canada. During FY2012, the Company consolidated 63 branches in Canada and transferred customers from affected branches to nearby branches.

### Revenue

#### Loan Volume

Total loan volume of \$781.8 million for the year ended September 30, 2013 decreased by 2% compared to \$797.7 million for the year ended September 30, 2012. The decrease in loan volume reflects tightening certain underwriting criteria on the Basic line of credit product in an effort to manage credit risk and improve operating profitability as well as the impact of the revolving portion of the lines of credit.

The Company measures loan volume based on the total principal advanced to consumers.

#### Loan Fees

Loan fees include payday loan fees and fees charged for the credit assessment and brokering of advances and lines of credit on behalf of consumers.

(000s)	Year Ended September 30, 2012	Year Ended September 30, 2013	% Change
Payday loan fees	133,134	112,171	(16)%
Broker and credit assessment fees on lines of credit	4,860	40,259	728 %
<b>Total Loan Fees</b>	<b>137,994</b>	<b>152,430</b>	<b>10 %</b>

The year over year changes in the type of loan fees earned are reflective of the Company's cessation of payday loans and introduction of lines of credit in Manitoba and Ontario in FY2013. Despite the decrease in loan volume, the overall increase in loan fees of 10% is due to different revenue recognition policies between brokered and direct lending consumer advances. The Company earns its broker and credit

assessment fees for lines of credit at the time the line of credit is brokered while fees on directly originated short-term advances are deferred and recognized over the term of the advance.

### Same Branch Revenue

FY2013 same branch revenue, calculated on the branches in Canada that were open for both the FY2013 and FY2012 was \$348. This represents an increase of 4.8% compared to average revenues of \$332 for those branches in FY2012 and is comprised of higher loan fees earned offset by a reduction in other income.

### Other Income

Other income includes late interest and fees earned on consumer lending products as well as fees earned on other financial products and services such as bank accounts, debit cards and prepaid credit cards, cheque cashing, insurance, money transfers and prepaid phone cards.

(000s)	Year Ended September 30, 2012	Year Ended September 30, 2013	% Change
Fees earned on other financial products and services	43,613	28,611	(34)%
Interest	4,072	7,963	96 %
Default and other fees	1,733	1,761	2 %
<b>Total other income</b>	<b>49,418</b>	<b>38,335</b>	<b>(22)%</b>

The decrease in fees earned on other financial products and services is related to the following:

- Price reductions on prepaid debit and credit card products and bank accounts designed to increase customer benefits and promote long term customer retention to ultimately increase profitability in the long-term;
- An increase in consumer take up of cheques and electronic funds transfer as a form of disbursing proceeds as compared to prepaid debit and credit card products; and
- The cessation of a customer payment protection insurance offering on lines of credit in Ontario.

The increases in interest and other recoveries earned is a result of the accounting treatment of acquired advances. In FY2012, the majority of interest and other recoveries were related to acquired advances and were recorded as a reduction to the acquired portion of consumer advances receivable, net. In the current period the majority of interest and default and other fees are related to direct advances and are recognized as income when received.

### Sales Expenses

Sales expenses of \$110.4 million for the year ended September 30, 2013 decreased by 8% compared to \$120.5 million in the same period last year. The Company attributes these savings to an increased focus on cost control and to the 63 branch consolidations that occurred during FY2012.

### Credit Losses and Recoveries

The Company's provision for credit losses recorded on the consolidated statement of operations includes all estimated uncollectible contractual principal and loan fees and impairment on acquired portfolios. The provision for credit losses is reduced by any recoveries realized after advances are charged off. Collections of late interest and fees on advances that have not been charged off are recorded in other income on the consolidated statement of operations. When evaluating the Company's overall credit loss rate, management considers the provision for credit losses net of default and other fees recorded in other income, as follows:

(000s)	Year Ended September 30, 2012	% of loan vol.	Year Ended September 30, 2013	% of loan vol.
Provision for credit losses	31,004	6.0%	36,607	6.8%
Default and other fees recorded in other income	(1,733)	-0.3%	(1,761)	-0.3%
Net	<u>29,271</u>	<u>5.7%</u>	<u>34,846</u>	<u>6.4%</u>

Due primarily to the change in estimation methodology used to calculate the provision, credit losses net of default and other fees for the year ended September 30, 2013 increased by \$5.6 million, or 0.7% of direct loan volume in comparison to the prior year.

On an adjusted basis, the provision for credit losses for FY2013 was stable at 5.2% of direct loan volume compared to 5.1% for FY2012.

For the year ended September 30, 2013, the change in estimation methodology to charge-off advances at 90 days past due was approximately \$5.2 million. In addition, for FY2013 the provision for credit losses expense includes \$1.5 million of impairments related to subsequent changes to the valuation of acquired advances. In FY2012, the provision for credit losses reflected a \$3.0 million expense related to the UK which offsets the total increases for year over year comparative purposes.

### Retention Payments

This section should be read in conjunction with "Off-Balance Sheet Arrangements".

The nature of the Company's funding and credit loss expenses under the direct lending model differ from those under the broker model. Under the broker model, the Company makes voluntary retention payments to third-party lenders in order to offset the impact of the credit losses third-party lenders experience.

(000s)	Year Ended September 30, 2012	Year Ended September 30, 2013
Losses on acquisition of line of credit advances	—	7,110
Payments to offset the impact of credit losses	9,968	4,549
Total retention payments expense	<u>9,968</u>	<u>11,659</u>

As a percentage of brokered loan volume, retention payments increased to 4.8% for FY2013 from 3.6% in FY2012. The increase was a result of the Company's continuing assessment of credit losses in brokered advances and the strategy to mitigate its exposures to third-party lenders with respect to this risk. IN FY2013 the Company made retention payments to third-party lenders and has repurchased line of credit advances such that its estimated maximum exposure has not increased in proportion to the level of brokering activity on a year over year basis.

**Corporate Expenses**

(000s)	Year Ended September 30, 2012	Year Ended September 30, 2013	% Change
Salaries and benefits	11,195	13,553	21%
Legal expenses	2,217	4,980	125%
Audit, accounting and special investigation	918	4,011	337%
Other	8,354	15,598	87%
<b>Total Corporate Expenses</b>	<b>22,684</b>	<b>38,142</b>	<b>68%</b>

The increase in corporate salaries and benefits is a result of investments in staffing for new lines of business and other one-time expenses.

Legal expenses increased for FY2013 as a result of additional legal activity related to new regulatory and securities class action claims as well as reserves taken for existing litigation and claims.

Included in audit, accounting and special investigation costs for FY2013 are \$1.6 million related to the restatements of previously issued financial statements, as well as \$2.0 million related to the special investigation.

Included in other corporate expenses is a \$4.4 million provision related to receivables from a vendor. Also included in other expenses are increases in professional fees and other public company expenses such as board fees and additional corporate rent as a result of the move to a new corporate office in Q4 of FY2012.

Refer to the section entitled "Risks and Uncertainties" for additional information on the special investigation, regulatory developments and legal proceedings and "Other Receivables" for additional information on amounts due from vendors.

**Depreciation of Property and Equipment and Amortization of Intangible Assets**

Total depreciation of property and equipment of \$8.2 million for the year ended September 30, 2013 increased compared to \$7.7 million in the same periods last year. The increase results primarily from a correction of depreciation of corporate property and equipment.

Amortization of intangible assets of \$7.5 million for the year ended September 30, 2013 increased from \$5.1 million in the same period last year. The Company acquired proprietary knowledge, non-compete agreements and favorable supplier relationships when advances were acquired from third-party lenders in the second quarter of FY2012.

**Net Loss and Comprehensive Loss**

The Company reported net loss of \$35.5 million for the year ended September 30, 2013 compared to net loss \$43.5 million in the same period last year. The prior year included an expense of \$36.8 million for the settlement of pre-existing relationships with third-party lenders. Other significant factors contributing to the reported loss in comparison to the same period last year include increased provision for credit losses resulting from a change in estimation methodology to charge-off advances at 90 days past due, impairments on acquired advances, increased corporate salaries and legal costs, costs associated with restatements of previously issued financial statements and the special investigation, allowances for significantly aged receivables from a vendor and an increase to the valuation allowance recorded against deferred tax assets.

## Summary of Quarterly Results

(thousands of dollars, except for per share amounts and branch figures)		2012				2013			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Consolidated Results</b>									
No. of branches	Canada	573	569	529	511	511	513	510	510
	United Kingdom	23	25	25	25	25	25	27	27
		596	594	554	536	536	538	537	537
Loan volume	Direct	\$ 13,076	\$ 120,487	\$ 188,485	\$ 195,027	\$ 180,599	\$ 127,050	\$ 113,244	\$ 119,534
	Brokered	186,535	70,543	11,376	12,183	22,864	59,272	78,958	80,277
		199,611	191,030	199,861	207,210	203,463	186,322	192,202	199,811
<b>Revenue</b>									
Loan fees		\$ 32,892	\$ 30,545	\$ 36,204	\$ 38,353	\$ 38,018	\$ 37,268	\$ 37,657	\$ 39,487
Other income		12,956	11,544	12,454	12,464	11,485	9,389	8,671	8,790
		45,848	42,089	48,658	50,817	49,503	46,657	46,328	48,277
<b>Sales Expenses</b>									
Salaries and benefits		16,856	17,672	16,493	14,921	14,462	14,325	14,902	14,964
Rent		4,766	4,911	4,719	4,548	4,434	4,806	4,343	4,998
Selling, general and administrative		6,489	6,406	5,725	4,971	4,969	5,076	5,733	4,671
Advertising and promotion		1,690	1,063	1,212	1,215	1,369	1,437	1,693	1,808
Depreciation of property and equipment		1,776	1,785	1,675	1,607	1,560	1,568	1,589	1,649
		31,577	31,837	29,824	27,262	26,794	27,212	28,260	28,090
		14,271	10,252	18,834	23,555	22,709	19,445	18,068	20,187
Provision for credit losses		668	10,798	10,104	9,434	9,254	7,289	7,587	12,477
Retention payments		6,557	2,271	554	586	1,769	1,666	2,444	5,781
Corporate expenses		4,960	6,626	5,394	5,706	6,745	9,247	8,602	13,548
Interest expense		169	3,068	4,536	4,566	4,603	4,644	4,660	4,676
Branch closures costs		—	—	908	666	—	—	24	99
Impairment of property and equipment		—	3,017	—	408	—	—	522	714
Expense to settle pre-existing relationships with third-party lenders		—	36,820	—	—	—	—	—	—
Other depreciation and amortization		583	1,503	1,770	2,117	2,172	1,994	2,796	2,349
Net income (loss) before income taxes and class action settlements		1,334	(53,851)	(4,432)	72	(1,834)	(5,394)	(8,567)	(19,467)
Class action settlements		—	—	—	—	—	—	—	—
Taxes		\$ 374	\$(12,691)	\$(861)	\$(177)	\$(132)	\$(765)	\$(1,673)	\$ 2,850
Net income (loss) and comprehensive income (loss)		\$ 960	\$(41,160)	\$(3,571)	\$ 249	\$(1,702)	\$(4,629)	\$(6,894)	\$(22,307)
EBITDA		3,862	(47,495)	3,549	8,362	6,501	2,812	478	(10,783)
Adjusted EBITDA		9,446	721	5,516	10,066	9,152	6,332	4,673	2,494
Basic earnings (loss) per share		\$ 0.06	\$(2.36)	\$(0.20)	\$ 0.01	\$(0.10)	\$(0.24)	\$(0.39)	\$(1.29)
Diluted earnings (loss) per share		\$ 0.05	\$(2.36)	\$(0.20)	\$ 0.01	\$(0.10)	\$(0.24)	\$(0.39)	\$(1.29)

Although the Company's business is not significantly affected by seasonality, the Company typically experiences its strongest revenues in the third and fourth quarters (which correspond with tax season and the summer months) followed by the first quarter (Christmas/holiday season). The second quarter is typically the weakest.

## Fourth Quarter

### Loan Volume

Q4 FY2013 loan volume of \$199.8 million decreased by 4% compared to \$207.2 million for Q4 of FY2012. The decrease in loan volume reflects tightening certain underwriting criteria on the Basic line of credit product in an effort to manage credit risk and improve operating profitability as well as the impact of the revolving portion of the lines of credit.

### Loan Fees

(000s)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	% Change
Payday loan fees	35,275	30,023	(15)%
Broker and credit assessment fees on lines of credit	3,078	8,905	189%
<b>Total Loan Fees</b>	<b>38,353</b>	<b>38,928</b>	<b>1%</b>

The year over year changes in the type of loan fees earned are reflective of the Company's cessation of payday loans and introduction of lines of credit in Manitoba and Ontario. Despite the decrease in loan volume compared to Q4 of FY2012, the overall increase in loan fees of 1% reflects pricing differences between payday loans and the new lines of credit.

### Same Branch Revenue

Q4 FY2013 same branch revenue, calculated on the branches in Canada that were open for both the Q4 of FY2013 and Q4 of FY2012 was \$88. This represents an decrease of 3.3% compared to average revenues of \$91 for those branches in Q4 of FY2012 and is a result of the reduction in other income.

### Other Income

(000s)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	% Change
Fees earned on other financial products and services	10,102	5,577	(45)%
Interest	1,835	1,974	8%
Default and other fees	527	412	(22)%
<b>Total other income</b>	<b>12,464</b>	<b>8,790</b>	<b>(29)%</b>

The decrease in fees earned on other financial products and services is related to the following:

- Price reductions on prepaid debit and credit card products and bank accounts designed to increase customer benefits and promote long term customer retention to ultimately increase profitability in the long term;
- An increase in consumer take up of cheques and electronic funds transfer as a form of disbursing proceeds as compared to prepaid debit and credit card products; and
- The cessation of a customer payment protection insurance offering on lines of credit in Ontario.

### Sales Expenses

Sales expenses of \$28.1 million for Q4 of FY2013 were relatively flat compared to \$27.3 million in Q4 of FY2012. The Company had approximately the same number of branches in Q4 of FY2013 compared to Q4 of FY2012.

### Credit Losses and Recoveries

(000s)	Three Months Ended September 30, 2012	% of loan vol.	Three Months Ended September 30, 2013	% of loan vol.
Provision for credit losses	9,434	4.8%	12,477	10.4%
Default and other fees	(527)	-0.3%	(412)	-0.3%
Net	<u>8,907</u>	<u>4.6%</u>	<u>12,065</u>	<u>10.1%</u>

Due primarily to a change in estimation methodology used to calculate the provision, credit losses net of recoveries for Q4 of FY2013 increased by \$3.2 million, or 6% of direct loan volume in comparison to Q4 of FY2012. On an adjusted basis, the provision for credit losses for Q4 of FY2013 was 5.4% of direct loan volume compared to 4.6% for Q4 of FY2012. The increase as a percentage of direct loan volume was a result of \$0.4 million of impairments recorded on acquired line of credit advances during the quarter.

The impact of the September 30, 2013 change in estimation methodology to charge-off advances at 90 days past due was approximately \$5.2 million. In addition, for Q4 of FY2013, the provision for credit losses expense includes \$0.4 million of impairments related to subsequent changes to the valuation of acquired advances. These increases were offset by improvements in overall collections compared to the prior year.

### Retention Payments

This section should be read in conjunction with "Off-Balance Sheet Arrangements"

(000s)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013
Losses on acquisition of line of credit advances	-	4,183
Payments to offset the impact of credit losses	586	1,598
Total retention payments expense	<u>586</u>	<u>5,781</u>

As a percentage of brokered loan volume, retention payments increased to 7.2% for Q4 of FY2013 from 4.8% in Q4 of FY2012. The increase was a result of the Company's continuing assessment of credit losses in brokered advances and the strategy to mitigate its exposures to third-party lenders with respect to this risk. The Company has made retention payments and has repurchased line of credit advances such that its estimated maximum exposure has not increased in proportion to the level of brokering activity.



**Corporate Expenses**

(000s)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2013	% Change
Salaries and benefits	2,970	4,008	35%
Legal expenses	328	2,750	738%
Audit, accounting and special investigation	336	427	27%
Other	2,072	6,363	207%
<b>Total Corporate Expenses</b>	<b>5,706</b>	<b>13,548</b>	<b>137%</b>

The increase in corporate salaries and benefits is a result of investments in staffing for new lines of business and other one-time expenses.

Legal expenses increased for FY2013 as a result of additional legal activity related to new regulatory and securities class action claims.

Included in other corporate expenses is a \$4.4 million provision related to receivables from a vendor. Also contributing to the increase in other corporate expenses is additional corporate rent costs associated with moving to a new corporate office in Q4 of FY2012.

Refer to the section entitled "Risks and Uncertainties" for additional information on regulatory developments and legal proceedings and "Other Receivables" for additional information on amounts due from vendors.

**Net Loss and Comprehensive Loss**

The Company reported net loss of \$22.3 million for Q4 of FY2013 compared to net income of \$0.2 million in the same period last year. Significant factors contributing to the reported loss in comparison to the same period last year include the change in estimation methodology to charge-off advances at 90 days past due, allowances for significantly aged receivables from a vendor and an increase to the valuation allowance recorded against deferred tax assets.

## Liquidity and Capital Resources

*NOTE: This section contains forward-looking information. By its nature, forward-looking information requires that certain assumptions be made and is subject to inherent risks and uncertainties. Please see "Forward-Looking Information" and "Risks and Uncertainties" for additional information on the factors that could cause results to vary.*

Cash balances decreased to \$11.5 million as at September 30, 2013, compared to \$19.1 million at the end of FY2012.

For FY2013 the Company utilized a combination of third-party lender funds and cash generated from operating activities to manage its working capital requirements. The Company is able to both purchase and sell consumer advances with third-party lenders in order to manage its working capital requirements.

In addition to cash flows from operations, to fund working capital and growth in consumer advances receivable for FY2014, the Company secured additional funding through its available credit facilities. Refer to the section entitled "Credit Facilities."

The Company expects to continue to fund working capital requirements to the end FY2014 through cash generated from operations and credit facilities.

### Cash Flows

Cash provided by (used in): (000s)	Year ended September 30, 2012	Year ended September 30, 2013
Operating activities	15,039	(698)
Investing activities	(99,836)	(4,505)
Financing activities	90,926	(4,644)

Cash used in operating activities was negative \$0.7 million for FY2013, down from \$15.0 million provided by operating activities in FY2012. The decrease was driven primarily by increases in corporate expenses.

Cash used in investing activities for FY2013 reflects the purchase of property and equipment and intangible assets. FY2012 cash used in investing activities reflects a significant acquisition of a portfolio of advances, intangible assets and an expense to settle pre-existing relationships with third-party lenders.

Cash used in financing activities for FY2013 primarily reflects the repayment of capital lease obligations and fluctuations in in funding made available by the third-party lenders for lending to consumers, whereas in FY2012 reflects the issuance of the Notes (defined herein).

Funds advanced from third-party lenders are restricted and can only be used for consumer lending. In FY2013 the Company used funds advanced from third-party lenders to broker advances to customers. The Company also transfers advances to third-party lenders to manage excess float and day-to-day working capital requirements. During FY2013 as part of the normal course of operations the Company transferred \$14.3 million (2012 - \$17.6 million) of net consumer advances receivable to third-party lenders in exchange for cash.

### Consumer Advances Receivable, Net

As at September 30, 2013, the consumer advances receivable, net balance was \$25.6 million, down from \$32.4 million at September 30, 2012.

The Company's consumer advances receivable balance at September 30, 2013 is comprised of \$19.3 million (September 30, 2012 - \$25.9 million) of net advances that the Company has made directly to consumers and \$6.2 million (September 30, 2012 - \$6.6 million) in advances that the Company has purchased from third-party lenders.

#### *Direct Advances*

The September 30, 2013 direct advances balance of \$19.3 million is comprised of gross advances of \$29.2 million net of a provision for credit losses of \$9.8 million (September 30, 2012 - \$52.3 million gross advances and a provision of \$26.4 million).

The year over year decrease is due to a change in the estimation methodology used to calculate the provision. As of September 30, 2013 the Company began to charge-off all advances at 90 days past due. This change resulted in an additional expense associated with the charge-off of value previously ascribed to advances greater than 90 days past due. As a result of the change in estimation methodology, all recoveries related to advances greater than 90 days past due will be recognized as a reduction to the provision for credit losses expense when received.

The change in estimation methodology has been made by the Company as a result of the continuing process of obtaining additional information and experience as a direct lender and on the basis that it is preferable. This change has helped management to address the identified material weakness in internal controls (see "Controls and Procedures") by providing better clarity and peer consistency with respect to the Company's accounting policy for credit losses and charge-offs.

#### *Acquired Advances*

During FY2013, based on current collection trends, the Company revised its forecast of future cash flows related to the January 31, 2012, fiscal Q2, 2013 and fiscal Q3, 2013 acquired advances. As a result, included in the provision for credit losses expense for FY2013 are impairment charges of \$1.5 million related to these acquired portfolios.

Commencing in February, 2013, in order to better facilitate the collections of past due advances on its brokered lines of credit in Ontario and Manitoba, the Company has purchased line of credit advances from third-party lenders. The line of credit advances are not governed by applicable payday loans regulations and the Company needs to be licensed to collect overdue brokered line of credit advances. In the absence of such licenses the Company has chosen to collect the overdue line of credit advances on behalf of the lenders either by purchasing the line of credit advances or by engaging a third party agency for collection. For the purposes of collecting the line of credit advances, the Company elected to purchase the line of credit advances in FY2013 and incurred losses on the difference between the purchase price and fair value of the line of credit advances and recognized the difference as retention payments. The Company expects to continue the practice of repurchasing past due advances on brokered lines of credit for the foreseeable future.

The Company's valuation assumptions reflect the recovery of approximately 82% of the contractual value of the repurchased advances on brokered lines of credit within 12 months.

All advances acquired have been reported on a pooled basis based on the fiscal quarter of acquisition. As the total consideration paid to acquire the line of credit advances exceeded the fair value, for the year ended September 30, 2013 the Company recorded losses of \$7.1 million (2012 - \$nil) in retention payments expense.

The Company pools acquired advances for reporting purposes, as follows:

(000s)	Contractual Value at Acquisition Date	Fair Value at Acquisition Date	Remaining Carrying Value September 30, 2013
January 31, 2012 loan acquisition	\$ 319,900	\$ 50,014	\$ 1,715
Fiscal Q2, 2013 acquired line of credit advances	\$ 7,138	\$ 6,382	\$ 47
Fiscal Q3, 2013 acquired line of credit advances	\$ 11,650	\$ 9,479	\$ 1,173
Fiscal Q4, 2013 acquired line of credit advances	\$ 21,031	\$ 16,848	\$ 3,313

## Other Receivables

The September 30, 2013 net other receivables balance of \$8.9 million (2012 - \$19.9 million) is comprised mainly of short term receivables from vendors, with which the Company has agency arrangements to provide bank accounts, debit and prepaid MasterCard and insurance products to consumers.

Included in this amount are gross receivables of \$9.8 million (September 30, 2012 - \$11.3 million) due from a vendor. The Company has recorded an allowance of \$4.4 million (2012 - \$nil) against certain of these receivables which are greater than three months past due and collection is considered doubtful. These balances represent a concentration of credit risk to the Company. The Company is actively engaged in the pursuit of the overdue amounts and performs an ongoing review of the credit status of its key vendors.

## Credit Facilities

On November 29, 2013 the Company entered into a credit agreement (the "Credit Agreement") with Coliseum Capital Management, LLC ("Coliseum"), 8028702 Canada Inc. and 424187 Alberta Ltd. ("Alberta Ltd.") (collectively, the "Lenders"), pursuant to which the Lenders have provided \$12.0 million of loans.

Pursuant to the Credit Agreement, 424187 Alberta Ltd. (the "Agent") acts as agent for the Lenders. The loans made under the credit facility bear interest at 12.5% per annum, payable monthly in arrears, on the 29th day of each month. If an event of default occurs under the Credit Agreement, the interest rate is increased by 2% for so long as the event of default remains. The Credit Agreement provides that an additional \$20.5 million may be advanced for a total maximum loan amount of \$32.5 million. The Lenders have a right of first refusal in respect of any additional advances. If the Lenders do not exercise their right of first refusal, the Company is free to obtain loan advances from other lenders who agree to become party to the Credit Agreement. The loans outstanding at any time are subject to the requirement that the maximum amount outstanding cannot exceed 75% of the unrestricted cash of the Company plus 75% of the net consumer advances receivable of the Company not more than 90 days in arrears (the "Borrowing Base"). If the total amount outstanding under the loan at any time exceeds the Borrowing Base, the Company must repay to the Initial Lenders, on a pro rata basis, an amount which will result in the loans not being in excess of the Borrowing Base. Such payment must be made within 20 days of the month end in which the Borrowing Base was exceeded.

Loans made under the Credit Facility mature on November 29, 2016 (the "Maturity Date") or on such earlier date as the principal amount of all loans owing from time to time plus accrued and unpaid interest and all other amounts due under the Credit Agreement may become payable under the Credit Agreement. The Company may repay the loans at any time subject to payment of a prepayment fee as follows:

- (a) If the prepayment is on or before November 29, 2014, the greater of (A) the interest that would accrue if the amount were to remain outstanding until November 29, 2014 and (B) 4% of the amount;

- (b) If the prepayment is after November 29, 2014 but on or prior to November 29, 2015, 3% of the amount; and
- (c) If the prepayment is after November 29, 2015, no fee.

The Company has agreed to designate the loans made under the Credit Agreement as priority lien debt and obtain the benefit of the security granted by the Company pursuant to the Collateral Trust and Intercreditor Agreement entered into in connection with the Company's 11.5% senior secured notes.

The Company believes this Credit Agreement to be important in achieving the Company's long-term strategic plans and will fund operations and growth in key business areas.

In addition to certain covenants relating to the payment of the loans and the authority of the Company to enter into the Credit Agreement, the Company has covenanted in favour of the Lenders:

- (a) to comply with the covenants granted to the holders of the 11.5% senior secured notes;
- (b) not to designate any additional debt under the Collateral Trust Agreement; and
- (c) to meet the following Adjusted EBITDA targets on a quarterly basis over the term of the Credit Agreement:
  - i) \$4.0 million for the first 3 months of the 2014 fiscal year
  - ii) \$10.0 million for the first 6 months of the 2014 fiscal year
  - iii) \$17.0 million for the for the first 9 months of the 2014 fiscal year
  - iv) \$25.0 million for the 2014 fiscal year
  - v) \$23.6 million on a rolling four quarter basis at the end of the first quarter of fiscal year 2015
  - vi) \$26.3 million on a rolling four quarter basis at the end of the second quarter of fiscal year 2015
  - vii) \$26.9 million on a rolling four quarter basis at the end of the third quarter of fiscal year 2015
  - viii) \$27.5 million for the 2015 fiscal year
  - ix) \$28.1 million on a rolling four quarter basis at the end of the first quarter of fiscal year 2016
  - x) \$28.8 million on a rolling four quarter basis at the end of the second quarter of fiscal year 2016
  - xi) \$29.4 million on a rolling four quarter basis at the end of the third quarter of fiscal year 2016
  - xii) \$30.0 million for the 2016 fiscal year

Under the credit agreement, Adjusted EBITDA means the net income (or loss) of the Company, on a consolidated basis, before interest expense, income tax expense, depreciation of property and equipment, and amortization of intangible assets and before the deduction or addition of extraordinary and/or non-recurring expenses as reported in the Borrower's quarterly and annual Management's Discussion and Analysis in the section entitled "EBITDA and Adjusted EBITDA reconciliation".

In addition to the rights of the Lenders to demand payment and instruct the Agent to begin the process to realize on the security under the Collateral Trust and Intercreditor Agreement, upon the occurrence and during the continuance of an event of default, the Lenders have the right, but not the obligation, to appoint a financial advisor to review the affairs of the Company and to appoint a director to the Board.

424187 Alberta Ltd., which has committed to loan \$2.0 million of the initial \$12.0 million drawn, is controlled by the Company's CEO and a director, Gordon Reykdal. Coliseum, which has committed to loan \$5.0 million of the initial \$12.0 million drawn, owns 17.8% of the common shares of the Company.

## Senior Secured Notes

On January 31, 2012, the Company completed a private placement offering in Canada and the US for \$132.5 million of 11.5% senior secured notes (the "Notes"). The Notes mature on January 31, 2017 and bear interest semi-annually on January 31 and July 31 each year. The Notes were issued at a price of 94.608% resulting in an effective interest rate of 13.4%.

The indenture governing the Notes (the "Indenture") contains certain covenants that limit the Company's ability to:

- incur or guarantee additional indebtedness;
- make capital expenditures;
- make certain investments and acquisitions;
- amend the Company's dividend policy, pay dividends, or make distributions on capital stock or make certain other restricted payments;
- sell assets, including capital stock of the Company's restricted subsidiaries;
- enter into transactions with affiliates;
- create or incur liens;
- agree to payment restrictions affecting restricted subsidiaries;
- amend underwriting standards;
- form subsidiaries or fund foreign subsidiaries; and
- consolidate, merge, sell or otherwise dispose of assets, except those in the ordinary course of operations.

The ability to declare and pay dividends is subject to compliance with a restricted payment covenant stipulated in the Indenture.

Compliance with the covenants are not impacted solely through the ordinary course of operations or the results of operations. The Company remains in compliance with all of the covenants under the Indenture.

In the event of specified change of control events, holders of Notes will have the right to require the Company to purchase all or a portion of the Notes at a purchase price in cash equal to 101% of the principal amount purchased, plus accrued interest to the date of purchase. In addition, upon certain asset sales, the Company may be required to use the net proceeds of such sales to offer to repurchase a portion of the Notes at a price in cash equal to 100% of the principal amount purchased, plus accrued and unpaid interest to the date of purchase.

Under the terms of the Notes, the Company may redeem up to 35% of the Notes with the net proceeds of certain equity offerings at a redemption price equal to 111.5% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date any time before July 31, 2014. The Notes are redeemable in

whole or in part, at any time on or after July 31, 2014 at the redemption prices (expressed as percentages of principal amounts) in the table below, plus accrued and unpaid interest:

For the period	Percentage
On or after July 31, 2014	103.084%
On or after January 31, 2015	102.091%
On or after July 31, 2015	101.127%
On or after January 31, 2016	101.194%
On or after July 31, 2016	100.000%

The indenture contains a first lien carve out that allows us to obtain credit facilities of up to \$32.5 million.

Proceeds from the issuance of the Notes were \$125.2 million. The Company used \$116.3 million of the proceeds to acquire a portfolio of loans from third-party lenders. \$8.2 million of the proceeds were used to pay fees and expenses related to the issuance and remainder was used for general corporate purposes.

## Contractual Obligations

(000s)	Total	Payments due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Senior Secured Notes	185,832	15,238	30,475	140,119	—
Capital Lease Obligations	6,946	1,612	1,828	807	2,699
Operating Leases	83,089	20,419	24,167	13,222	25,281
<b>Total contractual obligations</b>	<b>275,867</b>	<b>37,269</b>	<b>56,470</b>	<b>154,148</b>	<b>27,980</b>

## Dividends

The Company paid dividends to shareholders from 2008 to 2012. Starting in the fourth fiscal quarter of 2012 the Board of Directors suspended quarterly dividends. The dividend distribution policy is reviewed on a quarterly basis. This review includes evaluating the Company's financial position, profitability, cash flow and other factors that the Board of Directors considers relevant.

The ability to declare and pay dividends is subject to compliance with a restricted payment covenant stipulated in the Indenture. This restricted payment covenant is based on achieving a ratio of consolidated cash flows to interest expense of at least 2.5 on a trailing four quarter basis. In order to re-establish quarterly dividends, the Company would need to earn EBITDA of approximately \$10.8 million per quarter for four consecutive quarters.

## Outstanding Share Data

As at December 11, 2013, the Company had 17,571,813 common shares outstanding. There were also 1,131,402 options to purchase common shares outstanding, which if exercised, would provide the Company with proceeds of approximately \$10.5 million. Each option is exchangeable for one common share of the Company.

## Off-Balance Sheet Arrangements

*NOTE: This section contains forward-looking information. By its nature, forward-looking information requires that certain assumptions be made and is subject to inherent risks and uncertainties. Please see "Forward-Looking Information" and "Risks and Uncertainties" for additional information on the factors that could cause results to vary.*

In FY2013 short term advances of \$241.4 million, representing 30.9% (2012 - \$280.6 million, 35.2%) of the Company's total loan volume of \$781.8 million (2012 - \$797.7 million), was provided directly to consumers by independent third-party lenders.

### Description of Arrangements

The Company has entered into written business agreements with a number of third-party lenders who are prepared to consider lending to the Company's customers or to purchase advances originated by the Company. Pursuant to these agreements, services related to the collection of documents and information, as well as collection services are provided to the third-party lenders.

The agreements also provide that the third-party lenders are responsible for losses suffered due to uncollectible advances provided the Company has fulfilled the duties required under the terms of the agreements. If the Company does not properly perform its duties and the lenders make a claim under the agreements, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreements.

The contracts between the Company and the third-party lenders do not contemplate continued retention payments. The contracts also do not guarantee repayment or a specified rate of return on the pool of funds committed by the third-party lenders' advanced to the Company's consumers. However, if the third-party lenders were to no longer participate in the brokering of advances to the Company's customers, the Company would lose the anticipated future revenue related to the brokering of advances. Under the broker model, the Company makes voluntary retention payments to the third-party lenders to encourage them to continue making funds available to the Company. The retention payments compensate the third-party lenders for some of the credit losses suffered. The Board of Directors regularly approves a resolution authorizing the Company to pay up to a certain amount of retention payments per quarter to third-party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

It is the Company's practice to credit third-party lenders with retention payments such that when combined with portfolio returns, the return on the total funds made available by the third-party lenders for lending to consumers approaches a target of 17.5% (2012: 17.5%) per annum. This total return is determined by the Company based on the nature of product offerings, credit and regulatory risk profile, and the willingness of third-party lenders to make funds available to customers as well as the stability and flexibility of the third-party lenders. In consideration of these factors, the Company continually seeks to further improve and optimize the return to third-party lenders.

### Summary of Exposure

At September 30, 2013, the total funds made available by third-party lenders for consumer lending was \$44.1 million (September 30, 2012: \$33.1 million). If the Company were to reimburse the third-party lenders for all historical loans losses suffered (provide a "make whole payment"), as of September 30, 2013 the estimated loss would be in the amount of \$14.1 million (September 30, 2012 - \$13.1 million). This estimated loss represents the Company's maximum exposure to third-party lenders and is comprised of the following components:



(000s)	September 30, 2012	September 30, 2013
1. Estimated credit losses on the portfolio of loans and advances of third-party lenders	\$ 11,235	\$ 2,684
2. Cumulative charge-offs in excess of portfolio returns and retention payments	1,822	11,388
<b>Total Exposure</b>	<b>\$ 13,057</b>	<b>\$ 14,072</b>

Based on the same methodology that the Company uses to determine the point where advances are charged off, the following summarizes the aging of the advances of the third-party lenders as well as the estimated allowance for credit losses inherent in their portfolios:

(000s)	September 30, 2012	September 30, 2013
Current	\$ 13,319	\$ 25,346
1 to 30 days past due	4,914	2,067
31 to 60 days past due	2,041	303
61 to 90 days past due	1,918	253
Greater than 90 days past due	3,235	160
<b>Gross Portfolio Value</b>	<b>\$ 25,428</b>	<b>\$ 28,129</b>
Estimated credit losses	(11,235)	(2,684)
<b>Net Value</b>	<b>\$ 14,193</b>	<b>\$ 25,445</b>

The following summarizes the status of the funds of third-party lenders made available for consumer lending:

(000s)	September 30, 2012	September 30, 2013
Funds made available by third-party lenders for consumer lending	\$ 33,078	\$ 44,092
Less: funds deployed in consumer loans and advances	(25,428)	(28,129)
Less: Cumulative charge-offs in excess of portfolio returns and retention payments	(1,822)	(11,388)
<b>Net funds available for consumer lending</b>	<b>\$ 5,827</b>	<b>\$ 4,575</b>

### Risk Management and Mitigation Strategy

The Company manages its potential exposure to third-party lenders through retention payments as well as the repurchase of past due line of credit advances.

During FY 2013, the Company voluntarily purchased past due line of credit advances in Ontario and Manitoba from the third-party lenders at the advances contractual value. This resulted in the Company immediately compensating the third-party lenders for any current or future losses inherent in the portfolios acquired. The difference between the purchase price and the fair value of the acquired advances is recorded as a retention payment.

As part of the Company's strategic plan to mitigate its risks and exposures, the Company expects to continue to make retention payments to third-party lenders such that its maximum exposure does not increase in proportion to the volume of brokering activity during the period.

## Other Financial Information

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*NOTE: This section contains forward-looking information. By its nature, forward-looking information requires that certain assumptions be made and is subject to inherent risks and uncertainties. Please see "Forward-Looking Information" and "Risks and Uncertainties" for additional information on the factors that could cause results to vary.*

### Litigation and Claims

The Company is subject to class proceedings and other material claims in Canada and the United States. A detailed description of each proceeding and its status is set out in "Risks and Uncertainties".

### Critical Accounting Estimates

The discussion and analysis of the Company's financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with U.S. GAAP. In applying U.S. GAAP, the Company makes estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The Company has discussed the development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Directors.

The Company's most critical accounting estimates relate to the valuation of the Company's acquired advances, the provision for credit losses, litigation accruals and assessments, impairment of assets, and the valuation of deferred tax assets.

#### Valuation of Acquired Advances

The Company records acquired advances at fair value based on the estimated discounted future cash flows at the acquisition date. All cash inflows received on the acquired advances reduces the carrying amount and changes to the estimated future cash flows are factored into the carrying amount at each reporting period in accordance with FASB ASC 310-30, "Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality." The Company closely monitors the performance and collections on acquired advances and the carrying amount is dependent on internal estimates of the ultimate collectibility of the advances and the Company's ability to continue to maintain its targeted level of cash collections. Changes to the Company's estimates could materially impact the Company's consolidated financial statements.

The following describes the Company's accounting policy for recognition and measurement of acquired advances:

- Acquired advances are pooled on a quarterly basis according to common risk characteristics. This includes similar credit risk, risk ratings, and/or one or more predominant risk characteristics.
- The basic technique used to measure future cash flows is the same as is used to estimate the provision for credit losses with specific adjustments to factor in direct future cash inflows or outflows such as collection of late interest and default fees or payment of commissions to third-party collectors.
- The time horizon or forecast period used must be sufficient to cover substantially all (at least 95%) of total forecasted future cash flows from the acquired advances on a discounted basis.
- On a quarterly basis, the forecast for each pool of acquired advances is reassessed based on actual performance to date and adjusted as required by FASB ASC 310-30.

### **Provision for Credit Losses and Charge-offs**

Unsecured short-term advances that the Company originates on its own behalf are reflected on the balance sheet in consumer advances receivable. Consumer advances receivable are reported net of a provision and any deferred fees or costs. Origination fees and costs on these advances are deferred and recognized as an adjustment of the related yield using the effective interest method.

Consumer advances receivable that bear interest are placed on non-accrual status once the advances are in default. Interest and default fees on advances receivable in non-accrual status are recorded once collected.

Advances in default consist of direct lending consumer advances originated by the Company which are past due. The Company defines a past due or delinquent advance whereby payment has not been received in full from the customer on or before its contractual due date. A provision for credit loss is recorded when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest.

In determining whether the Company will be unable to collect all principal and interest payments due, the Company assesses relevant internal and external factors that affect loan collectability, including the amount of outstanding advances owed to the Company, historical percentages of advances written off, current collection patterns and other current economic trends. The provision for credit losses reduces the carrying amount of consumer advances receivables to their estimated realizable amounts. The provision is primarily based upon models that analyze specific portfolio statistics, and also reflects, to a lesser extent, management's judgment regarding overall accuracy. The provision is reviewed monthly, and any additional provision as a result of historical loan performance, current and expected collection patterns and current economic trends is included in the provision for credit losses at that time.

In the prior year, the Company's policy for charging off uncollectible consumer advances originated by the Company was to write the advance off when an advance remained in default status for an extended period of time without any extended payment arrangements made. During the quarter ended September 30, 2013, the Company changed the methodology for estimating the provision for loan losses in order to reduce the estimation uncertainty inherent in this provision, improve the accuracy of the amounts recorded with the benefit of additional history in originating loans, and improve comparability with financial information reported by its competitors who charge-off past due amounts at an earlier date. The Company now fully charges off consumer advances receivable when the advances remain in default status for 90 days. This change resulted in the acceleration of the point in time when consumer advances receivable are fully provided for. In accordance with FASB ASC No. 250 - Accounting Changes and Error Corrections, ("ASC 250"), the Company has determined that this a change in estimation methodology and accordingly is a change in estimate. The impact of this change in methodology resulted in an increase in the provision for consumer loan losses during the year ended September 30, 2013 of \$5,218. Advances to customers who file for bankruptcy are written off upon receipt of the bankruptcy notice. Recoveries on amounts previously written off are credited against the provision for credit losses expense.

### **Litigation Accruals and Assessments**

In view of the inherent difficulty of predicting the outcome of litigation and regulatory matters, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, the Company cannot state with confidence what the eventual outcome of pending matters will be, what the timing of the ultimate resolution of these matters will be, what the eventual loss, fines, or penalties related to each pending matter may be, or the extent to which such amounts may be recoverable under the Company's insurance policies.

In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies which are both probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves.

In the matters described in "Risks and Uncertainties", loss contingencies are not both probable and estimable in the view of management, and accordingly, reserves have not been established for those matters. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending litigation and regulatory matters, including the litigation and regulatory matters described in "Risks and Uncertainties", will have a material adverse effect on the consolidated financial position or liquidity of the Company, but may be material to the Company's result of operations for any particular reporting period.

## **Impairment of Assets**

### *Impairment of Long-lived Assets*

Long-lived assets or asset groups held and used including property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As a result of the transition from direct payday lending to brokered lines of credit in Manitoba and Ontario, recent operating results, current developments in the regulatory environment and litigation and claims, the Company assessed that impairment indicators were present and quantitative testing of certain branches and the asset group containing the Company's intangible assets subject to amortization was performed.

### *Property and equipment and intangible assets subject to amortization*

Property and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of an asset or group of assets is less than its carrying amount, it is considered to be impaired. The Company measures the impairment loss as the amount by which the carrying amount of the asset or group of assets exceeds its fair value. In determining whether an impairment exists, the Company makes assumptions about the future cash flows expected from the use of these assets which may include: applicable industry performance and prospects, general business and economic conditions that prevail and are expected to prevail, expected growth, maintaining its customer base, and achieving cost reductions. There can be no assurance that expected future cash flows will be realized, or will be sufficient to recover the carrying amount of these assets. Furthermore, 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 and discount rates.

An asset group is the lowest level for which there are separate identifiable cash flows. For property and equipment, an asset group typically represents an individual branch. Any assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell. Such assets are not depreciated while they are classified as held-for-sale.

During the year ended September 30, 2013, as a result of certain events and circumstances, including recent operating results and regulatory matters, the Company determined that it was necessary to test the recoverability of certain branches and corporate assets that are not allocated to individual branches. During the year ended September 30, 2013, the Company recorded an impairment charge of \$1.2 million (2012 - \$3.4 million) as a result of impairments identified in certain branches. In addition, the Company determined that the asset group containing the Company's corporate property and equipment was recoverable as at September 30, 2013. The property and equipment impaired included leasehold improvements, fixtures, furniture and equipment, signage, and computer equipment.

For intangible assets subject to amortization, which include non-compete agreements, favourable supplier relationships, proprietary knowledge and software intangibles, impairment testing is performed using the

expected undiscounted cash flows of the Canadian reporting unit. For intangibles assets subject to amortization that were acquired in the January 31, 2012 loan portfolio acquisition from third-party lenders, the following describes the specific factors and assumptions used in the acquisition date measurement of fair value:

- **Non-compete Agreements** - the proportion of revenues, margin contraction which would result from competition with the third-party lenders and the probability of competition.
- **Favourable Supplier Relationships** - the benefit the Company has obtained through continuing to maintain supplier relationships with third-party lenders post-acquisition in comparison to the cost of obtaining funding from new sources. The valuation assumptions are based on the amount of capital required from third-party lenders for funding consumer advances as well as assisting the Company in the management of its day to day liquidity requirements in the absence of a traditional credit facility.
- **Proprietary Knowledge** - the proportion of revenues attributable to the know-how acquired from the third-party lenders.

As a result of the factors discussed that required a recoverability test to be performed over certain branches and corporate assets, the Company also performed a recoverability test on the asset group containing its intangible assets subject to amortization. The Company determined that the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the Canadian reporting unit was greater than the carrying amount of the Canadian reporting unit and accordingly no impairment existed.

#### *Goodwill and brand name*

Goodwill and the brand name intangible asset are tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate the asset might be impaired.

The brand name impairment test consists of a comparison of the fair value of the brand name with its carrying value. If the carrying amount exceeds its fair value, an impairment is recognized equal to the amount of the excess.

The Company assesses qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test. If the qualitative assessment results in a determination that goodwill has more-likely-than-not been impaired, the Company performs the two-step goodwill impairment test. In the first step, the carrying amount of the reporting unit, including goodwill, is compared to 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 a reporting unit exceeds its 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.

As a result certain events and circumstances, including recent operating results and regulatory matters, the Company completed an impairment test on goodwill and the Instaloes brand name on June 30, 2013 and determined that there was no impairment of goodwill as the fair value of the Company's Canadian reporting unit exceeded its carrying value and the fair value of the Instaloes brand name exceeded its carrying value as at June 30, 2013. The Company performed its annual impairment assessment on July 1, 2013 and no impairment was identified.

## Valuation of Deferred Tax Assets

Deferred income tax assets and liabilities are recognized for the deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce any deferred income tax assets to the amounts management concludes is more likely than not to be realized. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company provided a valuation allowance against a portion of its Canadian and United Kingdom deferred tax assets as at September 30, 2013 which amounted to \$12.1 million. As at September 30, 2012, the Company had provided a valuation allowance against all of its United Kingdom deferred tax assets, which amounted to \$2.0 million. Due to cumulative pre-tax losses, realization is not assured and the Company has not recorded the benefit of these deferred tax assets.

## Changes in Accounting Policies and Adoption of U.S. GAAP

National Instrument 52-107 - *Acceptable Accounting Principles and Auditing Standards* allows U.S. Securities and Exchange Commission ("SEC") registrants, such as Cash Store Financial, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S. GAAP. As such, the Company has adopted U.S. GAAP instead of IFRS as its primary basis of financial reporting in order to enhance communication with shareholders and improve the comparability of financial information reported by competitors and the Company's peer group.

Refer to Note 2 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

## Related Party and Other Transactions

### 424187 Alberta Ltd.

424187 Alberta Ltd., a company controlled by the Company's CEO, Gordon Reykdal, provided a loan to the Company (see "Credit Facilities"). 424187 Alberta Ltd. advanced \$2.0 million to the Company upon execution of the Credit Agreement dated November 29, 2013. This related party transaction has been measured at the transaction amount, which is the amount of consideration agreed to by the Company and 424187 Alberta Ltd.

### The Cash Store Australia Holdings Inc. ("AUC")

The Company owns 3,000,000 shares, or approximately 18.3% of the outstanding common shares of AUC, acquired at a price of \$0.06 per share. The carrying amount of this investment is \$nil (2012 - \$nil). At September 30, 2013, the aggregate quoted market value of the Company's investment in AUC was \$nil. In December of 2012 the Alberta, Ontario and British Columbia Securities Commissions issued cease trade orders in respect of the shares of AUC for failure to file financial statements. On September 13, 2013, AUC's operating subsidiary appointed a voluntary administrator pursuant to Section 436A of the Australian

Corporations Act 2001. In the opinion of the directors of AUC, AUC is insolvent. The Administrator has taken control of the operations and assets and the application to have the cease trade orders revoked have been withdrawn by AUC.

The Company previously provided administrative services to AUC. The Company had a services agreement with AUC to provide ongoing services such as financial and accounting support, administrative services, and the use of the Company's information technology and telecommunication systems.

Included in corporate expenses is a recovery of \$nil (2012- \$0.3 million) relating to these services. These transactions were subject to normal trade terms and were measured at the transaction amount. As at September 30, 2013, the Company has a \$nil (2012 - \$3) receivable from AUC. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment.

#### **RTF Financial Holdings Inc. ("RTF")**

RTF is a private company in the business of short-term SMS and internet based lending in the United Kingdom.

The Company owns 6,000,000 shares, or approximately 15.7%, of RTF acquired at a price of \$0.06 per share. The carrying amount of this investment is \$nil (2012 - \$nil). No aggregate quoted market value of the Company's investment in RTF exists as the company is not publicly traded.

The Company had a services agreement with RTF to provide ongoing services such as financial and accounting support and contracts administrative services.

Included in corporate expenses is a recovery of \$nil (2012- \$0.1 million) relating to these services. These transactions were subject to normal trade terms and were measured at the transaction amount.

As at September 30, 2013, the Company has a \$1 (2012- \$nil) receivable from RTF. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment.

#### **Third-party lenders**

- i. Assistive Financial Corp. ("Assistive"), a privately held entity that raised capital and provided advances to the Company's customers is controlled by the father of Cameron Schiffner, the former Senior Vice President of Operations of the Company. In addition, Cameron Schiffner's brother was a member of management of AUC and is a member of management of Assistive.

On September 11, 2013, Cameron Schiffner's employment with the Company was terminated and Assistive is no longer considered a related party. On September 18, 2013, Assistive commenced an action in the Court of Queen's Bench of Alberta against the Company (See "Legal Proceedings").

Included in retention payments are \$1.0 million (2012 - \$4.2 million) of amounts paid or payable directly to Assistive. As at September 30, 2013, included in accrued liabilities is \$0.5 million (September 30, 2012- \$0.7 million) due to Assistive. This amount has also been included in the Company's restricted cash balance. During the year ended September 30, 2012, the Company transferred consumer advances receivable, net of the provision for loan losses, of \$3.9 million to Assistive for consideration of \$3.9 million. The Company's contingent risk in Assistive's loan portfolio totaled \$84 as at September 30, 2013 (September 30, 2012- \$7.2 million).

As part of the acquisition of the consumer advances portfolio on January 31, 2012, \$45.5 million of the total purchase consideration was paid to Assistive, of which \$14.4 million is an estimate of

Assistive's proportionate share of the expense to settle pre-existing relationships, which was approximated based on the proportion of the consideration paid to each third-party lender. The acquisition agreement was signed on behalf of Assistive by Cameron Schiffner's brother.

- ii. An immediate family member of Michael Shaw, a former director of the Company, advanced funds to a privately held entity that raised capital and provided advances to the Company's customers (third-party lender) and acted as a third-party lender prior to the acquisition of the consumer advances portfolio on January 31, 2012.

On July 31, 2013, Michael Shaw resigned from the Board of Directors and is no longer a related party.

There have been no transactions between the Company and this third-party lender subsequent to January 31, 2012. Included in retention payments are \$nil (2012- \$1.4 million) of amounts paid or payable directly to this third-party lender. As at September 30, 2013, included in accrued liabilities is \$nil (September 30, 2012- \$nil) due to this third-party lender. The Company's contingent risk in this third-party lender's consumer advances portfolio totaled \$nil as at September 30, 2013 (September 30, 2012- \$nil).

As part of the acquisition of the short-term advances portfolio on January 31, 2012, \$23.9 million of the total purchase consideration was paid to this third-party lender of which \$7.6 million is an estimate of this third-party lender's proportionate share in the expense to settle pre-existing relationships which was approximated based on the proportion of the consideration paid to each third-party lender.

- iii. A privately held entity that began acting as a third-party lender after January 31, 2012 is controlled by Bruce Hull, who is a former director of AUC.

On June 18, 2013, Bruce Hull resigned from the Board of Directors of AUC and is no longer a related party.

Included in retention payments are \$24 (2012 - \$36) of amounts paid or payable directly to this third-party lender. As at September 30, 2013, included in accrued liabilities is \$0.2 million (September 30, 2012 - \$0.2 million) due to this third-party lender. This amount has been included in the Company's restricted cash balance. The Company's contingent risk in this third-party lender's consumer advances portfolio totaled \$0.1 million as at September 30, 2013 (September 30, 2012 - \$0.2 million).

All transactions with third-party lenders have been measured at the transaction amount, which is the amount of consideration agreed to by the Company and the third-party lenders.

## Financial Instruments

Please refer to Note 22 to the consolidated financial statements for details on measurement, carrying value, and fair value of financial instruments. For FY2013 the Company did not hold any derivative financial instruments or engage in hedging activities.



## Non-GAAP Performance Measures

Throughout this MD&A, terms that are not specifically defined under U.S. GAAP are referenced and used. These non-U.S. GAAP measures may not be comparable to similar measures presented by other companies. These non-U.S. GAAP measures are presented because the Company believes that they provide investors with additional insight into the Company's financial results. The non-U.S. GAAP measures mentioned in this MD&A, along with the way in which management calculates them, are defined below.

- Same Branch Revenue is used to explain changes in total revenue by comparing the average revenue for a particular group of branches in a current period to that same particular group of branches in a prior period, excluding income from centralized collections. Average revenue is defined as revenue for the period divided by the number of branches.
- EBITDA and Adjusted EBITDA are used as a measure of cash income. EBITDA is calculated as net income (loss) and comprehensive income (loss) before interest expense, income tax expense, depreciation of property and equipment and amortization of intangible assets. Based on EBITDA, the effects of other items and/or non-cash expenses are removed to calculate Adjusted EBITDA. Please refer to the section entitled "EBITDA and Adjusted EBITDA Reconciliation" for a reconciliation of EBITDA and Adjusted EBITDA to net income (loss) and comprehensive income (loss).

The interest component of retention payments line item presented on the Adjusted EBITDA reconciliation is intended to help investors to determine the Company's EBITDA under a scenario where funds provided by third-party lenders to lend to consumers were considered to be debt financing to the Company. The amount is calculated based on the total funds provided by third-party lenders multiplied by a rate of 17.5% per annum.

- Working Capital is calculated as current assets less current liabilities.

## EBITDA and Adjusted EBITDA Reconciliation

(\$000s)	2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Consolidated Results</b>								
Net income (loss) and comprehensive income (loss)	\$ 960	\$(41,160)	\$(3,571)	\$ 249	\$(1,702)	\$(4,629)	\$(6,894)	\$(22,307)
Interest expense and other interest	169	3,068	4,536	4,566	4,603	4,644	4,660	4,676
Income tax	374	(12,691)	(861)	(177)	(132)	(765)	(1,673)	2,850
Depreciation of property and equipment and amortization of intangible assets	2,359	3,288	3,445	3,724	3,732	3,562	4,385	3,998
<b>EBITDA</b>	<b>\$ 3,862</b>	<b>\$(47,495)</b>	<b>\$ 3,549</b>	<b>\$ 8,362</b>	<b>\$ 6,501</b>	<b>\$ 2,812</b>	<b>\$ 478</b>	<b>\$(10,783)</b>
<b>Adjustments:</b>								
Stock-based compensation	193	193	189	158	145	119	99	76
Expense to settle pre-existing relationships with third-party lenders	—	36,820	—	—	—	—	—	—
Impact of change in estimation methodology and other one-time additions to the provision for credit losses	—	3,091	—	—	—	—	—	5,218
Branch closures costs	—	—	908	666	—	—	24	99
Impairment of property and equipment	—	3,017	—	408	—	—	522	714
Revenue impact related to transitioning to a direct lending model	—	3,210	316	—	—	—	—	—
Expenses related to restatements of previously issued financial statements	—	—	—	—	904	125	589	—
Expenses related to the special investigation	—	—	—	—	—	1,666	326	—
Impairment of January 31, 2012 acquired loan portfolio	—	—	—	—	—	—	1,010	—
Provision on aged receivables from a vendor	—	—	—	—	—	—	—	4,807
Employee Severance Costs	—	—	—	—	—	—	—	466
Effective interest component of retention payments	5,391	1,885	554	472	1,602	1,610	1,625	1,897
<b>Adjusted EBITDA</b>	<b>\$ 9,446</b>	<b>\$ 721</b>	<b>\$ 5,516</b>	<b>\$ 10,066</b>	<b>\$ 9,152</b>	<b>\$ 6,332</b>	<b>\$ 4,673</b>	<b>\$ 2,494</b>

# Controls and Procedures

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## Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that the information the Company is required to disclose is recorded, processed, summarized and reported within the time periods specified under Canadian and US securities laws. They include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. As of September 30, 2013, an evaluation was carried out under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the US Securities Exchange Act of 1934 (the "1934 Act"), as amended, and in National Instrument 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings under the Canadian Securities Administrators Rules and Policies ("NI 52-109"). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were not effective due to the material weaknesses in the Company's internal control over financial reporting ("ICFR") described below.

## Management's Report on Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with U.S. GAAP. Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate ICFR as such term is defined in Rule 13(a)-15(f) under the 1934 Act and in NI 52-109. A material weakness in ICFR exists if the deficiency is such that there is reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections or any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of September 30, 2013, management of the Company assessed the effectiveness of the Company's ICFR. In making this assessment, management of the Company used the criteria set forth in the Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that, as a result of the material weaknesses in ICFR discussed below, ICFR is not effective as of September 30, 2013.

Management identified two material weaknesses in ICFR described below. Each of these material weaknesses creates a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

1. In the year ended September 30, 2012, management determined that it did not design and implement effective information and communication processes and controls specific to the determination of the provision for credit losses. Specifically, senior finance personnel did not effectively communicate with operations to obtain sufficient information regarding the Company's collection activities in making the determination of the provision for credit losses. This material weakness resulted in material errors in the unaudited interim financial statements in fiscal 2012. The accounts that could reasonably be affected by the material weakness are provision for credit losses and consumer advances receivable, net.

2. In the year ended September 30, 2012, management determined that the Company did not design and implement effective ICFR related to the review, interpretation and monitoring of legal and regulatory matters for financial reporting implications. Specifically, the Company did not have sufficient resources with the

appropriate level of expertise to accurately monitor and assess legal and regulatory matters facing the Company. As a result, the Company's ICFR did not correctly interpret how the settlement terms and conditions of the March 5, 2004 British Columbia Class Action claim impacted the measurement of the associated liability as at September 30, 2010. As a result of these ineffective controls, the Company incorrectly measured and recorded the liability in its previously filed financial statements; however, it has now corrected for the error as described in Note 3 of the Company's September 30, 2012 restated annual financial statements. The accounts that could reasonably be affected by this material weakness are corporate expenses, interest expense, income tax expense, other receivables (current and long term), deferred tax asset and accrued liabilities.

Each of these material weaknesses creates a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

### **Changes In Internal Controls over Financial Reporting**

The Company has taken the following remedial actions related to the above noted material weaknesses:

1. In response to the first material weakness identified above, as part of the preparation of the 2012 annual financial statements the Company formally adopted an accounting policy and established a credit committee, comprised of senior financial and operational executives, to meet on a regular basis to monitor credit loss rates and approve provisioning levels. Management also hired additional senior finance personnel in the fourth fiscal quarter of 2012 to assist in the monitoring of the provision for credit losses. As part of the preparation of the 2013 annual financial statements, the Company changed its estimation methodology to determine the provision for credit losses whereby now the Company fully charges-off past due consumer advances receivable when the advances remain in default status for 90 days. This change results in the acceleration of the point in time when consumer advances receivable are fully provided for, which management believes will reduce the estimation uncertainty when determining an appropriate provision for aged consumer advances, thereby reducing the risk of material misstatement.
2. In response to the second material weakness identified above, in April 2013 management established a process to coordinate communications internally as well as regularly consult with legal counsel and any other parties involved in legal and regulatory matters (i.e. a third party settlement administrator). This new control involves a review of the status of all legal and regulatory matters at each reporting period in order to assess the impact, if any, on the Company's consolidated financial statements.

Although there have been significant improvements made to ICFR in relation to the material weaknesses described above, management believes that these material weaknesses continue to exist for the reasons discussed below:

- For the material weakness related to the provision for credit losses, management believes it has made significant improvements in the procedures and controls it utilizes to determine the provision for credit losses. However, as the Company has recently introduced new products into the marketplace (lines of credit) and is developing new ways to offer payday loans (through on-line lending and other means), Management needs sufficient time to assess whether these improvements will be effective in determining an appropriate provision for credit losses.
- For the material weaknesses related to the review, interpretation and monitoring of legal and regulatory matters, management needs sufficient time to strengthen in-house expertise and develop processes and controls whereby legal and regulatory matters are communicated to the Company's finance department for assessment, under relevant US GAAP guidance, in a timely manner, before concluding that the material weakness has been remediated.

## Risks and Uncertainties

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The Company's business is subject to risks and uncertainties that could result in material adverse effects on its business and financial results. Additional risks and uncertainties not presently known to Cash Store Financial, or that it currently deems immaterial, may also impair its business operations. The Company continually monitors and evaluates these risk factors and takes action to mitigate them, however some of these risks are beyond the Company's control.

### Regulatory Environment

#### *Consumer Lending Regulations*

The Company's business is subject to federal, provincial and foreign laws and regulations in Canada and the UK. These regulations may change at any time and may impose significant limitations on the way the Company conducts or expands its business. These regulations govern lending and collection practices and, in some cases, allowable interest rates and rate caps.

As the Company introduces new products and services, it may become subject to additional laws and regulations. Future legislation or regulations may restrict the Company's ability to operate the way it does today or its ability to expand operations and may have a negative effect on the Company's business, results of operations and financial condition. Governments at the national and local levels may seek to impose new licensing requirements or interpret or enforce existing requirements in new ways. The Company is currently, and may in the future be, subject to litigation and regulatory proceedings which could generate adverse publicity or cause the Company to incur substantial expenditures or modify the way the Company conducts its business. Changes in laws or regulations, or a failure to comply with applicable laws and regulations, may have a material adverse effect on the business, prospects, results of operations, and financial condition of the Company.

In May 2007, the Canadian federal government enacted a bill clarifying that the providers of certain payday loans were not governed by the criminal interest rate provisions of the Criminal Code of Canada (the "Criminal Code"), granting lenders (other than most federally-regulated financial institutions) an exemption from the criminal interest rate provisions of the Criminal Code if their loans fell within certain dollar amount and time frame maximums. In order for payday loan companies to rely on the exemption, provincial governments are required to enact legislation, subject to approval by the federal government that includes a licensing regime for payday lenders, measures to protect consumers and maximum allowable limits on the total cost of borrowing.

In Canada, the provinces that have enacted specific payday loans legislation pursuant to this federal exemption are British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia.

#### Ontario

In keeping with the Company's product growth strategic objective, on February 1, 2013 the Company launched its suite of line of credit products in Ontario, and payday loans are no longer being offered in that province. Effective July 4, 2013, the Company allowed its payday loan licenses to expire in Ontario.

With respect to the new line of credit offerings, on April 29, 2013 the Company filed an application in Ontario courts seeking a declaration that the Basic line of credit was not subject to the Payday Loans Act.

On February 4, 2013, the Registrar for payday loans in Ontario issued a proposal to revoke the payday lending licenses of the Cash Store Inc. and Instalozans Inc. Sections 13(2) and 14(1) of the Payday Loans Act provide that licensees are entitled to a hearing before the License Appeal Tribunal in respect of the Registrar's proposal. The Company filed an Appeal with the License Appeal Tribunal on February 19, 2013,

however, as the Company allowed its payday licenses to expire in Ontario effective July 4, 2013, this appeal was withdrawn effective August 15, 2013.

Previous to the February 4, 2013 proposal of the Registrar for payday loans, the Company submitted an application for judicial review in the Ontario Courts, seeking a declaration that certain provisions of the regulations made under the Ontario Payday Loans Act are void and unenforceable. This application was heard on October 2, 2013. On November 5, 2013, the Court dismissed the application. On November 22, 2013 the Company filed a Notice of Motion for leave to Appeal.

On June 7, 2013, the Ontario Ministry of Consumer Services filed an application in Ontario courts seeking a declaration that the Basic Line of Credit is subject to the Payday Loans Act and that the Company must obtain a broker license to offer this product. This application was heard on November 29, 2013 and a decision has not yet been rendered. Concurrently, the Ontario Ministry of Consumer Services has proposed amended regulations which may capture the lines of credit under the existing Payday Loans Act and may require the Company to re-apply for licenses to continue to offer the products. The new regulations do not propose a rate cap for the lines of credit. The regulator is currently considering industry feedback on the proposed amendments and the content and timing of such amended regulations is not yet known.

The Company remains committed to maintaining ongoing dialogue with the Ontario Ministry of Consumer Services with respect to its concerns. The Company maintains that its operations in Ontario are in compliance with all applicable laws.

#### British Columbia

On March 23, 2012, the Company was issued a compliance order (the "Order") and administrative penalty from Consumer Protection BC. The Order directs the Company to refund to all borrowers with loan agreements negotiated with the Company or its subsidiaries between November 1, 2009 and the date of the order, the amount of any issuance fee charged, required or accepted for or in relation to the issuance of a cash card. The Order also directed the Company to pay an administrative penalty of \$25 in addition to costs. On November 30, 2012, Consumer Protection BC issued a supplementary compliance order directing that unclaimed refund amounts, to a maximum of \$1.1 million be deposited into a consumer protection fund. On December 14, 2012, the Company filed a Petition for Judicial Review in the British Columbia Supreme Court seeking an order quashing or setting aside the Order and Supplemental Order, and seeking declarations that it had not contravened sections 112.04(1)(f) of the Business Practices and Consumer Protection Act, or section 17 and 19 of the Payday Loan Regulation. The Petition was heard by the Court on June 26, 27, and 28, 2013. A decision has not yet been released. The estimated exposure with respect to this order is between \$0.2 million and \$1.1 million including penalties, legal costs and additional costs. The balance of the accrued liability related to this order as at September 30, 2013 is \$187 (2012 - \$248).

#### United Kingdom

In April of 2014 the Financial Conduct Authority ("FCA") will assume responsibility for regulating the payday loans sector. The FCA has proposed new payday lender measures that will include limiting to two the number of loan rollovers and the number of times that lenders can access a borrower's bank account for payment, both of which have an implementation date of July 1, 2014. The FCA will also require a borrower affordability assessment before payday lenders can extend a loan and will require that lenders include clear risk warnings on advertisements. In addition, the FCA plans to put in place dedicated supervision and enforcement teams. The FCA opened its proposed rules for comment and is expected to publish final guidance in February 2014.

On November 25, 2013, legislators in the UK announced that a rate cap setting power for payday loans will be included through amendments to the Banking Reform Bill which is currently before the House of Lords. It has been reported that the rate cap will be set by the FCA and address the total cost of borrowing. The Banking Reform Bill is expected to receive final reading on December 9, 2013 and rate caps are expected

to come into force during 2015.

#### *NYSE Listing Standards*

On April 2, 2013, the Company received notice from the New York Stock Exchange ("NYSE") that it is not in compliance with certain NYSE standards for continued listing of its common shares. Specifically, the Company is below the NYSE's continued listing criteria because its average total market capitalization over a recent 30 consecutive trading day period was less than \$50 million at the same time that reported shareholders' equity was less than \$50 million. Under the NYSE's continued listing criteria, a NYSE listed company must maintain average market capitalization of not less than \$50 million over a 30 consecutive trading day period or reported shareholders' equity of not less than \$50 million.

The Company submitted a plan to the NYSE demonstrating its ability to achieve compliance with the listing standards within 18 months of receiving the notice. On August 29, 2013, the Company was notified that the NYSE accepted the Company's plan to achieve compliance within 18 months of receipt of the April 2, 2013 letter.

During such 18-month period, the Company's common shares will continue to be listed and traded on the NYSE, subject to quarterly progress reviews by the NYSE and compliance with other NYSE continued listing standards.

The NYSE plan of compliance does not impact the Company's listing on the Toronto Stock Exchange ("TSX") and the Company's common shares will continue to be listed and traded on the TSX, subject to compliance with TSX listing standards.

#### **Legal Proceedings**

The Company is subject to various asserted and unasserted claims during the course of business of which the outcome of many of these matters is currently not determinable. Due to the uncertainty surrounding the litigation process, unless otherwise stated below, the Company is unable to reasonably estimate the range of loss, if any, in connection with the asserted and unasserted legal actions against it. The Company believes that it has conducted business in accordance with applicable laws and is defending each claim vigorously. In addition to the litigation and claims discussed below, the Company is involved in routine litigation and administrative proceedings arising in the normal course of business.

The resolution of any current or future legal proceeding could cause the Company to have to refund fees and/or interest collected, refund the principal amount of advances, pay damages or other monetary penalties and/or modify or terminate operations in particular jurisdictions. The Company may also be subject to adverse publicity. Defense of any legal proceedings, even if successful, requires substantial time and attention of senior officers and other management personnel that would otherwise be spent on other aspects of the business and requires the expenditure of significant amounts for legal fees and other related costs. Settlement of lawsuits may also result in significant payments and modifications to operations. Any of these events could have a material adverse effect on business, prospects, results of operations and financial condition of the Company.

#### Class proceedings related to consumer lending activities

##### *British Columbia - March 5, 2004 Claim*

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified on his own behalf and on behalf of all persons who have borrowed money from the defendants, The Cash Store Financial and All Trans Credit Union Ltd. The action stems from the allegations that all payday loan fees collected by the

defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada (the "Code"). On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the British Columbia Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of the Company's customers' third-party lenders added to the claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others against The Cash Store Financial, Instalozans Inc., and others in respect of the business carried out under the name Instalozans since April 2005. Collectively, the above actions are referred to as the "British Columbia Related Actions".

On May 12, 2009, the Company settled the British Columbia Related Actions in principle and on February 28, 2010 the settlement was approved by the Court. Under the terms of the court approved settlement, the Company was to pay to the eligible class members who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full, or who met certain other eligibility criteria, a maximum estimated amount including legal expenses of \$18.8 million, consisting of \$9.4 million in cash and \$9.4 million in credit vouchers. The credit vouchers can be used to pay existing outstanding brokerage fees and interest, to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced, or can be redeemed for cash from January 1, 2014 to June 30, 2014. The credit vouchers are not transferable and have no expiry date. After approved legal expenses of \$6.4 million were paid in March 2010, the balance of the settlement amount remaining to be disbursed was \$12.4 million, consisting of \$6.2 million of cash and \$6.2 million of vouchers.

By September 30, 2010, the Company received approximately 6,300 individual claims representing total valid claims in excess of the settlement fund. As the valid claims exceed the balance of the remaining settlement fund, under the terms of the settlement agreement, the entire settlement fund of \$12.4 million was mailed to claimants in November 2012 in the form of cash and vouchers on a pro-rata basis. As at September 30, 2013, \$5.1 million of the \$6.1 million cheques issued had been cashed and \$0.6 million of vouchers had been redeemed.

In arriving at the liability recorded at the balance sheet date, the voucher portion of the settlement fund of \$6.2 million has been discounted using a discount rate of 16.2%. During the year ended September 30, 2013, the Company recorded accretion expense of \$0.9 million (2012 - \$0.7 million, 2011 - \$0.6 million) in interest expense. The total liability related to the settlement at September 30, 2013 is \$6.2 million (September 30, 2012- \$11.3 million).

#### *British Columbia - September 11, 2012 Claim*

On September 11, 2012, an action under the British Columbia Class Proceedings Act was commenced in the Supreme Court of British Columbia by Roberta Stewart against The Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. claiming on behalf of the plaintiff and class members who, on or after November 1, 2009 borrowed a loan from the Company in British Columbia, and that the Company charged, required or accepted an amount that is in excess of 23% of the amount loaned of the principal which is contrary to s. 17(1) of the Payday Loans Regulation and s. 112.02(2) of the Business Practices Consumer Protection Act ("BPCPA") and charged, required or accepted an amount in relation to each cash card issued to a class member which is contrary to s. 112.04(1)(f) of the BPCPA; made the provision of each payday loan contingent on class members purchasing a cash card and services related thereto, contrary to s. 19(1) of the Payday Loans Regulation and s. 112.08(1)(m) of the BPCPA; and discounted the amount in the payday loan agreement to be the loan amount borrowed, by deducting and withholding from the loan advance an amount representing a portion of the total costs of credit, contrary to s. 112.08(1)(e) of the BPCPA.

The Class members seek an order, pursuant to s.112.10(2) and s. 172(3)(a) of the BPCPA, requiring that the Company refund all monies paid in excess of the Loan principal of each payday loan, including the Cash Card Fee Amounts, the Loan Fees, and any other fees or charges collected by the Company in relation to the payday loan, damages for conspiracy, and interest pursuant to the Court Order Interest Act at the rate



of 30% compounded annually, as set out in the payday loan agreements or such other rate as the Court considers appropriate.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

#### *Alberta - January 19, 2010 Claim*

A statement of claim was served in Alberta by Shaynee Tschritter and Lynn Armstrong alleging that the Company was in breach of s. 347 of the Code (the interest rate provision) and certain provincial consumer protection statutes.

On January 19, 2010, the plaintiffs in the Alberta action brought forward an application to have a related subsidiary, as well as certain of the Company's customers' third-party lenders, directors and officers added to the claim.

The Company agreed to a motion to certify the class proceeding if the third party lenders, officers and directors were removed as defendants. Class counsel agreed to the Company's proposal. Consequently, the certification motion was granted in November of 2011.

The Company believes that it conducted its business in accordance with applicable laws and is defending the action vigorously. The likelihood of loss, if any, is not determinable at this time.

#### *Alberta - September 18, 2012 Claim*

On September 18, 2012, an action under the Alberta Class Proceedings Act was commenced in the Alberta Court of Queen's Bench by Kostas Efthimiou against The Cash Store Inc., Instalozans Inc., and The Cash Store Financial Services Inc. on behalf of all persons who, on or after March 1, 2010, borrowed a loan from the Cash Store or Instalozans that met the definition of a "payday loan" proposing that the Company has violated s. 11 and 12 of the Payday Loan Regulations in that all amounts charged to and collected from the Plaintiff and Class members by the Company in relation to the payday loans advanced to the Plaintiff and Class members in excess of the loan principal are Unlawful Charges under the Payday Loan Regulation and therefore seek restitution of or damages for the Unlawful Charges paid by the Plaintiff and Class members, repayment of the Unlawful Charges paid by the Plaintiff and Class members, damages for conspiracy, interest on all amounts found to be owing and any such associated legal costs.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

#### *Saskatchewan*

On October 9, 2012, an action under the Saskatchewan Class Actions Act was commenced in the Saskatchewan Court of Queen's Bench by John Ironbow against The Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. on behalf of all persons who, on or after January 1, 2012, borrowed a loan from the Company that met the definition of a "payday loan" proposing that the Company has made payday loans contingent on the supply of other goods or services contrary to s. 29 of the Payday Loans Act, charged or received amounts which are not provided for in the Payday Loans Act or Payday Loans Regulation, contrary to s. 23(5) of the Act, deducting or withholding from the initial advance an amount representing a portion of the cost of borrowing or other charges, contrary to s. 25 of the Payday Loans Act and charging or receiving an amount in excess of 23% of the loan principal, contrary to s. 23(1) and (4) of the Act and s. 14 (1) of the Regulation. The plaintiff seeks restitution of damages for unlawful charges paid by the plaintiff and class members, repayment of unlawful charges paid by the plaintiff and class members, damages, interest on all amounts found to be owing and any such associated legal costs.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

*Manitoba - April 23, 2010 Claim*

On April 23, 2010, an action under the Manitoba Class Proceedings Act was commenced in the Manitoba Court of Queen's Bench ("Manitoba Court") by Scott Meeking against The Cash Store Financial Services Inc., The Cash Store Inc. and 1152919 Alberta Ltd o/a Instalozans, proposing that a class action be certified on his own behalf and on behalf of all persons in Manitoba and others outside the province who obtained a payday loan from Cash Store or Instalozans. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code.

A class proceeding in Ontario in *McCutcheon v. The Cash Store Inc. et al.* was certified in 2006 and settled in 2008. That decision affected Manitoba residents, and presumptively resolved claims with respect to loans borrowed by Mr. Meeking, and other Manitoba residents, on or before December 2, 2008.

The Company asked the Manitoba court to enforce the Ontario settlement against Mr. Meeking. On September 9, 2013, the Manitoba Court of Appeal agreed that the Ontario Superior Court of Justice had properly exercised jurisdiction over Manitoba residents, including Mr. Meeking and his prospective class members, and enforced the Ontario settlement relating to borrowers of payday loans from the Company. However, it concluded that the Ontario judgment is not enforceable in Manitoba against Instalozans customers and for signature and title loans (as opposed to payday loans), as the Manitoba court determine Ontario had not given proper notice to Manitoba residents.

On September 12, 2013, the Manitoba Court certified Mr. Meeking's claim as a class proceeding. On October 11, 2013, the Company applied for leave to appeal the certification decision.

On November 8, 2013, the Company filed an application for leave to appeal to the Supreme Court of Canada, seeking to appeal the Manitoba Court of Appeal decision that declined to enforce the Ontario settlement against Instalozans customers. The plaintiffs have also filed an application for leave to appeal to the Supreme Court of Canada, seeking to set aside the portion of the Manitoba Court of Appeal decision that enforced the Ontario settlement.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

*Manitoba - November 1, 2012 Claim*

On November 1, 2012, an action was commenced in Manitoba under The Class Proceedings Act by Sheri Rehill against The Cash Store Financial Services Inc., The Cash Store Inc., Instalozans Inc. and other defendants, on behalf of all persons who, on or after October 18, 2010, borrowed a loan from the Company in Manitoba where that loan met the definition of a "payday loan" as defined by the Payday Loans Act, S.S. 2007, c. P-4.3. The action alleges that the Company made loans contingent on the purchase of another product or service, contrary to s. 154.2 of the Consumer Protection Act, R.S.M. 1987, c. C-200, as am. (CPA), discounted the principal amount of loans by deducting or withholding an amount representing a portion of the cost of credit from the initial advance, contrary to s. 154.1 of the CPA and charging, requiring and accepting amounts in excess of the 17% total cost of credit limit contrary to s. 147(1) of the CPA and s. 13.1 of the Payday Loan Regulation, Man. Reg. 99/2007, as am. The plaintiff pleads for restitution and repayment of all amounts paid by borrowers as a cost of credit for their payday loans, damages for an alleged conspiracy, and interest on all amounts alleged to be owing.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

*Ontario - August 1, 2012 Claim*

On August 1, 2012, an action under the Ontario Class Proceedings Act was commenced in the Ontario Supreme Court of Justice by Timothy Yeoman against The Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. and other defendants, claiming on behalf of the plaintiff and class members who entered into payday loan transactions with the Company in Ontario between September 1, 2011 and the date of judgment, that the Company operated an unlawful business model as the Company did not provide borrowers with the option to take their payday loan in an immediate liquid form and thereby misrepresenting the total cost of borrowing as the cost of additional services and devices should have been included.

The class members plead entitlement to damages and costs of investigation and prosecution pursuant to s. 36 of the Competition Act inclusive of the fees, interest and other amounts that the Company charged to the class members.

By Court order dated August 27, 2013, the plaintiff was permitted to amend the claim to add additional defendants. This amendment further claims that the Company's lines of credit, offered since February 1, 2013, are payday loans subject to the Payday Loans Act, and are being offered without a payday loans license. The amendment claims that the Company acted in an unlawful conspiracy with the additional defendants.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

*Ontario - July 5, 2012 Claim*

On July 5, 2012, The Cash Store Inc. and Instalozans Inc. were charged with the offence of acting as a lender without being licensed as a lender and without having received notice in writing from the Registrar of the licence, contrary to section 6(1) of the Payday Loans Act, 2008, c.9 in Guelph (The Cash Store Inc.), Brantford, and Sarnia, Ontario (Instalozans Inc.). The charges were laid in each of the three jurisdictions on July 5, 2012 as a result of investigations made by the Ministry of Consumer Services relating to consumer complaints made by three consumers.

On November 18, 2013, Instalozans Inc. and The Cash Store Inc. pleaded guilty and were convicted of the offence of acting as a lender without being licensed as a lender and without having received notice in writing from the Registrar of the licence, contrary to section 6(1) of the Payday Loans Act, 2008, c.9 in Brantford, Sarnia, and Guelph, Ontario, respectively. As a result of this plea, The Cash Store and Instalozans Inc. agreed to pay \$50 per conviction, in addition to a victim fee surcharge of 25%, for a total fine of \$188.

Investor class proceedings

*Canada*

On June 3, 2013, a statement of claim brought under the Alberta Class Proceedings Act was commenced in the Alberta Court of Queen's Bench by Darren Hughes against The Cash Store Financial Services Inc. and certain of its present and former directors and officers. The plaintiff alleges, among other things, that the Company made misrepresentations during the period from November 24, 2010 to May 24, 2013 regarding the Company's internal controls over financial reporting and the value of the loan portfolio acquired from third-party lenders, losses on its internal consumer loan portfolio, and its liability associated with the settlement of the March 5, 2004 British Columbia Class Action.

On June 4, 2013, a statement of claim brought under the Ontario Class Proceedings Act was commenced in the Ontario Superior Court of Justice by David Fortier against The Cash Store Financial Services Inc. and certain of its present and former directors and officers. The plaintiff alleges, among other things, that the Company made misrepresentations during the period from November 24, 2010 to May 24, 2013 regarding the Company's internal controls over financial reporting and the value of the loan portfolio acquired from third-party lenders, losses on its internal consumer loan portfolio, and its liability associated with the settlement of the March 5, 2004 British Columbia Class Action.

On July 11, 2013, a statement of claim brought under the Quebec Class Proceedings Act was commenced in the Quebec Superior Court of Justice by Marianne Dessis and Jean-Jacques Fournier against The Cash Store Financial Services Inc. and certain of its present and former directors and officers. The plaintiff alleges, among other things, that the Company made misrepresentations during the period from November 24, 2010 to May 24, 2013 regarding the Company's internal controls over financial reporting and the value of the loan portfolio acquired from third-party lenders, losses on its internal consumer loan portfolio, and its liability associated with the settlement of the March 5, 2004 British Columbia Class Action.

As at September 30, 2013, the Company has reached an agreement with the plaintiffs' counsel whereby the plaintiffs will proceed with the Ontario June 4, 2013 claim and seek a stay of the Alberta and Quebec claims.

Following the stay of the related Alberta claim, an amended statement of claim was issued on October 17, 2013, which, among other things, adds a statutory claim under the Alberta Securities Act. The plaintiffs' motion seeking leave to pursue a secondary market liability claim under Part XXIII.1 of the Ontario Securities Act and to certify the claim as a class action under the Ontario Class Proceedings Act is currently scheduled to be heard by the Ontario Superior Court of Justice on May 20 and 21, 2014.

The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

#### *United States*

On May 20, 2013, Globis Capital Partners, L.P. filed a civil claim against the Company and Gordon J. Reykdal, Chief Executive Officer, in the United States District Court of the Southern District of New York for alleged violations of Sections 10(a) and 20(a) of the Securities Exchange Act of 1934 claiming unspecified damages.

On June 27, 2013, proposed class action proceedings for violation of U.S. federal securities laws were commenced by lead plaintiff Charles Nutsch in the United States District Court of the Southern District of New York against the The Cash Store Financial Services Inc. and certain of its present and former officers on behalf of purchasers of the common stock of The Cash Store Financial Services Inc. during the period between November 24, 2010 and May 13, 2013, inclusive. The proposed class actions concern alleged misrepresentations made in the Company's quarterly and annual financial statements between November 24, 2010 and May 13, 2013. In particular, the complaints allege that the Company overvalued the consumer loan portfolio acquired from third-party lenders, overstated its net income, understated losses on its internal consumer loans portfolio, and understated its liabilities associated with the settlement of the British Columbia class action.

By order dated July 9, 2013, the court consolidated the May 20, 2013 and June 27, 2013 actions for pretrial purposes. On September 17, 2013, the Court issued an order appointing Globis Capital Partners L.P. and Globis Overseas Funds Ltd. as lead plaintiffs in the class action. The Company is vigorously defending this action and the likelihood and amount of liability, if any, is not determinable at this time.

Other claims*Ontario - October 1, 2010 Claim*

The Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. commenced an action in the Superior Court of Ontario against National Money Mart Company ("Money Mart") on October 1, 2010 for trade-mark infringement under sections 7, 19, 20 and 22 of the Trade-Marks Act, misrepresentation in the form of false and misleading advertising contrary to sections 52 and 74.01 of the Competition Act and the common law tort of passing off. The action relates to a national negative advertising campaign launched by Money Mart featuring the use of the Company's registered trade-marks alongside negative statements comparing the Company's payday loan products to Money Mart's loan products. Statements made in the Money Mart advertising campaign include, among other things, that the Company's loan products are more expensive and less convenient than Money Mart's and involve more forms and hassle. The Company seeks injunctive relief as well as \$60,000 in damages in its Statement of Claim. Money Mart filed its statement of defense on May 2, 2011. The parties have settled a discovery plan and the next step in the action is to proceed to discoveries.

The likelihood and amount of gain (or loss), if any, is not determinable at this time.

*Ontario - August 31, 2011 Application*

On August 31, 2011, in response to regulatory amendments to come into force on September 1, 2011, The Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. commenced an Application for Judicial Review in the Ontario Superior Court of Justice. The Application sought an order declaring that certain of the new amended regulations are outside the scope of the regulation-making authority under the Payday Loans Act, 2008, and were made without due process. The hearing was held on October 2, 2013. On November 5, 2013 the Court dismissed the Company's application. The Company filed a notice of motion for leave to appeal to the Court of Appeal on November 22, 2013.

*Ontario - June 7, 2013 Application*

On June 7, 2013, an application was commenced in the Ontario Superior Court of Justice pursuant to section 54(1) of the Payday Loans Act, 2008, by the Director designated under the Ministry of Consumer and Business Services Act, naming The Cash Store Financial Services Inc., The Cash Store Inc. and Instalozans Inc. as respondents. The application seeks a declaration that the basic line of credit product offered constitutes a 'payday loan' under subsection 1(1) of the Payday Loans Act, and seeks orders requiring the Company to obtain a payday loan broker license and restraining the Company from acting as a loan broker of the basic line of credit without a broker's license. The Application was heard by the Ontario Superior Court of Justice on November 29, 2013. It is unknown when a decision on this matter will be rendered.

The Company has vigorously defended this application and the likelihood and amount of liability, if any, is not determinable at this time.

*Alberta - September 18, 2013 Claim*

On September 18, 2013, an action in the Court of Queen's Bench of Alberta was commenced against the Company, certain of its officers and affiliates, including The Cash Store Inc., certain of its associated companies, including The Cash Store Australia Holdings Inc. and RTF Financial Holdings Inc., and other corporate defendants, seeking repayment of certain funds advanced to the Company, its affiliates and the associated companies by Assistive Financial Corp. ("Assistive"), a former related party third-party lender. An application for interim relief, including the appointment of an inspector, was brought by the plaintiffs and is currently scheduled to be heard by the Court of Queen's Bench of Alberta on December 12, 2013. The action by Assistive also seeks damages equivalent to \$110.0 million together with interest thereon at the rate

of 17.5% per year.

The Company believes the action is wholly without merit and intends to vigorously defend itself. The likelihood and amount of liability, if any, is not determinable at this time.

### **Special Investigation**

The Company's Audit Committee was made aware of written communications that contained questions about the acquisition of the consumer loan portfolio from third-party lenders in late January 2012 (the "Transaction") and included allegations regarding the existence of undisclosed related party transactions in connection with the Transaction. In response to this allegation, legal counsel to a special committee of independent directors of the Company (the "Special Committee") retained an independent accounting firm to conduct a special investigation. The investigation followed a review conducted by the Company's internal auditor under the direction of the Audit Committee of the Board, and the restatement by the Company in December 2012 of its unaudited interim quarterly financial statements and MD&A for periods ended March 31, 2012 and June 30, 2012.

The investigation covered the period from December 1, 2010 to January 15, 2013 and was carried out over four months. It involved interviews of current and former officers, directors, employees and advisors of the Company and a review of relevant documents and agreements as well as electronically stored information obtained from Company computers and those of employees, former employees and directors most likely to have information relevant to the investigation.

The Special Committee has reported its findings on the allegations to the Board of Directors and, consistent with the recommendation made to the Board of Directors by the Special Committee, the Board of Directors has determined that no further corrections or restatements of previously reported financial statements and other public disclosures are required in relation to the Transaction.

### **Reliance on Third-Party Lenders**

The Company's business depends on the willingness of third-party lenders to make significant funds available for lending to the Company's customers and to purchase loans that the Company has made. There are no assurances that existing or new third-party lenders will continue to make funds available. Any reduction or withdrawal of funds could have a material adverse impact on the Company's results of operations and financial condition.

Refer to Off-Balance Sheet Arrangements for a description of arrangements with third-party lenders.

### **Liquidity & Capital Resources**

The Company requires continued access to capital. A significant reduction in cash flows from operations or access to funding to support the Company's consumer lending products could materially and adversely affect the Company's ability to achieve the Company's planned growth and operating results.

As of September 30, 2013, the Company had approximately \$127.2 million in senior secured notes debt and on November 29, 2013 the Company entered into a credit agreement that provided an additional \$12.0 million in debt financing. If cash flows and capital resources are insufficient to fund the debt service obligations and to satisfy working capital and other liquidity needs, the Company may be forced to reduce or delay capital expenditures, seek additional capital or seek to restructure or refinance indebtedness. These alternative measures may not be successful or may not permit the Company to meet its scheduled debt service obligations. In the absence of such operating results and resources, the Company could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet

its debt service and other obligations. If the Company is unable to make the required payments on its debt obligations, the Company would be in default under the terms of its indebtedness which could result in an acceleration of the repayment obligations. Any such default, or any attempt to alter the business plans and operations to satisfy the obligations under the Company's indebtedness, could materially adversely affect the Company's business, prospects, results of operations and financial condition.

### **Competition**

The payday loans industry is highly fragmented and very competitive. Competition may increase as the industry consolidates. In addition to other unsecured consumer lending and cheque cashing stores and online lenders, the Company competes with banks and other financial services entities and retail businesses that offer consumer loans, cash cheques, sell money orders, provide money transfer services or offer other products and services offered by the Company. Some competitors have larger and more established customer bases in other provinces and substantially greater financial and other resources than the Company has. As a result, the Company could lose market share and revenues could decline, thereby affecting the Company's ability to generate sufficient cash flow to service indebtedness and fund operations.

### **Foreign Currency**

UK operations have been funded to date by loans from the Canadian company. These loans are currently not hedged, thus they are vulnerable to currency exchange rate fluctuations between the British Pound and the Canadian Dollar. Upon consolidation, as exchange rates vary, net sales and other operating results may differ materially from expectations, and the Company may record significant gains or losses on the remeasurement of intercompany balances. A 542 basis point increase/decrease in the exchange rate would increase/decrease net loss by approximately \$1.3 million.

### **Growth Management**

The Company's expansion strategy, which in part contemplates the addition of new branches, and developing new products and distribution channels for the Company's products in Canada and the UK is subject to significant risks. Continued growth in this manner is dependent upon a number of factors, including the ability to hire, train and retain an adequate number of experienced management employees, the availability of adequate financing for expansion activities, the ability to obtain any government permits and licenses that may be required, the ability to identify and overcome cultural and linguistic differences which may impact market practices within a given geographic region, and other factors, some of which are beyond the Company's control.

There can be no assurance that the Company will be able to successfully grow its business or that the current business, results of operations and financial condition will not suffer if the Company is unable to do so. Expansion beyond the geographic areas where the Company's branches are presently located will increase demands on management and divert their attention. In addition, expansion into new products and services will present new challenges to the business and will require additional management time.

### **Ability to Attract and Retain Qualified Employees**

The Company's future success depends to a significant degree on the members of its executive management team and their ability to execute on the growth strategies and provide expertise in developing international operations. The loss of the services of one or more members of the executive management team could harm the Company's business and future development. Continued growth also depends on the Company's ability to attract and retain additional skilled management personnel. If the Company is unable to attract and retain the requisite personnel as needed in the future, operating results and growth could suffer.

**Changes to UK Business, Regulatory or Political climate**

The Company's growth plans include significant expansion in the UK. Changes in the business, regulatory or political environment, shareholder proposals, or significant fluctuations in currency exchange rates could affect the Company's ability to expand or continue operations there, which could have a material adverse impact on the Company's prospects, results of operations and cash flows.

**Negative Public Perception**

The media often portrays payday loan companies as predatory or abusive, which could negatively affect the Company's business. Consumer advocacy groups, certain media reports, and some regulators and elected officials in the provinces in which the Company conducts business have from time to time advocated governmental action to prohibit or severely restrict certain types of payday lending. These efforts have often focused on lenders that charge consumers imputed interest rates and fees that are higher than those charged by credit card issuers to more creditworthy consumers and otherwise characterize the Company's products and services as being predatory or abusive toward consumers. If consumers accept this negative characterization, demand for the Company's loans could significantly decrease. In addition, media coverage and public statements that assert some form of corporate wrongdoing can lower morale, make it more difficult to attract and retain qualified employees, management and directors, divert management attention and increase expenses. These trends could adversely affect the business, prospects, results of operations and financial condition of the Company.

**Valuation of Consumer Loans and Advances**

The Company maintains an allowance for credit losses for anticipated losses on consumer loans and advances and loans and advances in default. To estimate the appropriate level of credit loss reserves, the Company considers known and relevant internal and external factors that affect loan collectability, including the amount of outstanding loans owed, historical loss trends, current collection patterns and current economic trends. These reserves are estimates, and if actual credit losses are materially greater than loan loss reserves, the Company's results of operations and financial condition could be adversely affected.

**Share Price Volatility**

The price of common shares has been subject to significant fluctuations and may continue to fluctuate or decline. Over the course of the twelve months ended September 30, 2013, the market price of the Company's common shares on the TSX has been as high as \$5.73, and as low as \$1.50.

The market price of the Company's common shares has been, and is likely to continue to be, subject to significant fluctuations due to a variety of factors, including quarterly variations in operating results, operating results which vary from the expectations of securities analysts and investors, changes in financial estimates, changes in market valuations of competitors, announcements by the Company or its competitors of a material nature, additions or departures of key personnel, changes in applicable laws and regulations governing consumer protection and lending practices, the effects of litigation, future sales of common shares, and general stock market price and volume fluctuations. In addition, general political and economic conditions such as a recession, or interest rate or currency rate fluctuations may adversely affect the market price of the common shares of many companies, including that of the Company. A significant decline in the Company's share price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation.

**Unauthorized Disclosure of Confidential Data**

In the normal course of business, the Company is required to manage, use, and store large amounts of



personally identifiable information, consisting primarily of confidential personal and financial data regarding customers. The Company also depends on its IT networks and systems, and those of third parties, to process, store, and transmit this information. As a result, the Company is subject to numerous laws and regulations designed to protect this information, such as Canadian federal and provincial laws governing the protection of financial or other individually identifiable information. Security breaches involving files and infrastructure could lead to unauthorized disclosure of confidential information, as well as shutdowns or disruptions of the Company's systems.

If any person, including the Company's employees or those of third-party vendors, negligently disregards or intentionally breaches the Company's established controls with respect to such data or otherwise mismanages or misappropriates that data, the Company could be subject to costly litigation, monetary damages, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential customer data by any person, whether through systems failure, unauthorized access to IT systems, fraud, misappropriation, or negligence, could result in negative publicity, damage to the Company's reputation, and a loss of customers. Any unauthorized disclosure of personally identifiable information could subject the Company to liability under data privacy laws and adversely affect the business prospects, results of operations, and financial condition of the Company.

### **Dividends**

The Company ceased paying dividends in the fourth quarter of FY2012 and may not pay dividends on its common shares within the next fiscal year. Therefore, any return on an investment in common shares of the Company may come only from an increase in the market value of the common shares of the Company. The Board of Directors reviews the Company's dividend distribution policy on a quarterly basis. This review includes evaluating the financial position, profitability, cash flow and other factors that the Board of Directors considers relevant. The ability to declare and pay dividends is subject to compliance with a restricted payment covenant stipulated in the Indenture.

### **Internal Control Over Financial Reporting**

As of September 30, 2013, an evaluation was carried out under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of disclosure controls and procedures as defined in Rule 13a- 15(e) and Rule 15d - 15(e) under the 1934 Act, as amended, and in NI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were not effective due to material weaknesses in the Company's internal control over financial reporting.

Unless and until these issues are corrected, the Company's ability to report financial results or other information required to be disclosed on a timely and accurate basis may be adversely affected. In addition, remedying this matter will require additional management time and resources and cause the Company to incur additional costs. Further, the Company cannot provide any assurance that it will not identify additional control deficiencies that may constitute significant deficiencies or material weaknesses in its internal controls in the future.

**This is EXHIBIT "N" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*


**Regulation - LGIC****Proposed Regulatory Amendments to the General Regulation (O. Reg. 98/09) of the Payday Loans Act, 2008**

**Ministry:** Ministry of Consumer Services

**Regulation Number(s):** O. Reg. 98/09

**Bill or Act:** Payday Loans Act, 2008

**Summary of Decision:** The regulation was filed with the Registrar of Regulations December 17, 2013.  
[http://www.e-laws.gov.on.ca/html/source/regs/english/2013/elaws\\_src\\_regs\\_r13351\\_e.htm](http://www.e-laws.gov.on.ca/html/source/regs/english/2013/elaws_src_regs_r13351_e.htm)

**Further Information:**  ONTARIO REGULATION 351/13

**Proposal Number:** 13-MCS008

**Posting Date:** August 16, 2013

**Summary of Proposal:** The Ministry of Consumer Services is proposing to amend the General Regulation by adding the following:

1. The heading immediately before section 1 of Ontario Regulation 98/09 is revoked and the following substituted:  
DEFINITIONS AND APPLICATION OF ACT
2. The Regulation is amended by adding the following section:  
  
Application of Act  
1.1 (1) A loan described in subsection (2) is prescribed for the purposes of subsection 2 (2) of the Act.  
  
(2) Subsection (1) applies to a loan under which a lender extends credit to a borrower so that the borrower may make one or more draws for up to an aggregate amount of principal and to which one of the following criteria applies but does not apply to a loan that is secured against real property:
  1. The aggregate amount is \$5,000 or less.
  2. The borrower is not entitled to make a draw without first obtaining authorization, approval or permission of any kind from the lender or any other person, whether or not there is a charge for obtaining the authorization, approval or permission.
  3. The borrower is required to make repayments of the principal amount of the loan or payments of any other amounts under the loan on a schedule that corresponds to the days on which the borrower is regularly due to receive income.
  4. The amount that the borrower is required to pay in any 30-day period under the loan, except for the last such period, includes one or more repayments totalling at least 10 per cent of the principal amount of the loan.

Commencement  
3. This Regulation comes into force on the later of October 31, 2013 and the day it is filed.

**Contact Address:** Ministry of Consumer Services  
 Consumer Policy and Liaison Branch  
 Consumer and Business Policy Unit  
 777 Bay Street, 5th Floor  
 Toronto, ON M7A 2J3  
 Attention: Luisa Tmej, Team Lead

**Effective Date:** February 15, 2014

**Decision:** Approved

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LAST MODIFIED: FEB 2 2014

**This is EXHIBIT "O" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

***A Commissioner, etc.***

# Cash Store

FINANCIAL



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the three months ended December 31, 2011**

**(Restated)**




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## TABLE OF CONTENTS

<b>EXPLANATORY NOTE</b> .....	4
<b>RESTATEMENT OF PREVIOUSLY REPORTED RESULTS</b> .....	4
<b>BUSINESS PROFILE AND STRATEGY</b> .....	6
ACCELERATE DIRECT LENDING MODEL.....	6
INTRODUCE ADDITIONAL NEW PRODUCTS.....	6
CONTINUE TO GROW CANADIAN OPERATIONS.....	7
DEVELOP UK BRANCH NETWORK.....	7
CORPORATE SOCIAL RESPONSIBILITY.....	7
<b>OVERALL FINANCIAL PERFORMANCE</b> .....	8
FIRST QUARTER OF 2012.....	8
<b>SELECTED FINANCIAL INFORMATION</b> .....	11
<b>FINANCIAL ANALYSIS</b> .....	12
<b>BRANCH COUNT</b> .....	12
REVENUE.....	13
BRANCH OPERATING INCOME.....	14
EXPENSES (EXCLUDING RETENTION PAYMENTS, DEPRECIATION, AMORTIZATION AND CLASS ACTION SETTLEMENTS).....	14
RETENTION PAYMENTS.....	15
DEPRECIATION AND AMORTIZATION.....	15
INCOME TAXES.....	15
<b>LIQUIDITY AND CAPITAL RESOURCES</b> .....	16
CONSUMER LOANS RECEIVABLE.....	17
NORMAL COURSE ISSUER BID.....	17
<b>RELATED PARTY TRANSACTIONS (RESTATED)</b> .....	17
<b>RISK FACTORS AFFECTING PERFORMANCE</b> .....	18
REGULATORY ENVIRONMENT.....	18
LEGAL PROCEEDINGS.....	19
THIRD PARTY LENDERS/RETENTION PAYMENTS.....	20
<b>CRITICAL ACCOUNTING ESTIMATES</b> .....	21
USE OF ESTIMATES.....	21
REVENUE RECOGNITION.....	22
RETENTION PAYMENTS.....	22
PROVISIONS FOR LOAN LOSSES.....	23
STOCK BASED COMPENSATION.....	23
CONSUMER LOANS RECEIVABLE.....	23
INCOME TAXES.....	24
FAIR VALUE OF FINANCIAL INSTRUMENTS.....	24
LONG-TERM INVESTMENTS.....	24
PROPERTY AND EQUIPMENT.....	24
GOODWILL.....	25
ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS.....	25
DEFERRED FINANCING COSTS.....	25



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<b>CHANGES IN ACCOUNTING POLICIES AND PRACTICES</b> .....	<b>25</b>
<b>INTERNAL CONTROLS OVER FINANCIAL REPORTING</b> .....	<b>26</b>
<b>OUTSTANDING SHARE DATA</b> .....	<b>27</b>
<b>DIVIDENDS</b> .....	<b>27</b>
<b>SUMMARY OF QUARTERLY RESULTS</b> .....	<b>28</b>
EBITDA AND ADJUSTED EBITDA RECONCILIATION.....	29
<b>OTHER</b> .....	<b>29</b>
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION.....	29
NON-GAAP MEASURES .....	30





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**EXPLANATORY NOTE**

*May 24, 2013*

*The following discussion and analysis for the three months ended December 31, 2011 has been restated. This restated interim Management's Discussion and Analysis (MD&A) should be read in conjunction with the restated unaudited interim consolidated financial statements for the three months ended December 31, 2011 and the restated audited consolidated financial statements for the year ended September 30, 2011, together with our restated annual MD&A for the year ended September 30, 2011.*

All figures are presented in Canadian dollars and are reported in accordance with United States generally accepted accounting principles ("U.S. GAAP").

**RESTATEMENT OF PREVIOUSLY REPORTED RESULTS**

- a) The unaudited interim consolidated financial statements for the three months ended December 31, 2011 and 2010, as initially reported, have been amended and restated to correct for an error resulting from the misunderstanding of the settlement terms and conditions of the March 5, 2004 British Columbia Class Action claim, which resulted in the application of an accounting principle to measure and record the liability as at September 30, 2010 and subsequent reporting periods, that was not appropriate in the circumstances. The restatement impacts the year ended September 30, 2011 and the fifteen months ended September 30, 2010. The restatement resulted in a reduction in net income in the fifteen months ended September 30, 2010 of \$6.6 million and an increase in net income in the year ended September 30, 2011 of \$1.5 million.

The correction of the error will result in the previously disclosed maximum settlement exposure of \$18.8 million being expensed with the majority of the expense being recognized in the fifteen month period ended September 30, 2010. The correction had an impact on our Consolidated Statements of Operations and Comprehensive Income and resulted in an increase in diluted earnings per share of \$0.09 for the fiscal year ended September 30, 2011 and a decrease in the diluted earnings per share of \$0.38 for the fifteen months ended September 30, 2010. The correction had no impact on total revenues, operating margin, or cash position and had no impact on compliance with debt covenants in any periods presented.

As a result of the restatements, the previously filed consolidated financial statements of the Company for the year ended September 30, 2011 and the fifteen month period ended September 30, 2010, as well as, the interim unaudited consolidated financial statements for the period ended December 31, 2011 and the associated MD&A disclosure for the applicable periods should no longer be relied upon.



### Effects of the restatement

The effect of the restatement on the interim consolidated statement of operations and comprehensive income for the three months ended December 31, 2011 and 2010 is as follows:

	Three months ended					
	December 31 2010			December 31 2011		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
Interest expense	\$ -	\$ 145	\$ 145	\$ -	\$ 169	\$ 169
Class action settlements	-	367	367	-	(69)	(69)
INCOME BEFORE INCOME TAXES	5,038	(512)	4,526	1,434	(100)	1,334
PROVISION FOR INCOME TAXES - Deferred	290	(22)	268	618	(71)	547
NET INCOME AND COMPREHENSIVE INCOME	3,352	(490)	2,862	989	(29)	960
BASIC EARNINGS PER SHARE	\$ 0.20	\$ (0.03)	\$ 0.17	\$ 0.06	\$ -	\$ 0.06
DILUTED EARNINGS PER SHARE	0.19	(0.03)	0.16	0.06	(0.01)	0.05

The effect of the restatement on the interim consolidated balance sheets as at December 31, 2011 and 2010 is as follows:

	September 30 2011			December 31 2011		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
	Other receivables	\$ 12,575	\$ -	\$ 12,575	\$ 11,470	\$ 6,258
Deferred tax assets (current)	1,528	1,484	3,012	1,097	1,554	2,651
Long term receivable	681	-	681	2,769	(2,149)	620
Accrued liabilities	21,194	6,548	27,742	16,583	10,756	27,339
Retained earnings	37,019	(5,064)	31,955	35,916	(5,093)	30,823

The effect of the restatement on the interim consolidated statement of cash flows for the three months ended December 31, 2011 and 2010 is as follows:

	Three months ended					
	December 31 2010			December 31 2011		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
Net income	\$ 3,352	\$ (490)	\$ 2,862	\$ 989	\$ (29)	\$ 960
Deferred income taxes	290	(22)	268	618	(71)	547
Other receivables and long-term receivables	(4,182)	(800)	(4,982)	(983)	(4,109)	(5,092)
Accounts payable and accrued liabilities	(3,597)	1,312	(2,285)	(4,055)	4,209	154

- b) Independent of the restatement outlined in a) above, we have also restated Related Party Transactions - Third party Lenders, to disclose related party transactions with a privately held entity that raises capital and provides advances to the Company's customers (third-party lender). The privately held entity is controlled by the father of Cameron Schiffner, the Senior Vice President of Operations of the Company. The addition of this disclosure did not impact the previously reported financial position or results of operations of the Company.




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## BUSINESS PROFILE AND STRATEGY

This section contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information" located at the end of this MD&A.

Cash Store Financial is an alternative to traditional banks, providing short-term advances and other financial services, to serve the needs of everyday people in Canada through our two branch banners: Cash Store Financial and Instaloans. Cash Store Financial and Instaloans act as brokers and lenders to facilitate short-term advances and to provide other financial services to income-earning consumers. We also provide a range of financial products that are not supplied by traditional financial institutions. As of December 31, 2011, we owned and operated 596 branches in nine Canadian provinces, two Canadian territories and the United Kingdom (the "UK"). Our workforce is dynamic and we operate within a performance-based culture. We employ approximately 2,300 associates across Canada and the UK. Cash Store Financial is the only broker and lender of short-term advances and provider of other financial services in Canada that is publicly traded on both the Toronto and New York Stock Exchanges. Cash Store Financial trades under the symbol "CSF" on the Toronto Stock Exchange and under the symbol "CSFS" on the New York Stock Exchange.

Our business is based on the recognition that the needs of a segment of the Canadian and UK populations are not being properly serviced by traditional financial institutions. Our strategic objective is to establish Cash Store Financial and Instaloans as the provider of choice, in the jurisdictions in which we operate, for short-term advances and other financial services by offering a wide range of products, a high level of customer service, and convenient locations and hours of operation.

In addition to meeting our customers' needs by providing small, short-term loans which can be accessed quickly, we also offer bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing products and prepaid phone cards.

A key component of our long-term business strategy has been product diversification. This strategy has and should continue to assist us in offsetting downward pressure on revenue and earnings resulting from provincially regulated rate caps on payday loans. In the third quarter of 2010, through an agency agreement with DC Bank, a federally regulated Canadian Schedule 1 bank, we introduced a basic deposit account product. A new premium bank account product that features unlimited free cheque cashing and free on-line bill payments was introduced late in the second quarter of 2011. Both types of account are insured by the Canada Deposit Insurance Corporation.

Cash Store Financial's strategic priorities are:

***Accelerate Direct Lending Model***

- Reducing our cost of capital.

***Introduce Additional New Products***

- Growing existing product lines and implementing new product initiatives
- Accelerating revenue growth through further new product initiatives.



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***Continue to Grow Canadian Operations***

**Driving market penetration**

- Maximizing the potential of our expanding branch network;
- Continuing to focus on improving Branch Operating Income ("BOI") margins for all our branches;
- Continuing to educate, motivate and improve the performance of our associates through an integrated communication and training strategy that includes Cash Store Financial College, Cash Store Financial TV and our annual President's Forum with every branch manager; and
- Providing strong leadership through in-the-field, hands-on involvement of senior management and getting back to the basics throughout the company.

**New branch openings**

- Furthering our position in the Canadian alternative financial services industry through organic growth into underserved communities based on new branch profitability or via the acquisition of existing operators.

***Develop UK Branch Network***

***Corporate Social Responsibility***

Cash Store Financial has recognized its corporate responsibility to contribute to the communities in which we do business. In 2008, we partnered with the Alberta Diabetes Foundation to raise \$7.5 million for research to be undertaken at the Alberta Diabetes Institute, a globally-recognized centre of research excellence. In 2010 the Company was one of 16 companies recognized with a "Roll of Honour" award by the Alberta Association of Fund Raising Executives. The "Roll of Honour" award celebrates extraordinary commitment and contributions to the non-profit sector from corporate citizens and individuals around Alberta. In calendar 2012, Cash Store Financial plans to host 20 "freedom" runs across Canada.



## OVERALL FINANCIAL PERFORMANCE

### First Quarter of 2012

This section contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information" located at the end of the MD&A.

<i>Thousands of dollars, except for per share amounts</i>	Three Months Ended	
	December 31 2010 (restated)	December 31 2011 (restated)
<b>Consolidated results</b>		
Revenue	\$ 47,734	\$ 45,848
Branch operating income	13,815	11,777
Earnings before interest, taxes, stock-based compensation, depreciation, amortization, class action expenses and effective interest component of retention payments	13,004	9,482
<b>Earnings before interest, taxes, stock-based compensation, depreciation and amortization</b>	<b>7,132</b>	<b>4,160</b>
Net income		
Net income and comprehensive income	2,862	960
Diluted earnings per share		
Net income and comprehensive income	\$ 0.16	\$ 0.05

Net income and comprehensive income for the first quarter ended December 31, 2011, was \$1.0 million, compared to \$2.9 million for the same quarter last year.

Diluted earnings per share were \$0.05 for the quarter, compared to \$0.16 for the same quarter last year. The lower than expected earnings during the quarter were a result of a decrease in loan fees related to regulatory changes as well as an increase in expenditures relating to expansion in the UK, additional infrastructure costs within our collections and new product development departments.

#### Significant factors impacting the first quarter earnings include:

- Loan fees were down 9.4% for the three months ended December 31, 2011, at \$32.9 million compared to \$36.3 million in the same quarter last year. Loan fees in Canada decreased by \$4.5 million as a result of lower volumes related to regulatory changes which increased our average loan term and decreased our average loan volumes per customer. The decrease in Canadian loan fees was partially offset by a \$1.1 million increase in loan fees in the UK;
- We experienced growth in other income of 13.5% to \$13.0 million for the three months ended December 31, 2011 when compared to the same quarter last year as a result of increases in the number of bank accounts. This growth was offset by a reduction in financial product insurance revenue as a result of regulatory changes in Ontario. As a percentage of total revenue, other income increased to 28.3% from 23.9% which is an 18.1% increase for the quarter;
- Loan volumes for the three months ended December 31, 2011 were down 7.7% to \$199.6 million namely as result of regulatory impacts in Canada, which were offset by an increase in UK loan volumes of \$5.9 million;



- Earnings decreased by \$1.9 million in the quarter as a result of reduced loan volumes, infrastructure enhancements, and a \$696,000 drag on earnings from branches open for less than one year;
- Retention payments decreased by \$632,000 for the three months ended December 31, 2011 compared to the same quarter last year;
- Branch SG&A, advertising and rent increased \$648,000 as a result of branch expansion in both Canada and the UK and a focused advertising campaign in relation to the pilot of the line of credit product;
- Regional expenses increased by \$540,000 related to increased collection related costs, overall enhancement to collection infrastructure, infrastructure additions in the UK, and a reorganization at the regional manager and divisional vice president levels;
- Corporate expenses increased by \$984,000 in the quarter due to UK expansion and increased corporate salary costs as a result of infrastructure additions in marketing, training and new product development. The increases in corporate expenses were offset by decreases in legal fees;
- The drag on earnings before taxes related to our UK operation increased by \$483,000 in the quarter when compared to the same quarter in the prior year; and
- Working capital increased by \$2.1 million in the quarter compared to last year.

On January 31, 2012, we issued, through private placement in Canada and the U.S. \$132.5 million of 11.5% Senior Secured Notes ("the Notes"). The Notes mature on January 31, 2017 and will bear interest from the date of issue at 11.5% per annum of which interest is payable on a semi-annually basis in equal installments on January and July of each year, commencing in July of 2012. The notes were issued at a price of 94.608%. The Company is using the proceeds of the Notes to purchase the loans receivable from our current third-party lenders' who currently lend to the Company's customers in the regulated provinces. This transaction will benefit us and will allow us to transition to a direct lending model. The financial flexibility offered by the Notes will provide us with a new source of funding to support future loan growth associated with the maturing of our branches and our expansion plans. We used the gross proceeds of the Offering to purchase loans receivable and related assets from our current third-party lenders' who currently lend to our customers in the regulated provinces, for general corporate purposes and to pay fees and expenses related to the Offering.

Our EBITDA was \$4.2 million for the first quarter of fiscal 2012, compared to \$7.1 million for the first quarter of 2011. This decrease is due to reduced loan volumes in Canada, offset by increased loan volumes in the UK, increased costs in the UK related to new branches and infrastructure and increased regional and corporate infrastructure costs compared to the same quarter last year. The decreases in EBITDA were partially offset by increases in other income. EBITDA, adjusted to remove class action settlements and the effective interest component of retention payments, was \$9.5 million for the first quarter of 2012, compared to \$13.0 million in the same quarter last year.

In Canada, the implementation of provincial industry rate regulations commenced in August 2009 and continued through until January 2012. Regulations have been implemented in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia, which represent the markets in which 92% of our Canadian branches are located. Rate caps and certain operational



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restrictions in regulated provinces resulted in revenue compression relative to previous periods as well as decreased loan volumes. We continue to believe that industry regulation has been in the public interest. Regulations have protected consumers and validated the industry. This has enabled us to move to on-balance sheet lending at a lower fixed cost of capital. We will continue to work with the provinces on regulatory approaches that strike an appropriate balance between consumer and industry needs.

Product and revenue diversification initiatives have generated positive results year over year. Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) increased to \$13.0 million in the first quarter, up from \$11.4 million in the same quarter last year. We have made significant improvements in products and services which complement our existing product lines. We will continue to progress towards our objectives of diversifying our revenue stream with products which enhance and augment our core products, and increasing the value generated from our existing suite of products.

There has been a significant realignment of the regional and senior management structure of our operations group. We expect that these changes will lead to strong growth in future periods.

# Cash Store

FINANCIAL

## SELECTED FINANCIAL INFORMATION

<i>Thousands of dollars, except for per share amounts and branch figures</i>		Three Months Ended	
		December 31 2010 (restated)	December 31 2011 (restated)
<b>Consolidated results</b>			
<i>No. of branches</i>	Canada	566	573
	United Kingdom	4	23
		570	596
<b>Loan volumes</b>			
Loan fees included	\$	216,293	\$ 199,611
<b>Revenue</b>			
Loan fees	\$	36,315	\$ 32,892
Other income		11,419	12,956
		47,734	45,848
<b>Branch expenses</b>			
Salaries and benefits		14,382	14,397
Retention payments		7,189	6,557
Selling, general and administrative		4,194	4,488
Rent		4,405	4,723
Advertising and promotion		1,426	1,542
Provision for loan losses		663	668
Depreciation of property and equipment		1,660	1,776
		33,919	34,071
Branch operating income		13,815	11,777
Regional expenses		4,194	4,734
Corporate expenses		4,042	5,026
Interest expense		145	169
Other depreciation and amortization		541	583
Income before income taxes		4,893	1,265
Class action settlements		367	(69)
EBITDA *		7,132	4,160
Net income and comprehensive income	\$	2,862	\$ 960
<b>Weighted average number of shares</b>			
outstanding - basic		17,098	17,420
- diluted		17,671	17,566
<b>Basic earnings per share</b>			
Net income and comprehensive income	\$	0.17	\$ 0.06
<b>Diluted earnings per share</b>			
Net income and comprehensive income	\$	0.16	\$ 0.05
<b>Consolidated Balance Sheet Information</b>			
Working capital	\$	7,325	\$ 9,451
Total assets		114,625	131,656
Total long-term liabilities		9,743	18,270
Total liabilities		36,161	50,298
Shareholders' equity	\$	78,464	\$ 81,358

\* EBITDA – earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.





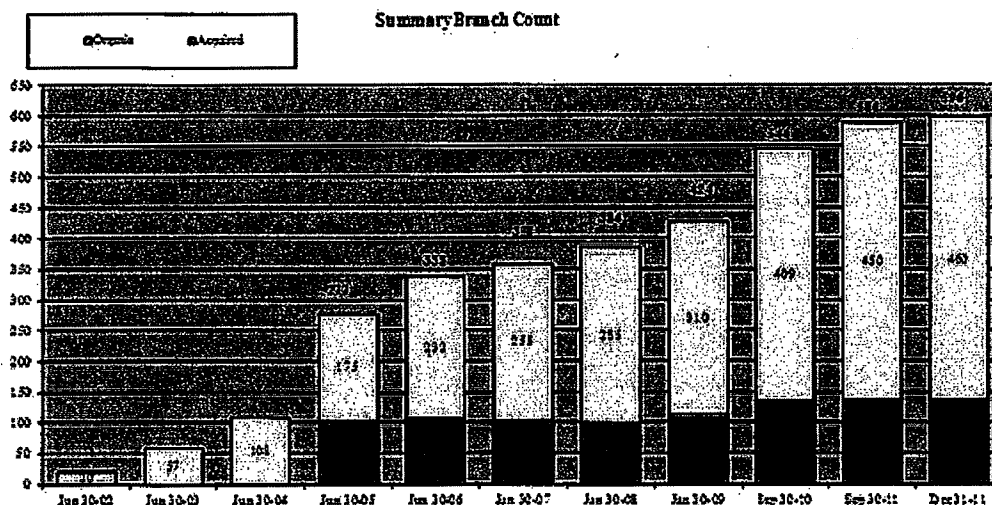
**FINANCIAL ANALYSIS**

This analysis provides an overview of our financial results for the three months ended December 31, 2011, compared to the three months ended December 31, 2010. Certain comparative figures have been reclassified in prior periods. Specifically, certain amounts that were previously recorded within SG&A expense have been reclassified to other income for the previous quarter presented.

**Branch Count**

This section contains forward-looking statements. See “Cautionary Statement Regarding Forward-Looking Information” located at the end of the MD&A.

At December 31, 2011 we had a total of 596 branches in operation, including 23 branches in the UK. This is an increase of 26 branches compared to 570 branches (Canada – 566 and UK – 4) at the end of the same quarter last year. During the quarter, 11 new branches were added in the UK and one branch was consolidated in Canada. Branch performance continues to be monitored and branch consolidations will occur when efficiencies can be achieved.



	Jun 30-02	Jun 30-03	Jun 30-04	Jun 30-05	Jun 30-06	Jun 30-07	Jun 30-08	Jun 30-09	Jun 30-10	Jun 30-11	Dec 31-11
Opening	5	20	37	101	277	333	333	314	424	566	566
Opening	15	37	51	67	61	23	37	31	104	44	11
Acquired	0	0	0	102	6	0	0	13	22	1	0
Closed/Retired	0	0	0	0	(6)	0	(21)	(9)	(6)	(3)	(3)
Closing	20	57	101	277	333	333	314	424	566	596	596

Material factors that determine the number of branch openings include the availability of suitable locations with suitable lease terms, branch performance in similar areas and favorable market rates. We will continue to assess growth in the UK as our current branches develop. We anticipate adding a minimal number of branches in Canada next year.



## Revenue

Revenues this quarter were down 3.9% to \$45.8 million compared to the same quarter last year of \$47.7 million, as a result of revenue in Canada decreasing by \$3.3 million which was offset by a \$1.4 million increase in overall revenue in the UK.

Loan fees for the quarter were down 9.4% to \$32.9 million compared to \$36.3 million for the same quarter last year. Loan fees in Canada decreased by \$4.5 million as a result of lower loan volumes related to regulatory changes which increased our average loan term and decreased our average loan volumes per customer partially offset by a \$1.1 million increase in loan fees in the UK given the increased number of UK branches.

Loan volumes were \$199.6 million for the quarter, down 7.7% from \$216.3 million for the first quarter of last year. The decrease in loan volumes can be attributed to regulatory impacts in Canada which was offset by an increase in UK loan volumes of \$5.9 million. We also believe restrictions within the Canadian regulatory framework have reduced overall industry loan volumes.

Set forth below is a breakdown of our revenue that can be attributed to payday loans which are segregated by loans internally originated and loans generated by third-party lenders'. The types of revenue that can be attributed to the generation of payday loans include brokerage and loan fees, interest income and default fees.

The following table summarizes the allocation of types of revenue segregated between internally originated loans and third-party funded loans:

For the quarter ended December 31, 2011:

(thousands of dollars)	Third Party Funded	Internally	Total
	Loan	Originated Loan	
Loan fees	30,656	2,236	32,892
Interest	-	277	277
Default fees	330	45	374

For the quarter ended December 31, 2010:

(thousands of dollars)	Third Party Funded	Internally	Total
	Loan	Originated Loan	
Loan fees	33,555	2,759	36,315
Interest	-	51	51
Default fees	830	151	981

Loan volumes related to internally originated loans increased to \$13.1 million in the first quarter of fiscal 2012 up from \$12.1 million in the same quarter last year.

The following table sets out the split between loan fees, agency fees, and other income:



(thousands of dollars)	Three	
	Months Ended	Months Ended
	December 31 2010	December 31 2011
Loan fees	\$ 36,315	\$ 32,892
Agency fees	9,373	11,286
Other revenue	2,046	1,670
<b>Total income</b>	<b>\$ 47,734</b>	<b>\$ 45,848</b>

Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) for the quarter was \$13.0 million, up 13.5% from \$11.4 million for the same quarter of last year. Agency fee income has increased significantly as a result of the introduction of new products and other product enhancements, namely an increase in the number of bank accounts offset by a short-term drop in financial product insurance revenue as a result of regulatory changes in Ontario and decreases in other income. These new products and enhancements are part of our long-term strategy to diversify revenue streams by providing our customers with a broader suite of financial services and products.

The most significant components of "other" income were agency fees of \$11.3 million in the quarter compared to \$9.4 million, which represented 87.1% of "other" revenue for the quarter or a 20.4% increase over the same quarter last year. Agency fees include fees earned from the provision of debit and prepaid credit cards and all other agency fees we earn from financial product insurance, money transfers and prepaid phone cards. The largest contributor to the increase was the introduction of bank accounts being offered to our customers. The increase was offset by reductions in financial product insurance. For the current quarter, 97% of customers who secured a loan also purchased one or more of the following optional financial services: bank accounts, financial product insurance, pre-paid master cards, and/or debit cards.

In the quarter ended December 31, 2011, the average loan size was \$501 per loan compared to \$488 per loan for the same quarter last year.

#### **Branch Operating Income**

BOI for the current quarter was \$11.8 million (25.7% of revenue), compared to \$13.8 million (28.9% of revenue) for the same quarter last year.

BOI was down as a result of reduced loan volumes related to regulatory changes which increased our average loan term, decreased our average loan volumes per customer and increases in expenses due to the opening of 26 new branches (11 of which were added in the UK adding to the drag on earnings) and a focused advertising campaign in relation to the pilot of the line of credit product offset by a reduction in retention payments. The decreased margins and increased expenses have been partially offset by positive trending in revenues from other services resulting from new product development.

#### **Expenses (excluding retention payments, depreciation, amortization and class action settlements)**

Expenses for the first quarter of fiscal 2012 increased by \$2.2 million or 6.6% when compared to the first quarter of last year as a result of the addition of 26 new branches, costs associated with expanding into the UK, increased collection costs and infrastructure additions, an increase in regional and corporate infrastructure costs, and increases in advertising costs as a result of a



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focused advertising campaign in relation to the pilot of the line of credit product and other new product initiatives.

**Retention Payments**

Third-party lender retention payments for the first quarter of fiscal 2012 totalled \$6.6 million (3.3% of loans brokered), compared to \$7.2 million (3.3% of loans brokered) for the same quarter last year. The decrease is due to reductions in the effective interest component of retention payments compared to the same quarter last year.

**Depreciation and Amortization**

Depreciation of property and equipment and amortization of intangible assets for the quarter totalled \$2.4 million, compared to \$2.2 million in the first quarter of last year. Amortization increased for the quarter as compared to the same quarter last year as a result of opening 26 new branches and a large scale refresh program for our mature branches.

**Income Taxes**

Our effective tax rate was 28.0% in the quarter, compared to 36.8% for the first quarter last year which is down given decreases in federal tax rates.



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## LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of cash have been cash generated from operating activities and the use of third party lenders' funds which were used to broker loans to our customers. We primarily use our cash to finance working capital and capital expenditures. Our third party lenders' have not put restrictions on funds that are available to lend to our customers. In the future, as described below, we will use the Notes and a carve-out for credit facilities as allowed under the Notes Offering, as it becomes available to us, to fund working capital and growth in our consumer loans receivable in the regulated provinces.

Our cash decreased by \$8.0 million to \$11.3 million at December 31, 2011 compared to \$19.3 million as of September 30, 2011. Our cash, excluding restricted cash, decreased by \$1.7 million compared to \$13.0 million as of September 30, 2011. Significant items impacting cash in the quarter ended December 31, 2011 included:

- Cash generated from operating activities, before non-cash working capital items, of \$4.7 million;
- A \$200,000 increase in accrued liabilities set aside for class action settlements. During the quarter, all funds segregated for the BC class action were transferred to a third party administrator;
- A \$5.1 million increase in other receivables and long-term receivables
- A \$1.8 million increase in consumer loans receivable
- A \$6.3 million decrease in cash restricted for class action facilitation
- Deferred financing costs paid during the quarter of \$1.0 million
- A \$1.5 million decrease in amounts due from third party lenders;
- Property and equipment and intangible asset expenditures of \$1.8 million;
- Cash required for on balance sheet lending of \$2.5 million; and
- Dividend payments of \$2.1 million.

At December 31, 2011, our working capital position totalled \$9.5 million compared to \$11.0 million as at September 30, 2011. We expect our cash to decrease in the future due to growth in our UK consumer loans receivable. We will use cash from operations in Canada to fund this growth.

We believe that the resources available to us, supplemented by credit facilities, will provide the needed capital to fund the anticipated expansion of the consumer loans receivable, investments in the UK and investments in operating infrastructure for the upcoming fiscal year.

On January 31, 2012, we issued, through private placement in Canada and the U.S. \$132.5 million of 11.5% Notes. This transaction will benefit us and will allow us to transition to a direct lending model. The financial flexibility offered by the Notes will provide us with a new source of funding to support future loan growth associated with the maturing of our branches and our expansion plans. We used the gross proceeds of the Offering to purchase loans receivable and related assets from our current third-party lenders' who currently lend to our customers in the regulated provinces, for general corporate purposes and to pay fees and expenses related to the Offering.



The Company has entered into a lease agreement for a new corporate head office. Under U.S. GAAP, the Company has determined that it is considered the owner of this asset during the construction period. As at December 31, 2011, \$9.6 million has been capitalized in property and equipment based on the total project costs incurred to date related to the construction.

#### **Consumer Loans Receivable**

During the quarter, we increased our overall consumer loans receivable balance to \$6.6 million from \$4.8 million at year-end. We funded all our loans in the UK internally. We expect amounts due from consumers will increase in the coming year in the UK.

#### **Normal Course Issuer Bid**

On January 9, 2012, we filed with the Toronto Stock Exchange ("TSX") a notice of our intention to make a normal course issuer bid for our common shares. The notice provides us the ability to purchase on the TSX up to 1,092,504 common shares, being approximately 10% of the public float of our common shares. As of the date of this MD&A, no common shares had been purchased.

#### **RELATED PARTY TRANSACTIONS (restated)**

We own 18.3% of the outstanding common shares of The Cash Store Australia Holdings Inc. ("AUC"). Included in other receivables as of September 30, 2011, was a \$64,000 (September 30, 2011 - \$16,000) receivable from AUC. We previously entered into an interim service agreement with AUC to provide ongoing services such as financial, accounting and HR support and contracts administrative services, and the use of our IT and telecommunication systems. Included in SG&A expenses is a recovery of \$95,000 (September 30, 2011 - \$363,000) related to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Certain employees, directors, and officers have an ownership in AUC.

We own 15.7% of the outstanding common shares of RTF Financial Holdings Inc. (RTF). We previously entered into an interim service agreement with RTF to provide ongoing services such as financial and accounting support and contracts administrative services. Included in SG&A expenses is a recovery of \$60,000 (September 30, 2011 - \$240,000) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. We have a \$234,000 (September 30, 2011 - \$45,000) receivable from RTF. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Certain employees, directors, and officers have an ownership in RTF.

A privately held entity that raises capital and provides advances to the Company's customers (third-party lender) is controlled by the father of Cameron Schiffner, the Senior Vice President of Operations of the Company. In addition, Cameron Schiffner's brother was a member of management of AUC and is a member of management of the third-party lender. The Company's relationship with the third-party lender predates Cameron Schiffner's employment with the Company. Included in retention payments are \$3.5 million for the three months ended December 31, 2011 respectively (three months ended December 31, 2010 - \$3.3 million) of amounts paid or payable directly to this third-party lender. As at December 31, 2011 included in accrued liabilities is \$3.3 million (September 30, 2011 - \$2.3 million) due to this third-party lender. The Company's contingent risk in this third-party lender's loan portfolio totalled \$44.1 million as at December 31, 2011 (September 30, 2011 - \$45.0 million).



## RISK FACTORS AFFECTING PERFORMANCE

Our financial and operational performance has the potential of being affected by a number of factors including, but not limited to, changing consumer protection regulations, industry and company specific class action lawsuits, access to third-party lenders and other issues described in our most recent annual information form ("AIF") filed with the securities regulatory authorities on SEDAR ([www.sedar.com](http://www.sedar.com)). A more detailed discussion of our risk factors is also presented in our most recent AIF.

### Regulatory Environment

In May 2007, the Canadian federal government enacted a bill clarifying that the providers of certain payday loans were not governed by the criminal interest rate provisions of the *Criminal Code*, granting lenders (other than most federally-regulated financial institutions) an exemption from the criminal interest rate provisions of the *Criminal Code* if their loans fell within certain dollar amount and time frame maximums. In order for payday loan companies to rely on the exemption, the provincial governments are required to enact legislation, subject to approval by the federal government that includes a licensing regime for payday lenders, measures to protect consumers and maximum allowable limits on the total cost of borrowing.

Pursuant to the federal enactment, industry rate regulations and other industry specific measures to protect consumers have been implemented in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia, which represent the markets in which 92% of our Canadian branches are located. We believe that we are in compliance with applicable regulations related to short-term loan products in each of the above listed jurisdictions. In those jurisdictions without industry specific measures, we offer our loan products in compliance with the federal criminal interest rate provisions of the *Criminal Code* and with the general consumer protection regulations governing our products.

On January 24, 2012, the Company announced that the Board of Directors of the Company recently received a letter from a self-described short seller. The letter alleges that the Company is in violation of payday loan regulations in the Province of Ontario and that, as a result, the Company's existing public reports are not accurate. After reviewing the allegations, the Company believes that it is in compliance with applicable regulations in the Province of Ontario in all material respects. The Company suspects that the letter is the commencement of an opportunistic attack on the Company by a short seller, designed to disrupt the Company's previously announced Offering of Notes. The Company will vigorously defend itself against the short-seller's self-interested and misleading attacks.

In the UK, consumer lending is governed by the *Consumer Credit Act of 1974*, which was amended by the *Consumer Credit Act of 2006*, and related rules and regulations. Our subsidiaries in the UK must maintain licenses from the Office of Fair Trading, which is responsible for regulating consumer credit, competition and consumer protection. In response to public controversy regarding the potential impact of payday loans on low-income individuals, the Office of Fair Trading recently conducted and published a report containing a comprehensive analysis of the industry and its users. This report concluded that no case can be made at this time for rate caps in the UK on the basis that there is no clear evidence that rate caps enable consumers to avoid financial detriment. On January 26, 2010, the Government of the United Kingdom tabled in Parliament *The Financial Services Bill*, with the stated purpose of restructuring oversight of financial regulation, including enabling the transfer of responsibility for regulating consumer



credit from the Office of Fair Trading to the Financial Conduct Authority. It is not known at this time when or if the Bill will pass Parliament, the pace at which restructuring might occur and the potential impact on the payday lending sector.

### **Legal Proceedings**

#### *British Columbia (Restated)*

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified on his own behalf and on behalf of all persons who have borrowed money from the defendants, The Cash Store Financial and All Trans Credit Union Ltd. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada (the "Code"). On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the B.C. Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of the Company's customers' third-party lenders added to the claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others against The Cash Store Financial, Instalozans Inc., and others in respect of the business carried out under the name Instalozans since April 2005. Collectively, the above actions are referred to as the "British Columbia Related Actions".

On May 12, 2009, the Company settled the British Columbia Related Actions in principle and on February 28, 2010 the settlement was approved by the Court. Under the terms of the court approved settlement, the Company is to pay to the eligible class members who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full, or who met certain other eligibility criteria, a maximum estimated amount including legal expenses of \$18.8 million, consisting of \$9.4 million in cash and \$9.4 million in credit vouchers. The credit vouchers can be used to pay existing outstanding brokerage fees and interest, to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced, or can be redeemed for cash from January 1, 2014 to June 30, 2014. The credit vouchers are not transferable and have no expiry date. After approved legal expenses of \$6.4 million were paid in March 2010, the balance of the settlement amount remaining to be disbursed was \$12.4 million, consisting of \$6.2 million of cash and \$6.2 million of vouchers.

By September 30, 2010, the Company received approximately 6,300 individual claims representing total valid claims in excess of the settlement fund. As the valid claims exceed the balance of the remaining settlement fund, under the terms of the settlement agreement, the entire settlement fund of \$12.4 million will be disbursed to claimants on a pro-rata basis.

In arriving at the liability recorded at the balance sheet date, the voucher portion of the settlement fund of \$6.2 million has been discounted using a discount rate of 16.2%. During the three months ended December 31, 2011, the Company recorded accretion expense of \$169,000 in interest expense. The total liability related to the settlement at December 31, 2011 is \$10.8 Million (September 30, 2011 - \$10.6 million).





### *Alberta*

We have been served in prior fiscal periods with a Statement of Claim issued in Alberta alleging that we are in breach of s. 347 of the *Criminal Code of Canada* (the interest rate provision) and certain provincial consumer protection statutes.

On January 19, 2010, the plaintiffs in the Alberta action brought forward an application to have a related subsidiary, certain of our customers' third-party lenders, directors and officers added to the Claim.

We have agreed to a motion to certify the class action proceeding if the lender, officers and directors are removed as defendants. Class counsel has agreed to our proposal. Consequently, the certification motion was granted in November of 2011.

We believe that we conduct our business in accordance with applicable laws and are defending the action vigorously. As at December 31, 2011, a total of \$100,000 (September 30, 2011 - \$100,000) has been accrued related to this matter. However, the likelihood of loss, if any, is not determinable at this time.

### *Manitoba*

On April 23, 2010, an action under the Manitoba Class Proceedings Act was commenced in the Manitoba Court of Queen's Bench by Scott Meeking against The Cash Store (Canada), Instalozans, and Cash Store Financial proposing that a class action be certified on his own behalf and on behalf of all persons in Manitoba and others outside the province who elect to claim in Manitoba and who obtained a payday loan from the Cash Store Financial or Instalozans. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the *Criminal Code of Canada*.

We believe that we conducted our business in accordance with applicable laws and are defending the action vigorously. Further it will be maintained that most of the proposed class members are bound by the judgment in the settlement of the Ontario class action in 2008, as approved by the Ontario Superior Court of Justice and that accordingly the action should be dismissed. However, the likelihood of loss, if any, is not determinable at this time.

### *Other*

We are also involved in other claims related to the normal course of operations. Management believes that it has adequately provided for these claims.

### **Third Party Lenders/Retention Payments**

Most funding of short-term advances is currently provided by independent third party lenders. As a result, our business was highly dependent on third party lenders who were willing to make significant funds available for lending to our customers. There are no assurances that the existing or new third party lenders will continue to make funds available. Any reduction or withdrawal of funds would have had a significant material adverse impact on our results of operations and financial condition.

To facilitate the short-term advance business, we have entered into written agreements with a number of third party lenders who are prepared to consider lending to our customers. Pursuant to these agreements, we provide services to the lenders related to the collection of documents and information as well as loan collection services. Material terms of our agreements with third-party lenders include ensuring that any proposed loan was applied for through an authorized outlet,



ensuring each potential customer meets the loan selection criteria as set forth by the third-party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing default realization services on behalf of the third party lender for all loans funded which are not paid in full by the due date, all while ensuring information system integrity is maintained. Losses suffered on account of uncollectible loans are not contractually the Company's responsibility as long as it has performed and fulfilled its duties under the terms of the third party lender agreements. In the event we do not properly perform our duties and the lenders make a claim as required under the agreement, we may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that we have a liability under the agreement.

Our board of directors regularly approves a resolution which authorizes us to pay a maximum amount of retention payments per quarter to third-party lenders as consideration to those lenders who continue to be willing to fund advances to our customers. While the third-party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to deflect the impact of the loan losses they experienced. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the board of directors.

During the quarter three lenders have provided funding for ten percent or more of loans: 367463 Alberta Ltd., Trimor Annuity Focus Limited Partnerships and Assistive Financial Corp.

#### **CRITICAL ACCOUNTING ESTIMATES**

Our accounting policies are integral to understanding and interpreting the financial results reported in this MD&A. The significant accounting policies used in preparing our consolidated financial statements are summarized in Note 1 to those statements which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain policies included in Note 1 are considered to be particularly important to the presentation of our 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 our business may also be discussed elsewhere in this MD&A.

#### ***Use of Estimates***

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires us 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. Certain estimates, such as those related to the allowance for consumer loan losses, property and equipment, goodwill and intangible assets, income taxes, and accrued liabilities related to the class action lawsuits, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Actual results could differ from those estimates made by us.



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### ***Revenue Recognition***

Revenue arising from brokering short-term advances for customers is recognized once all services have been rendered, all advance amounts have been received by the customer, and the brokerage fee has been received by the Company. Revenue from this source is recorded in Loan fees in the statement of operations.

Revenue arising from direct lending of short-term advances to customers is recognized on a constant yield basis ratably over the term of the related loan.

Revenue from the Company's cheque cashing, money transfer, bill payment and other miscellaneous services is recognized when the transactions are completed at the point-of-sale in the branch and the related fee charged by the Company has been received. Revenue from banking and non-sufficient funds fees are recognized when collected. Revenue from each of these sources is recorded in other income in the statement of operations. Included in Other income is income whereby the Company acts as an agent on behalf of other third-party providers, which includes revenue from banking services, money transfers, bill payment services, and insurance products.

Direct loan origination costs are deferred and recognized as a reduction in the yield of the related loan over its life.

### ***Retention Payments***

When the Company acts as a broker on behalf of income earning consumers seeking short-term advances, the funding of short-term advances is provided by independent third party lenders. The advances provided by the third party lenders are repayable by the customer to the third party lenders and represent assets of the lenders; accordingly, they are not included on the Company's balance sheet.

To facilitate the short term advance business, the Company has entered into written agreements with third party lenders who are prepared to consider lending to the Company's customers. Pursuant to these agreements, the Company provides services to the lenders related to the collection of documents and information as well as loan collection services. Under the terms of the Company's agreements with third party lenders, responsibility for losses suffered on account of uncollectible loans rests with the third party lender, unless the Company has not properly performed its duties as set forth under the terms of the agreement. The significant duties under the terms of the agreements generally include ensuring that any proposed loan was applied for through an authorized outlet, ensuring each potential customer meets the loan selection criteria as set forth by the third party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing collection services on behalf of the third party lender for all loans funded which are not paid in full by the due date, all of which while ensuring information system integrity is maintained. In the event the Company does not properly perform its duties and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreement.

The Company's Board of Directors regularly approves a resolution which authorizes management to pay a maximum amount of retention payments per quarter to third party lenders as consideration to those lenders that continue to be willing to fund advances to the Company's



customers. While the third party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to lessen the impact of loan losses experienced by the third party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

#### ***Provisions for Loan Losses***

Loans in default consist of direct lending consumer loans originated by the Company which are past due. The Company defines a past due or delinquent account whereby payment has not been received in full from the customer on or before the maturity date of the loan. A provision for loan losses are recorded when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest. In determining whether the Company will be unable to collect all principal and interest payments due, the Company assesses relevant internal and external factors that affect loan collectability, including the amount of outstanding loans owed to the Company, historical percentages of loans written off, current collection patterns and other current economic trends. The provision for loan losses reduces the carrying amount of consumer loan receivables to their estimated realizable amounts. The provision is primarily based upon models that analyze specific portfolio statistics, and also reflect, to a lesser extent, management judgement regarding overall accuracy. The analytical model takes into account several factors, including the number of transactions customers complete and charge-off and recovery rate. The provision is reviewed monthly, and any additional provision as a result of historical loan performance, current and expected collection patterns and current economic trends is included in the provision for the loan losses at that time. If the loans remain past due for an extended period of time, an allowance for the entire amount of the loan is recorded and the loan is ultimately written off. The Company's policy for charging off uncollectible consumer loans is to write the loan off when a loan remains in default status for an extended period of time without any extended payment arrangements made, typically 210 days. Loans to customers who file for bankruptcy are written off upon receipt of the bankruptcy notice.

#### ***Stock Based Compensation***

The Company has a stock based compensation plan, which is described in Note 11 to the interim consolidated financial statements. The Company accounts for all stock based compensation payments that are settled by the issuance of equity in accordance with a fair value-based method of accounting. Stock based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, or as applicable, over the period to the date an employee is eligible to retire, whichever is shorter, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by the Company, together with the amount in additional paid-in capital associated with the exercised options, are credited to share capital.

#### ***Consumer Loans Receivable***

Unsecured short-term and longer-term advances that the Company originates on its own behalf are reflected on the balance sheet in consumer loans receivable. Consumer loans receivable are reported net of a provision as described in "Provision for Loan Losses". In regulated jurisdictions, interest is charged on consumer loans commencing upon default; however, it is not recorded as income until payment is received in full or partially from the consumer. In unregulated



jurisdictions, interest is charged on consumer loans over the period of the loan and is recorded in income as it is earned.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is recorded against any deferred income tax assets if it is more likely than not that the asset will not be realized.

**Fair Value of Financial Instruments**

The Company’s financial instruments consist of cash, other receivables, consumer loans receivables less any allowance for loan losses, accounts payable and accrued liabilities, all of which are short-term in nature and their fair value approximates their carrying value. The fair value of obligations under capital leases carrying amounts are determined by estimating future cash flows on a borrowing-by-borrowing basis, and discounting these future cash flows using a rate which takes into account the Company’s spread for credit risk at year-end for similar terms and types of debt arrangements.

**Long-term investments**

The Company has long-term investments in The Cash Store Australia Holdings Inc. and RTF Financial Holdings Inc. The Company accounts for its long-term investments under the equity method of accounting as it has significant influence over the strategic operating, investing and financing activities due to board representation and management involvement in day to day operations. The aggregate quoted market value of the Company’s investment in the Cash Store Australia Holdings Inc. is \$600. No aggregate quoted market value of the Company’s investment in RTF Financial Holdings Inc. exists as the company is not publicly traded. As at December 31, 2011, the carrying value of both investments were \$nil (September 30, 2011 - \$nil).

**Property and Equipment**

Property and Equipment are recorded at cost. Depreciation is recorded using the rates and methods outlined in the table below.

	<u>Rate</u>	<u>Method</u>
Computer hardware	25%	Straight-line
Computer software	20%	Straight-line
Fixtures, furniture, and equipment	20%	Straight-line
Signs	20%	Straight-line
Buildings	4%	Straight-line
Vehicles	20%	Straight-line

Leasehold improvements are depreciated based on the straight-line basis over the shorter of the lease term, including renewal options that are reasonably assured and the estimated useful life of the asset.



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***Goodwill***

Goodwill represents the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate it may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it were the purchase price.

When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

***Accounting for the Impairment of Long-Lived Assets***

Long-lived assets and identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of a group of assets to the sum of future undiscounted cash flows expected to be generated from the use and eventual disposition of the group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the group of assets exceeds the fair value of the group of assets. Any assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell. Such assets are not depreciated while they are classified as held-for-sale.

***Deferred financing costs***

Underwriting, legal and other direct costs incurred in connection with the issuance of debt not measured under the fair value option are presented as deferred financing costs. The deferred financing costs will be amortized over the term of the related debt using the effective interest method.

**CHANGES IN ACCOUNTING POLICIES AND PRACTICES**

The Accounting Standards Board of the Canadian Institute of Chartered Accountants previously announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. However, National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards* allows Securities and Exchange Commission ("SEC") registrants, such as us, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S.



GAAP. As such, we have decided to adopt U.S. GAAP instead of IFRS as its primary basis of financial reporting commencing in the current fiscal year. Comparative figures in our consolidated financial statements related to the quarter ended December 31, 2010 are presented in accordance with US GAAP and are the same amounts that were previously reported under Canadian GAAP from a recognition and measurement perspective.

The decision to adopt U.S. GAAP was also made to enhance communication with shareholders and improve the comparability of financial information reported with competitors and peer group.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has evaluated whether there were changes in Internal Controls over Financial Reporting (ICFR) as at and for the three months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect ICFR. No changes were identified; however, two material weaknesses in ICFR, as described below, that were identified as part of the preparation of the Company's September 30, 2012 annual financial statements and March 31, 2013 interim financial statements were determined to exist as at December 31, 2011. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of ICFR and Disclosure Controls and Procedures (DC&P) and determined that ICFR and DC&P were ineffective due to the material weaknesses described below.

The Company has two material weaknesses as at December 31, 2011. Each of these material weaknesses creates a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

- 1) During the preparation of the Company's September 30, 2012 annual financial statements, Management determined that the Company did not design and implement effective ICFR related to the identification, assessment and disclosure of related parties and related party transactions. Specifically, the Company did not design effective ICFR to regularly assess existing business relationships to identify, assess and disclose related parties and related party transactions in accordance with applicable accounting standards. As a result of these ineffective controls, the Company did not disclose related party transactions with a third party lender in its previously filed financial statements; however, it has now amended its disclosure of related party transaction in Note 14 of the December 31, 2011 restated interim financial statements to correct for this omission in disclosure. The disclosure that could reasonably be affected by this material weakness is the disclosure of related parties and related party transactions.
- 2) During the preparation of the Company's March 31, 2013 interim financial statements, Management determined that the Company did not design and implement effective ICFR related to the review and interpretation of complex legal agreements. Specifically, the Company's ICFR did not correctly interpret how the settlement terms and conditions of the March 5, 2004 British Columbia Class Action claim impacted the measurement of the associated liability as at September 30, 2010. As a result of these ineffective controls, the Company incorrectly measured and recorded the liability in its previously filed financial statements; however, it has now corrected for this error as described in Note 3 of the Company's December 31, 2011 restated interim financial statements. The accounts that could reasonably be affected by this material weakness are class action settlement expense, interest expense, income tax expense, other receivables (current and long term), deferred tax asset and accrued liabilities.



The Company has taken the following remedial actions:

- 1) In response to the first material weakness described above, in December 2012, management implemented processes and controls to identify all potential related party transactions identified as a result of Internal Audit's related party analysis, and provide disclosures required by applicable accounting standards.
- 2) In response to the second material weakness described above, in April 2013 management established a process to coordinate communications internally as well as regularly consult with legal counsel and the third party settlement administrator. This new control involves a review of the status of all litigation and claims at each reporting period in order to assess their impact on the Company's consolidated financial statements.

There have been significant improvements made to ICFR subsequent to December 31, 2011 in relation to the material weaknesses described above. The first material weakness has been remediated as at September 30, 2012. With respect to the second material weakness, management needs sufficient time to assess the effectiveness of the changes and to implement further improvements before it can conclude that the second material weakness has been remediated.

#### OUTSTANDING SHARE DATA

As at February 8, 2012, we had 17,425,880 common shares outstanding. There were also options to purchase 974,168 common shares, which if exercised, would provide us with proceeds of approximately \$9.2 million.

#### DIVIDENDS

On February 8, 2011, we declared a quarterly dividend of \$0.12 per common share. The dividend is payable on March 7, 2012, to shareholders of record on February 21, 2012.

Our dividend policy is in compliance with all covenants associated with the Notes.

The Company reviews its dividend distribution policy on a quarterly basis and evaluates its financial position, profitability, cash flow and other factors the board of directors considers relevant. Prior to August 31, 2007, we had not declared or paid a dividend on the common shares. We declared our first dividend on August 31, 2007, in the amount of \$.025 cents per common share. In total, dividends of \$3.6 million were paid to holders of common shares in fiscal 2008, \$5.3 million in fiscal 2009, \$9.1 million in the fifteen months of fiscal 2010 and \$7.9 million in fiscal 2011. The following table sets forth the quarterly dividends paid by the Company in the quarter ended December 31:

	2012	2011	2010	2009	2008
Dividend per share	\$ 0.120	\$ 0.120	\$ 0.100	\$0.065	\$0.025
Percentage increase	nil%	20%	54%	160%	





## SUMMARY OF QUARTERLY RESULTS

The financial results for the Company for each of the last eight quarters are summarized in the following table.

In general, more recent results have been negatively impacted by regulatory changes resulting in revenue rate compression and certain other restrictions in the regulated provinces; however the results have been partially offset by growth in other income. There was an increase in overall revenues over prior periods due to our strategy of diversifying our other income. Branch expenses and overall expenses have also steadily increased due to an increased number of branches in operation and costs associated with growth in the UK, adding infrastructure at the regional and corporate levels, increased professional and legal fees related to regulatory matters, class actions, and other lawsuits, and continued costs associated with the class action settlements.

Our quarterly results of operations are impacted by the number and timing of new branch openings.

		2010			2011				2012
		Q3	Q4	Q3 (restated)	Q1 (restated)	Q2 (restated)	Q3 (restated)	Q4 (restated)	Q1 (restated)
<b>Consolidated Results</b>									
<i>No. of branches</i>									
	Canada	489	523	542	566	573	574	574	573
	United Kingdom		2	2	4	6	8	12	23
		489	525	544	570	579	582	586	596
<b>Loan volumes</b>									
Loan fees included		\$ 178,826	\$ 205,659	\$ 216,027	\$ 216,293	\$ 198,775	\$ 204,616	\$ 201,720	\$ 199,611
Regulated definition (excluding loan fee upon regulation)		157,653	178,902	184,110	182,487	167,327	172,602	170,459	169,855
Loan fees included in regulated provinces		\$ 149,357	\$ 172,043	\$ 181,071	\$ 182,487	\$ 167,327	\$ 172,602	\$ 170,459	\$ 169,855
<b>Revenue</b>									
Loan fees		\$ 31,308	\$ 33,161	\$ 36,195	\$ 36,315	\$ 32,813	\$ 33,944	\$ 33,552	\$ 32,892
Other income		9,251	11,659	13,084	11,419	13,246	14,983	13,629	12,256
		40,559	46,860	49,279	47,734	46,059	48,927	47,181	45,148
<b>Branch expenses</b>									
Salaries and benefits		12,206	13,695	13,698	14,382	14,113	14,591	14,490	14,397
Retention payments		5,300	5,833	6,954	7,189	6,578	6,774	6,245	6,587
Selling, general and administrative		4,242	4,361	4,345	4,194	4,681	4,486	4,156	4,408
Rent		3,480	3,783	4,219	4,405	4,566	4,389	4,656	4,723
Advertising and promotion		1,023	1,170	1,223	1,426	1,303	1,313	1,398	1,542
Provision for loan losses		16	200	454	663	654	662	580	668
Depreciation of property and equipment		1,374	1,477	1,566	1,660	1,687	1,713	1,743	1,776
		27,711	30,516	32,639	33,919	33,582	34,128	33,268	34,871
<b>Branch operating income</b>		12,948	16,244	16,640	13,815	12,477	14,739	13,913	11,777
<b>Regional expenses</b>		2,864	3,173	2,358	4,194	3,863	4,169	4,523	4,794
<b>Corporate expenses</b>		3,703	4,513	5,026	4,042	4,256	4,796	5,175	5,826
<b>Interest expense</b>					145	151	157	163	163
<b>Other depreciation and amortization</b>		279	403	13	541	547	455	570	683
<b>Net income before income taxes and class action settlements</b>		6,102	8,233	9,243	4,893	3,660	5,222	3,482	1,265
<b>Class action settlements</b>		2,715	100	8,770	367	1	-	-	691
<b>EBITDA*</b>		5,273	10,326	2,362	7,132	6,259	7,752	6,209	4,168
<b>Net income and comprehensive income</b>		\$ 2,197	\$ 5,477	\$ 1,081	\$ 2,862	\$ 2,387	\$ 3,416	\$ 1,914	\$ 568
<b>Basic earnings per share</b>									
Before class action expenses net of normalized tax		\$ 0.23	\$ 0.39	\$ 0.44	\$ 0.20	\$ 0.15	\$ 0.19	\$ 0.12	\$ 0.06
Net income and comprehensive income		0.13	0.32	0.06	0.17	0.14	0.20	0.11	0.06
<b>Diluted earnings per share</b>									
Before class action expenses net of normalized tax		\$ 0.23	\$ 0.31	\$ 0.42	\$ 0.19	\$ 0.14	\$ 0.19	\$ 0.12	\$ 0.06
Net income and comprehensive income		0.13	0.31	0.06	0.16	0.14	0.19	0.11	0.05

\*EBITDA - earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.

Certain comparative figures have been reclassified in prior periods. Specifically, certain amounts that were previously recorded within SG&A expense have been reclassified to other income for the prior periods presented.

The following table provides a reconciliation of net income in accordance with GAAP to EBITDA and Adjusted EBITDA for the past eight quarters.



### EBITDA and Adjusted EBITDA Reconciliation

(thousands of dollars)	2010			2011				
	Q3	Q4	Q3 (restated)	Q1 (restated)	Q2 (restated)	Q3 (restated)	Q4 (restated)	Q1 (restated)
<b>Consolidated Results</b>								
Net income and comprehensive income	\$ 2,197	\$ 5,477	\$ 1,081	\$ 2,862	\$ 2,387	\$ 3,416	\$ 1,914	\$ 960
Interest and other interest	29	41	31	188	187	191	196	274
Income tax	1,190	2,676	(606)	1,664	1,272	1,806	1,568	374
Stock-based compensation	203	247	260	217	180	171	218	193
Depreciation of property and equipment and amortization of intangible assets	1,652	1,882	1,578	2,201	2,233	2,168	2,313	2,359
<b>EBITDA</b>	<b>\$ 5,273</b>	<b>\$ 10,326</b>	<b>\$ 2,362</b>	<b>\$ 7,132</b>	<b>\$ 6,259</b>	<b>\$ 7,752</b>	<b>\$ 6,209</b>	<b>\$ 4,160</b>
<b>Adjustments:</b>								
Class action settlements	\$ 2,715	\$ 100	\$ 4,770	\$ 367	\$ 1	\$ -	\$ -	\$ (69)
Effective interest component of retention payments	4,400	4,895	5,344	5,505	5,561	5,107	5,112	5,391
<b>Adjusted EBITDA</b>	<b>\$ 12,388</b>	<b>\$ 15,321</b>	<b>\$ 16,476</b>	<b>\$ 13,004</b>	<b>\$ 11,821</b>	<b>\$ 12,859</b>	<b>\$ 11,321</b>	<b>\$ 9,482</b>

The sequential decline in Adjusted EBITDA compared to the quarter ended September 30, 2011 is primarily due to a decrease in overall revenue in Canada and increased costs associated with expansion in the United Kingdom. The year-over-year decline in Adjusted EBITDA is a result of lower loan volumes in Canada, costs associated with the United Kingdom expansion, additional investment in the collection system infrastructure and the roll-out of new credit products.

#### OTHER

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store." Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

#### Cautionary Statement Regarding Forward-looking Information

This MD&A contains "forward-looking information" and "forward looking statements" within the meaning of applicable Canadian and United States federal securities legislation which we refer to herein, collectively, as "forward-looking information". Forward-looking information includes, but is not limited to, information with respect to our objectives, strategies, operations and financial results, competition as well initiatives to grow revenue or reduce retention payments. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions, the availability of alternative transactions, shareholder, legal, regulatory and court approvals and third party consents, and other factors described in the our latest AIF filed on SEDAR at [www.sedar.com](http://www.sedar.com) under the heading "Risk Factors". Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could



differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.

#### **Non-GAAP Measures**

This MD&A refers to certain financial measures that are not determined in accordance with GAAP in the U.S. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although a measure such as 'Earnings Before Interest, Income Taxes, Stock-based Compensation, Depreciation of Property and Equipment and Amortization of Intangible Assets' (EBITDA) does not have a standardized meaning prescribed by GAAP, this measure is used herein or can be determined by reference to our financial statements. Adjusted EBITDA is not determined in accordance with U.S. GAAP or IFRS as issued by the International Accounting Standards Board, does not have a standardized meaning and may not be comparable to similar measures presented by other companies. Although Adjusted EBITDA, which we define as net income plus provision for income taxes, interest expense, amortization of capital assets/depreciation of property and equipment, amortization of intangible assets, stock based compensation, class action settlements and the annual return component of retention payments, does not have a standardized meaning prescribed by U.S. GAAP or IFRS, we believe it may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded from Adjusted EBITDA are significant in assessing our operating results and liquidity. Therefore, Adjusted EBITDA should not be considered in isolation from or as an alternative to operating income, cash provided from operating activities or other income or cash flow data prepared in accordance with U.S. GAAP or IFRS. "Same branch revenues" is a non-GAAP measure tracked and reported by us and is generally used to compare the average revenue for a particular group of branches in a current period to that same particular group of branches in a prior period. This non-GAAP measure is a way to gauge the performance of a particular group of branches and is directly related to, and helps explain, changes in total revenue. Average revenue is defined as revenue for the period divided by the number of branches. "BOP" is a non-GAAP measure tracked and reported by us and is generally used to compare the performance at branch level and includes expenses which primarily relate to the operations of the branch network. "Regional expenses" is a non-GAAP measure which is used to gauge expenditures at the regional and divisional level and includes compensation of associates including centralized regional departments, Regional Managers, Divisional Vice Presidents and President, as well as other expenses related to the functions of these groups. These measures are discussed because management believes that they facilitate the understanding of our results relating to our operational and financial position.

**This is EXHIBIT "P" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
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*A Commissioner, etc.*

Court File No. 409/11

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
DIVISIONAL COURT**

BETWEEN:

**THE CASH STORE FINANCIAL SERVICES INC.,  
THE CASH STORE INC. and INSTALOANS INC.**

Applicants

- and -

**HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO  
as represented by the MINISTER OF CONSUMER SERVICES  
and the LIEUTENANT GOVERNOR IN COUNCIL OF ONTARIO**

Respondents

**AFFIDAVIT OF MICHAEL THOMPSON  
(SWORN SEPTEMBER 18, 2012)**

I, Michael Thompson, of the City of Edmonton, in the Province of Alberta, MAKE

OATH AND SAY:

1. I am the Senior Vice President, Corporate Affairs of Cash Store Financial Services Inc. ("**Cash Store Financial**"). As such, I have knowledge of the matters contained in this affidavit. Where my knowledge is based on information and belief, I have so stated and believe such information to be true.

**I. Overview**

2. The Cash Store Financial Services Inc.'s application for judicial review arises from the coming-into-force of *Ontario Regulation 98/09* as amended by 316/11 (the "**New Regulations**") made under Ontario's *Payday Loans Act, 2008*, S.O. 2008, c. 9 (the

"Act"). The New Regulations represent sweeping changes to the payday loans industry and will have significant impact on Cash Store Financial's business operations in Ontario.

3. Brian Pitkin, Ontario's then Registrar of Payday Loans (the "Registrar") expressly stated that the effect of the New Regulations is to "prohibit licensees from providing or offering to provide other goods or services in connection with a payday loan, whether on the licensee's own behalf or on behalf of any other person." For example, licensees will be prohibited from providing or offering to provide insurance or bank accounts in connection with a payday loan agreement. Debit cards, other than those used as a device within the meaning of the regulation, will also be prohibited. Attached as Exhibit "A" is a copy of an email from Mr. Pitkin to me, dated August 25, 2011.

4. The New Regulations prohibit otherwise lawful trade and commerce in the province of Ontario and attempt to regulate products – specifically banking and insurance products – which are not subject to the Act. There is no authority in the Act to make such regulations.

5. I believe the New Regulations were enacted with the specific purpose of targeting Cash Store Financial's business practices. Accordingly, Cash Store Financial has commenced an application for judicial review of the implementation of the New Regulations, substantially on the basis that they are *ultra vires* the authority of the Minister's delegate.

## **II. The Applicant**

6. Cash Store Financial is a corporation incorporated pursuant to the laws of Ontario. Cash Store Financial is a publically traded company listed on the Toronto Stock Exchange (TSX: CSF) and the New York Stock Exchange (NYSE: CSFS).
7. Cash Store Financial's retail branches are operated by Cash Store Inc. ("Cash Store") which is a wholly owned subsidiary of Cash Store Financial, and Instalozans Inc. ("Instalozans"), which is a wholly-owned subsidiary of Cash Store. Cash Store and Instalozans are both corporations incorporated pursuant to the laws of Alberta and registered extra-provincially in the province of Ontario.
8. Cash Store Financial, through its retail branches, offers a broad range of financial products and services to Canadian consumers including short-term ("payday") loans, wire transfers, cheque cashing, bank accounts, prepaid debit and credit cards, and line of credit products. The availability of these services through Cash Store Financial and others represent an alternative for Canadian consumers to traditional lending institutions. Banking and insurance products available at Cash Store Financial's retail branches are offered by third party arms-length companies.
9. More than two thirds of consumers acquire payday loans because they are more convenient than other financing options. In a Pollara survey conducted on behalf of the Canadian Payday Loan Association ("CPLA"), over 51% of respondents said the most important reason they chose a payday loan rather than using another source of financing is because acquiring a payday loan is "quick and easy." A further 18% said the most important reason was because payday lenders offered "a more convenient location" than

other potential lenders. Attached as Exhibit "B" is the Pollara Study titled "Payday Loan Customer Survey – Ontario" and dated November 2007.

10. The public demand for alternative financial products and services is demonstrated by the growth of the industry generally, and specifically by the growth of the Cash Store and Instaloans chains. Since opening its first branch in 2000, Cash Store Financial has grown its two chains in combination to 573 branches across Canada by December 31, 2011. Currently, there are approximately 199 Cash Store and Instaloans branches in Ontario, with approximately 650 employees.

11. Loans offered by Cash Store Financial and other payday lenders and brokers are regulated pursuant to the Act. The Act received royal assent on June 18, 2008. Section 81 of the Act provides that it is to come into force upon proclamation. The first sections of the Act were proclaimed in force and effect on April 1, 2009, with additional sections proclaimed thereafter. Cash Store Financial has been licensed pursuant to the Act since April 1, 2009.

12. The Act was passed in response to a shifting of responsibilities for the oversight of the interest rates for payday loans in Canada from the federal government to the provinces. Prior to this change, the maximum allowable charge for payday loans was regulated by the criminal interest rate provisions in the *Criminal Code*. However, amendments to the *Criminal Code* in 2007, introducing section 347.1, allowed the federal government to designate a province for the purpose of licensing payday lending, provided that the province has legislative measures that protect recipients of payday loans and that provide for limits on the total cost of borrowing under the agreements.



13. Section 347.1 exempts payday lenders from criminal prosecution under section 347 if a loan is for \$1,500 or less with a term of 62 days or less and the lender is licensed by a designated province.

14. The Act establishes a licensing system for payday lenders and payday loan brokers, and includes a number of measures intended to address the consumer protection requirements in section 347.1 These measures include establishing a prohibition on "rollover" and concurrent loans, a cooling-off period allowing borrowers to cancel loan agreements without penalty, processes and procedures for the making and handling of complaints, enforcement measures through inspection, prosecution and suspension/revocation of licences and the establishment of an education fund supported by industry contributions to educate consumers about the high cost of credit for payday loans and to promote sound personal financial planning.

15. The Regulation sets specific conditions of lending on payday loan licensees. These conditions include enhanced disclosure obligations on payday lenders, an upper limit on the total cost of borrowing for a payday loan, and specific requirements for the form and content of payday loan agreements and the terms of those agreements.

### **III. The Maximum Total Cost of Borrowing Advisory Board**

16. Section 347.1 specifically requires that provinces have measures in place that provide for a limit on the total cost of borrowing for a payday loan. For industry providers, establishing the upper limit on the total cost of borrowing is obviously a key provision in the regulatory scheme. A rate that is too low will render payday loans unprofitable.

17. To set its upper limit on the total cost of borrowing, Ontario engaged in a broad-based consultation process with industry, consumer associations, social advocacy groups, academics and individuals. It did so by establishing the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry (the "Advisory Board"), for the purpose of recommending an upper limit on the total cost of borrowing under payday loan agreements.

18. The Advisory Board was an independent, expert board which ultimately produced a comprehensive report assessing the payday lending industry and making recommendations in respect of the maximum total cost of borrowing for the purposes of the Act. The Report of the Maximum Total Cost of Borrowing Advisory Board for the Ontario Payday Lending Industry titled "Capped Borrowing Costs: A Balanced Approach to Payday Loans in Ontario," dated February 6, 2009, is attached as Exhibit "C" (the "Advisory Board Report").

19. The Advisory Board Report defines cost of borrowing as "the total amounts that a borrower is required to pay under, or as a condition of entering into, a payday loan agreement."<sup>1</sup>

20. The Advisory Board's mandate was to recommend a rate cap that reflected the policy objective of the legislation "to strike a balance between protecting consumers and maintaining a competitive business environment." The Advisory Board acknowledged

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<sup>1</sup> Advisory Board Report at 9.

that "clearly a demand for this service exists," and that the Ontario government has decided to regulate, rather than eliminate, payday lending.<sup>2</sup>

21. As the Advisory Board Report notes, relying on a study conducted by Ernst & Young, the average cost of providing a payday loan is \$21.50 per \$100 loaned.<sup>3</sup> Similarly, a survey commissioned by Ontario payday lenders and cited by the Advisory Board estimated the cost of providing a \$100 payday loan to be \$20.63.<sup>4</sup> The Ernst & Young Report titled *The Cost of Providing Payday Loans in Ontario*, dated January 2009 (the "Ernst & Young Report") is attached as Exhibit "D."

22. Prior to establishing a recommended rate cap, the Advisory Board acknowledged that the industry was making modest returns that were hardly spectacular. The Advisory Board was live to the perception that payday lenders are making large profits<sup>5</sup> but, after reviewing the empirical evidence available, the Advisory Board concluded that, in fact, "the payday loan industry is not making exorbitant profits from lending activities."<sup>6</sup>

23. The Advisory Board estimated that half of the payday loan outlets were operating with borrowing charges above the recommended maximum. The Advisory Board acknowledged that lenders operating above the recommended ceiling will be forced to reduce their costs by sourcing cheaper capital, reducing operating expenses, and adding new product lines.<sup>7</sup>

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<sup>2</sup> *Ibid* at 11.

<sup>3</sup> *Ibid* at 15, citing Ernst & Young Report "The Cost of Providing Payday Loans in Ontario", January 2009.

<sup>4</sup> *Ibid*, citing a Deloitte Report "Cost of Providing Payday Loans in Ontario", October 7, 2008.

<sup>5</sup> *Ibid* at 17.

<sup>6</sup> *Ibid* at 17-18.

<sup>7</sup> *Ibid* at 20-21.

24. The Advisory Board expressly recognized that payday lenders may employ new business strategies to address operating costs, including adding "new product lines" as part of the restructuring of the business environment.<sup>8</sup>

25. The Advisory Board recommended, after weighing all the factors it considered, that the Ontario government set the upper limit on the total cost of borrowing for payday loan agreements in Ontario at \$21 per \$100 borrowed. In establishing this limit, the Advisory Board took care not to set the limit too low, which would "shut down the industry" and "do by regulation what was not done or intended by the legislation," and similarly took care not to set the limit too high in an effort to protect consumers from excessive risks and costs. Part of the Advisory Board's rationale was to avoid creating a monopoly or duopoly in the industry, which would "put an end to competition in the industry."<sup>9</sup>

26. Cash Store Financial is included among the lenders with costs over \$21 per \$100 borrowed. It is, therefore, essential both for the achievement of profitability and the ability to offer customers a convenient and relevant set of financial products that Cash Store Financial's business model include the offer of ancillary services.

#### **IV. Cash Store Financial's Business Model**

27. Cash Store Financial operates as a "cashless" business, making it distinguishable in the marketplace from its main payday loan competitors. Eliminating large sums of cash from the premises allows Cash Store Financial to dispense with the need to conduct loan transactions in high security premises through bullet-proof glass, as Cash Store

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<sup>8</sup> Board Report at p. 21.

<sup>9</sup> *Ibid* at 19-20.

Financial's major competitors do. Instead, Cash Store Financial provides open-concept branches where consumers are invited behind the counter to sit at a desk and discuss their transaction with a Cash Store or Instalozans sales associate.

28. I believe that consumers prefer our open concept branches that do not require a transaction through bullet-proof glass and that this customer-service oriented experience is an important part of Cash Store Financial's success. The Company's cashless model is consistent with best practices throughout the financial services sector, wherein most companies strive to improve services and reduce costs through the facilitation of transactions solely by electronic means.

29. I believe it is inappropriate for regulators to force one subsector of the financial services industry to go against e-commerce trends, particularly in the face of clear evidence that the product at issue has been widely embraced by consumers.

30. In addition to payday loans, Cash Store Financial offers customers access to a range of financial products including wire transfers, cheque cashing, bank accounts and other banking services and credit insurance, as well as other consumer loan products that are not subject to payday loan regulations. With the exception of payday loans, other consumer loans and cheque cashing, all other services are provided on behalf of arms-length third parties that have executed agency agreements with Cash Store Financial or its operating subsidiaries.

31. As described further below, the acquisition of any of these products is neither a condition for procuring a loan nor a requirement to receive the proceeds of a payday loan. Banking products, in particular, are purchased for a range of purposes. For example, it's

commonplace for consumers to perform a variety of transactional payments through their bank and card accounts at a Cash Store Financial branch.

32. Upon entering a Cash Store Financial branch and deciding to arrange a loan, the customer enters into an agreement with Cash Store Financial (the "Loan Agreement"). The Loan Agreement clearly sets out the terms and conditions associated with the loan. Attached as Exhibit "E" hereto is a copy of the Loan Agreement.

33. Upon execution of the Loan Agreement, the loan funds are delivered to the order of the customer in the manner selected by the customer. Prior to the New Regulations, if a customer elected to have their funds delivered by cheque, the only cost to the consumer was the principal amount of the loan plus applicable fees. This amount is limited to \$21 per \$100, as required by Ontario Regulation 98/09.

34. Subsequent to the New Regulations, Cash Store Financial only delivers payday loans by way of electronic funds transfer ("EFT") to any bank account provided by the customer, or to a suitable cash card provided by the customer for that purpose.

**(a) Optional Third Party Services Offered at Cash Store Financial Branches**

35. Via a contractual arrangement with DirectCash Bank ("DC Bank"), Cash Store Financial acts as a limited agent for DC Bank in taking customers' applications for certain banking products offered by DC Bank including bank accounts, pre-paid debit cards or credit cards (a "Cash Card"), and credit insurance for cash advances on the card.

36. DC Bank is a Schedule 1 Bank pursuant to the federal *Bank Act*, S.C. 1991, c. 46 and provides a wide range of financial services and products. In addition to full-service

bank accounts and Cash Cards, DC Bank operates the largest network of ATM terminals in Canada.

37. Customers who open a DC Bank account do so by way of agreement directly with DC Bank. Customers who arrange a pre-paid debit or credit card with DC Bank also do so by agreement directly with DC Bank. Attached as Exhibit "F" hereto is a copy of the DC Bank Account Agreement. Attached as Exhibit "G" hereto is a copy of the Direct Cash Wallet Agreement for pre-paid debit and credit cards.

38. These products and services offered by DC Bank exist separate and apart from a loan. A customer who acquires a debit card, credit card or bank account through DC Bank may utilize those products for a range of purposes after their payday loan agreement is concluded, and can continue to use those products as they would any other banking service.

39. Where a customer elects to purchase a pre-paid debit or credit card, loan proceeds are delivered to consumers by way of Electronic Funds Transfer ("EFT") to a consolidated trust account at DC Bank, who hold the funds as trustee/agent for cardholders.

40. Customers who elect to purchase bank accounts and related services from DC Bank do so purely as a matter of choice. Cash Store and Instalozans each have, as underwriting criteria on a payday loan, a requirement that prospective customers must have held an existing bank account for a minimum of 45 days before arranging a payday loan. Therefore customers who elect to secure a bank account from DC Bank do so because they want to, not because they need to.

41. Furthermore, as noted by the Advisory Board, the payday lending industry is a competitive one: if customers do not like the products offered by Cash Store Financial, they are free to leave the premises in favour of other competitor offerings. The Ontario market is highly competitive and consumers therefore have a range of service providers to choose from.

42. DC Bank offers a premium bank account with unlimited free cheque cashing. For frequent users of cheque cashing services, this product provides a means of cashing cheques at significantly lesser amounts than at competitors of Cash Store. In the case of a bank account, the proceeds of a payday loan may be deposited into a DC Bank account by way of EFT, just like any other bank account. Customers can also purchase pre-paid credit cards that enable them to make on-line purchases without using a credit card. Customers may arrange to have the proceeds of their payday loan transferred onto such card. DC Bank also offers a basic bank account for customers with other types of transactional needs.

43. Where a customer has a bank account or Cash Card through DC Bank, that customer may elect to have loan proceeds delivered into their DC Bank bank account or loaded onto their DC Bank Cash Card. Customers may use these services at any point in relation to a payday loan.

44. Charges for the acquisition and use of the DC Bank account service are determined by DC Bank and are remitted to or collected by DC Bank in full without deduction by Cash Store Financial. Charges for the use of Cash Cards issued by DC Bank and distributed through Direct Cash Management Inc. ("DCMI") are determined by



DCMI. Those charges are remitted to or collected by DCMI in full without deduction by the Cash Store Financial.

45. None of these ancillary, optional, services are required in order to receive a payday loan from Cash Store Financial.

46. In a bulletin released by the Ministry of Consumer Services (the "Ministry"), Payday Loans Unit, in January of 2010, the Ministry provided its interpretation of the definition of "cost of borrowing" under the Act which was and is defined as "the total of the amounts a borrower is required to pay under a payday loan agreement." The Ministry identifies that the cost of receiving funds by device is considered part of the cost of borrowing where a consumer is required to receive their loan by that device. Attached as Exhibit "H" hereto is a copy of "Bulletin #1", published in January of 2010 by the Ministry, Payday Loans Unit.

#### **V. Compliance Proceedings During 2010-2011**

47. On January 11, 2010, Cash Store Financial received correspondence from a Compliance Inspector with the Ministry. The Inspector purported to find that certain charges associated with Cash Cards brought the total cost of borrowing above the maximum allowable limit set out in the regulations, and that the Payment Protection Plan, a credit insurance product available to Cash Store Financial customers at that time, is a product that could not be offered in conjunction with a payday loan, in violation of section 27 (1-6) of the regulation. Attached as Exhibit "I" hereto is a true copy of this letter.

48. On July 21, 2010, the Registrar for Payday Loans, Brian Pitkin (the "Registrar"), wrote to Cash Store Financial to advise that he had formed the opinion that certain Cash Store practices contravened section 29(2) of the Act, and section 27 of Regulation 98/09, in that cheques<sup>10</sup> were not being made immediately available to borrowers at the time of entering into the agreement, and that costs associated with Cash Cards were not being fully disclosed to borrowers and were improperly being charged with the total cost of borrowing. Attached as Exhibit "J" hereto is a copy of this letter.

49. On August 3, 2010, Cash Store Financial responded to the Registrar to advise that, in its view, Cash Store Financial was compliant with all regulatory requirements. Cash Store Financial advised the Registrar that a loan agreement is entered into only when value (i.e., the loan) is received by the customer. In the case of loans advanced by cheque, that is at the point the cheque is handed to the customer. In this way, Cash Store Financial was of the view that it was compliant with the requirement that the advance be delivered at the time the agreement is entered into. Attached as Exhibit "K" hereto is a copy of this letter.

50. On August 24, 2010, counsel to Cash Store Financial wrote to the Registrar to confirm whether the letter of August 3, 2010, had satisfied the Registrar's concerns, and to reiterate that Cash Store Financial is committed to maintaining its regulatory compliance. Attached as Exhibit "L" hereto is a copy of this letter.

51. On November 25, 2010, the Registrar wrote to further clarify his concerns in respect of certain of Cash Store Financial's operational practices. The Registrar sought

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<sup>10</sup> As of August 2010, loan funds were available to borrowers via cheque. Cash Store Financial no longer offers cheques and has moved to an EFT model.

an assurance that borrowers are fully apprised of the fact that any advance of funds is available by cheque and that therefore where a choice is made to use a pre-authorized DC Bank MasterCard to receive an advance, the borrower has made an informed decision to do so. Attached as Exhibit "M" hereto is a copy of this letter.

52. In his November 25, 2010, correspondence, the Registrar offered to meet with Cash Store Financial to discuss the subject matter of the parties' correspondence. Cash Store Financial responded to the Registrar on December 8, 2010, and December 17, 2010, to follow up on this offer and to schedule a meeting. Attached as Exhibit "N" and "O" hereto are copies of these letters, respectively.

53. A meeting was held on January 24, 2011, between four representatives from Ontario, including the Registrar, and Cash Store Financial and its counsel. During this meeting, Cash Store Financial presented its business model to the Registrar and outlined its position on its regulatory compliance in respect of the issues raised by the Registrar.

54. This meeting, and its content, was confirmed in correspondence from Cash Store Financial's counsel to the Registrar on March 1, 2011. Attached as Exhibit "P" hereto is a copy of this letter.

55. On April 8, 2011, the Registrar replied in writing. The letter expressed a continued concern that potential borrowers were not fully apprised of the availability of receiving a payday loan by cheque, and requested an unequivocal statement from Cash Store Financial "that borrowers will be informed of the availability of a cheque at no cost as a method of receiving their payday loan." This correspondence did not express any ongoing

concern in respect of fees paid to third parties for the services they provide. Attached hereto and marked as Exhibit "Q" is a copy of this letter.

56. In reply and on May 4, 2011, Cash Store Financial's counsel advised that, pursuant to the Registrar's request but without admitting any non-compliance, Cash Store Financial could change its loan application form to require customers to select either cheque or Cash Card as their mode of loan advance, and would include written disclosure that the cheque is provided at no cost. We sought the Registrar's input on this proposal as part of our ongoing commitment to operating in an open and transparent manner. Attached hereto and marked as Exhibit "R" is a copy of this letter.

57. Cash Store Financial received no further communications from the Registrar in respect of the foregoing dealings. In light of this, Cash Store Financial believed that it had satisfied the Registrar's concerns and was satisfied that Cash Store Financial was compliant with its regulatory obligations.

#### **VI. The New Regulations Specifically Target Cash Store Financial's Business**

58. Just over a month after the last of this correspondence between Cash Store Financial and the Registrar and on June 7, 2011, the Ministry released a notice entitled "*Proposed Regulatory Amendments to the General Regulation (O. Reg. 98/09) of the Payday Loans Act, 2008*". In this document, the Ministry briefly outlined that it proposed to amend Regulation 98/09 in order to clarify the "cost of borrowing" and to ensure that no "deductions" were being made from loans prior to receipt by the customer. The Ministry indicated that it was seeking comments on its intent to proceed with these regulatory amendments. Attached as Exhibit "S" hereto is a copy of this notice.

59. The Ministry provided only 9 days for public comment on the proposed amendments, from June 7 until June 16. This period is far short of the 45 day public comment period required by the Ontario government's Regulatory Policy, as posted on the Service Ontario website, which expressly states that "Proposed regulations that may have an impact on business are required to be posted on the Regulatory Registry with a minimum public comment period of 45 days." Attached as Exhibit "T" is a printout from the Service Ontario Regulatory Registry website and a copy of the Ontario Regulatory Policy.

60. In addition to providing a significant period of time for public comment to facilitate the purposes of transparency and consultation in the regulation-making process, the Regulatory Policy requires that written comments are to be considered prior to finalizing the regulation. Further, the Regulatory Policy sets out 9 general principals of good regulatory governance, none of which appear to have been followed in the case of the New Regulations. The Policy additionally requires that proposed Ontario regulations "must" be accompanied by a regulatory impact assessment. No such assessment was released in connection with the New Regulations.

61. The Service Ontario website is clear that "Ontario government ministries must follow the principles and directives set out in Ontario's Regulatory Policy."

62. The June 7 consultation document did not include the actual language or content of the regulatory amendments. Shortly after the notice of consultation was released, I telephoned the Ministry and spoke with Stephen Patterson, Director of Legal Services, requesting that Cash Store Financial be provided with a copy of the proposed regulatory amendments or draft language. Mr. Patterson offered to consider my request, but

declined to provide any details about the proposed regulations. He did not indicate that these proposed regulations had the specific purpose of targeting Cash Store Financial's specific product offerings.

63. Following up on my telephone call and on June 10, 2011, I wrote to the Ministry advising of Cash Store Financial's concerns over the lack of consultation involved in connection with the Ministry's proposed amended regulations. I requested that Cash Store Financial, as Canada's largest provider of payday loans, be given the opportunity to provide input into any regulatory changes under the Act. In this email, I again requested disclosure of the proposed amendments to Regulation 98/09. Attached as Exhibit "U" hereto is a copy of this email.

64. On June 14, 2011, Mr. Patterson responded to my request by email, declining to provide disclosure of the proposed regulatory amendments or draft language. Attached as Exhibit "V" hereto is a copy of this email.

65. Without further consultation, the New Regulations were published in the Ontario Gazette on July 16, 2011, and came into force and effect on September 1, 2011.

66. There are a number of significant changes in the New Regulations that have impacted Cash Store Financial's business operations.

67. First, amendments to section 27 in the New Regulations prohibits the sale of any form of optional good or service "in connection with a payday loan." This has the effect of eliminating a customers' choice and ability to acquire additional optional services "in connection with" a payday loan agreement, including optional banking and insurance

products, and eliminates the option to receive loan funds by way of Cash Card. The New Regulations prohibit third party service providers from offering these optional services with payday lenders.

68. I believe that section 27 of the New Regulations was specifically drafted and implemented to target Cash Store Financial's agency arrangement with DC Bank.

69. Second, the combined effect of the definition of "device" in section 1 and amendment to the total cost of borrowing provision in section 17 seek to include third party fees and charges in the calculation of the total cost of borrowing. Fees and charges paid to third parties for services that those third parties provide are not within the scope of the regulation-making authority under the Act, nor are such services subject to regulation pursuant to the Act. Optional products and services offered by third parties ought not be included in the total cost of borrowing calculation.

70. I believe that these changes in the New Regulations were specifically drafted and implemented to target third party service providers and their services, which are not properly regulated pursuant to the Act.

71. Third, section 22 of the New Regulations effectively requires Cash Store Financial to operate as a cash-based business. This amendment requires that, if requested by a borrower, a lender shall immediately, and at no charge to the borrower, provide the balance of an advance that is on a device or that is accessible by a device in cash to the borrower at the time of the request.

72. The practical effect of this amendment would be that: (1) it prevents Cash Store Financial from operating according to the cashless business model favoured by its customers, which is its preferred business model; and (2) it significantly raises the security risks in our branches both to our staff and our customers. A cash-based business model requires that the branch premises be secured, with transactions conducted behind bullet proof glass.

73. In any event, the forced introduction of cash into a cashless business environment significantly elevates the risk of harm to employees of Cash Store Financial, customers and surrounding community. Specifically, Cash Store Financial commissioned a report by Fred Rayner, a former Chief of Police with 26 years of experience in community safety. Mr. Rayner concluded that the introduction of cash into a cashless business environment has the following impacts: (a) the incidents of violent robbery is certain to increase, exposing employees to unnecessary and preventable harm; (b) the incidents of community violence has a very high probability of increasing, exposing citizens in the community to a greater risk of unnecessary and preventable harm; (c) the risks are very real, and include a high potential for: (i) acts of physical assault with a weapon; (ii) kidnapping and detainment; and (iii) attempted murder and death. A copy of Mr. Rayner's report entitled "Community Safety: Implications of Conversion to Large Volume Notes and Coins Distribution Model for Cash Store Inc. and Instalozans Inc., May 10, 2012" is attached as Exhibit "W" hereto.

74. By branch count, Cash Store Financial holds approximately 20% of market share in the payday loan industry in Ontario. Cash Store Financial is the only major operator to utilize a cashless platform.



75. I believe, that the changes to section 22 of the New Regulations attempt to force Cash Store Financial to convert to a cash-based platform, and directly favour other market participants who currently operate in that model.

76. On August 24, 2011, I wrote to the Registrar by email, requesting confirmation that the explicit purpose of the New Regulations was to prohibit payday lenders from offering insurance or any other service aside from payday loans, whether or not the payday lender is acting as agent for a third party. Attached as Exhibit "X" hereto is a copy of this email.

77. On August 25, 2011, in the letter attached hereto as Exhibit "A", the Registrar responded, stating that the effect of the New Regulations is to "prohibit licensees from providing or offering to provide other goods or services in connection with a payday loan, whether on the licensee's own behalf or on behalf of any other person."

## VII. The Policy Rationales for Payday Lending

78. The New Regulations are not only *ultra vires* the delegated regulation-making power, they are also contrary to the policy objectives set out by Parliament, the legislature and in the Advisory Board Report.

79. By 2006, it had become obvious to both industry stakeholders and policy makers that there was a market and consumer demand for payday lending services. A report published by the Parliamentary Information and Research Service in 2006 concluded that the criminal prosecution of payday lenders could eliminate the industry, leaving some consumers without access to the credit and convenience they desire. The article suggests that a regulatory regime may provide a compromise that all stakeholders can

agree on. Attached as Exhibit "Y" hereto is an article entitled "Payday Loan Companies in Canada: Determining the Public Interest", published by the Parliamentary Information and Research Service and dated January 26, 2006.

80. Parliament, similarly, recognized the need for regulatory oversight of the payday loan industry. Comments in the House of Commons included an acknowledgement that while the industry had informal codes of conduct, there were lenders who operated outside of those voluntary standards. One MP noted that a central objective of Bill C-26 was to allow payday lenders to conduct their business on behalf of those who demand that service. Attached as Exhibit "Z" hereto are excerpts from the second reading of Bill C-26 in the House of Commons, dated October 24, 2006.

81. The Senate, during the Standing Senate Committee on Banking, Trading and Commerce ("Senate Committee") meetings on the study of Bill C-26, highlighted the consensus among the federal, provincial and territorial governments that section 347 of the Criminal Code was not an appropriate mechanism to regulate payday lenders and that industry specific regulation was required. Moreover, there was acknowledgment that payday lenders provide a service that fills a void left by traditional lenders. Attached as Exhibit "AA" hereto are excerpts from a meeting of the Senate Committee dated February 28, 2007.

82. One Senator, while moving for a second reading of Bill C-26 in the Senate, commented specifically that Bill C-26 was directed at the payday lending industry and emphasized that it would not apply to federally regulated financial institutions such as

banks. Attached as Exhibit "BB" hereto are excerpts from the Senate debates on February 13, 2007.

83. A Senate press release dated March 9, 2007, acknowledged the intention of the Act is the dual goal of consumer protection coupled with maintaining a competitive lending environment. Attached as Exhibit "CC" hereto is a copy of the press release from the Senate Standing Committee on Banking, Trade and Commerce, dated March 9, 2007.

84. On May 3, 2007, Bill C-26 received royal assent and section 347.1 of the Criminal Code came into force.

#### **VIII. Ontario Regulation of Payday Lending**

85. Ontario engaged in a broad-based consultation process prior to seeking the federal designation pursuant to section 347.1. In a discussion paper dated April 27, 2007, the Ontario government initiated a public review and requested comments related to the regulation of payday lenders in Ontario. Attached as Exhibit "DD" hereto is a copy of the Ministry of Government Services, Policy and Consumer Protection Services Division "Consumer Protection in the Payday Lending Sector" discussion paper dated April 27, 2007.

86. This consultation process was intended to facilitate a regulatory approach that achieves a balance between consumer protection and maintaining an environment that permits responsible business operators to thrive. Attached as Exhibit "EE" is a Ministry of

Government Services PowerPoint presentation titled Payday Lending Industry Stakeholder Consultation, dated February 14, 2007.

87. During the Legislative Assembly of Ontario's (the "**Legislature**") first reading of Bill 48, the Minister of Consumer Services (the "**Minister**") described the purpose and objectives of the Act, among other things, as creating "a fair and balanced approach" and "creating a licensing regime for payday lenders to ensure fairness in the provision of payday loans," to provide consumers "with the information they need to protect themselves and make more informed choices," and to set a "maximum total-cost-of borrowing cap to limit the amount payday lenders can charge." Attached as Exhibit "FF" hereto are excerpts from the Legislature's first reading of Bill 48 dated March 31, 2008.

88. During second reading, the Minister of Economic Development and Trade indicated that Bill 48 would increase public confidence in the payday lending industry and stated that Bill 48 is intended to promote economic growth and competition within the payday lending industry. Attached as Exhibit "GG" hereto are excerpts from the Legislature's second reading of Bill 48 dated April 24, 2008.

89. The Official Opposition Critic for Government and Consumer Services noted that the payday lending industry is filling a service gap left in the financial services sector. She further made a specific point of acknowledging Cash Store Financial as a reputable payday lender, distinguishable from other less reputable lenders who were the intended target of Bill 48.

90. The Minister of Transportation acknowledged that payday lenders provide a useful service because they assist people in borrowing money when they really need it. On that

point, the Minister stated that "we need to be fair to both: we need to make sure people are not being taken advantage of but at the same time we need to make sure that our small businesses are also looked after."

91. During third reading, the Minister is quoted as stating "I believe it's not our role to employ or destroy the payday lending industry; it's our role to regulate the industry and make sure it operates well." In response to this statement, the Opposition Critic noted the importance of maintaining consumer choice in the payday lending industry and indicated her concurrence with the Minister's statement. Attached as Exhibit "HH" hereto are excerpts from the third reading of Bill 48 in the Legislature dated June 9, 2008.

92. Finally, during the legislative debates on Bill 48, the Official Opposition Critic said that the intent in developing the Act was to find the "best way to make sure that people have consumer choice, with a fair amount of consumer protection attached to it," and that "we can't tell people what to do. We can only make sure that we regulate an environment so that they make their own choices." Attached as Exhibit "II" hereto are excerpts from the Legislative Assembly of Ontario Standing Committee on General Government's consideration of Bill 48, dated May 28, 2008.

93. In a news release dated June 30, 2009, the Ontario Government outlined the details of the Act. In this news release, the Minister is quoted as stating "Payday loans are an important source of financial assistance for many people in Ontario. We're taking steps to assure consumers of stronger protections while balancing the needs of the industry." Attached as Exhibit "JJ" hereto is this news release.

## **IX. Regulatory Impact of the New Regulations**

94. It was never intended that the Act and regulations would either prohibit the offer of ancillary services, or force payday lenders to operate a "cash-only" business model. In fact, the Total Cost of Borrowing Advisory Board was of the view that a cap of \$21 per \$100 would lead to significant restructuring in the industry, and at the same time the Advisory Board contemplated that payday lenders may add "new product lines" as part of the restructuring of the business environment.

95. Similarly, all indications are that Parliament and the Legislature intended to create a thriving and competitive business environment intended to provide a valuable service within a regulatory scheme that provided appropriate protections for consumers.

96. It is overly paternalistic and arbitrary to prevent the offer of ancillary optional services and products, which are ubiquitous in all industries, including the financial industry and related sectors. As only two examples, banks offer any number of loan protection products and mortgage insurance that are commonplace in the market.

97. Similarly, it is counter-intuitive, and contrary to this policy rationale, to force all payday lenders to ascribe to a "cash-only" business model. First, common sense suggests an open concept branch environment is preferable to conducting loan transactions through bullet-proof glass. Second, consumer and societal trends are moving away from cash-based transactions and toward a cashless society. The 2007 Pollara Report, for example, notes that 97% of payday loan customers have a debit card.

98. On November 9, 2009, the Interac Association issued a press release to celebrate the 25<sup>th</sup> anniversary of Interac in Canada. This release notes that since 2000, Canadians have used debit more than any other form of payment. The release further indicates that with over 35 million debit cards in circulation in Canada as of 2008, Canadians used debit in 45% of transactions whereas cash was used in only 22% of transactions. Attached as Exhibit "KK" hereto is this press release.

99. Attached as Exhibit "LL" hereto are statistics produced by the Interac Association in 2010. These statistics show that use of debit has continued to grow in Canada in recent years and that Canadians are the third highest user of debit per capita in the world.

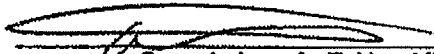
100. I believe that it is poor public policy to limit customer choice in the way the New Regulations purport to do, and poor policy to force lenders to have large sums of cash on hand in branches when electronic means are available.

101. Parliament and the legislature have recognized that payday lending provides a valuable service to consumers, and that the goals of provincial regulation are to both ensure consumer protection measures are in place while at the same time ensuring the continued health and viability of the payday loan industry. I believe that the Act and regulations provided appropriate consumer protection measures, and at the same time allowed innovation and competition within the industry.

102. The New Regulations, however, are paternalistic, stifle innovation, and eliminate competition in favour of ubiquity. In addition to being unlawful, the New Regulations represent unsound public policy.

103. I swear this affidavit in support of Cash Store Financial's application for judicial review and for no other or improper purpose.

SWORN BEFORE ME at the City of  
Edmonton, in the Province of Alberta on  
SEPTEMBER 18, 2012.

  
\_\_\_\_\_  
Commissioner for Taking Affidavits  
(or as may be)

  
\_\_\_\_\_  
MICHAEL THOMPSON

**Mario Volpe**  
A Commissioner for Oaths in and  
For the Province of Alberta  
My Commission Expires June 19, 2013



THE CASH STORE FINANCIAL SERVICES INC., et al.  
Applicants

and HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO, et al.  
Respondents

Court File No. 409/11

ONTARIO  
SUPERIOR COURT OF JUSTICE  
DIVISIONAL COURT  
  
PROCEEDING COMMENCED AT  
TORONTO

AFFIDAVIT OF MICHAEL THOMPSON  
(SWORN SEPTEMBER 18, 2012)

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Lawyers for the Applicants

**This is EXHIBIT "Q" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*

November 27, 2012

Michael Thompson

Page 1

Court File No. 409/11

1

ONTARIO  
SUPERIOR COURT OF JUSTICE  
DIVISIONAL COURT

B E T W E E N:

THE CASH STORE FINANCIAL SERVICES INC.,  
THE CASH STORE INC. and INSTALOANS INC.

Applicants

- and -

HER MAJESTY THE QUEEN IN RIGHT OF ONTARIO  
as represented by the MINISTER OF CONSUMER SERVICES  
and the LIEUTENANT GOVERNOR IN COUNCIL OF ONTARIO  
Respondents

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--- This is the Cross-Examination of MICHAEL  
THOMPSON on his affidavits sworn September 18, 2012  
and October 26, 2012, taken at the offices of  
Neeson & Associates Court Reporting and Captioning  
Inc., 141 Adelaide Street West, Suite 1108,  
Toronto, Ontario, on the 27th day of November,  
2012.  
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Page 2		Page 4	
1	<b>A P P E A R A N C E S:</b>	1	2: Government of Alberta Payday Loan 33
2	Timothy Pinos, Esq. ) For the Applicants	2	Business Regulation Consultation June 2
3	Jason Beitchman, Esq. )	3	2009.
4	W.J. Manuel, Esq. )	4	3: Letter dated February 22, 2010 to 88
5	Ermtiaz Bala, Esq. ) For the Respondents	5	Mr. Ramcharan from Mr. Thompson.
6	<b>ALSO PRESENT:</b> Ashley McKenzie, Student-at-law	6	4: Pages 4-24 of Tab 1 of 172
7	<b>REPORTED BY:</b> Connie A. Holton, C.S.R.	7	Respondents' Supplementary Document
8	-----	8	Brief (green book)
9		9	A: For Identification: Pages 1-3 of 172
10	<b>I N D E X</b>	10	Tab 1 of Respondents' Supplementary
11	<b>WITNESS: MICHAEL THOMPSON</b>	11	Document Brief (green book)
12	<b>PAGE</b>	12	B: For Identification: Pages 27-29 of 177
13	<b>CROSS-EXAMINATION BY MR. BALA..... 6</b>	13	Tab 2 of Respondents' Supplementary
14	<b>RE-EXAMINATION BY MR. PINOS..... 267</b>	14	Document Brief (green book)
15		15	5: Pages 30-41 of Tab 2 of 177
16	<b>**The following list of undertakings, advisements</b>	16	Respondents' Supplementary Document
17	<b>and refusals is meant as a guide only for the</b>	17	Brief (green book)
18	<b>assistance of counsel and no other purpose**</b>	18	6: Pages 51-61 of Tab 4 of 182
19		19	Respondents' Supplementary Document
20	<b>I N D E X O F U N D E R T A K I N G S</b>	20	Brief (green book)
21	The questions/requests undertaken are noted by U/T	21	C: For Identification: Pages 47-50 of 182
22	and appear on the following pages: 33, 77, 90,	22	Tab 4 of Respondents' Supplementary
23	135, 140, 149, 169 and 253.	23	Document Brief (green book)
24		24	
25		25	
Page 3		Page 5	
1	<b>I N D E X O F A D V I S E M E N T S</b>	1	D: For Identification: Pages 62, 63, 186
2	The questions/requests taken under advisement are	2	73, 74 of Tab 5 of Respondents'
3	noted by U/A and appear on the following pages:	3	Supplementary Document Brief (green
4	18, 45, 78, 88, 93, 94, 95, 97, 98, 99, 109, 112,	4	book)
5	113, 114, 116, 117, 126, 155, 156, 192, 193, 194,	5	7: Pages 64-72 of Tab 5 of 186
6	204, 206, 236, 237, 241, 243, 245, 248, 250, 251,	6	Respondents' Supplementary Document
7	252 and 259.	7	Brief (green book)
8		8	E: For Identification: Pages 89-93 of 196
9	<b>I N D E X O F R E F U S A L S</b>	9	Tab 6 of Respondents' Supplementary
10	The questions/requests refused are noted by R/F and	10	Document Brief (green book)
11	appear on the following pages: 11, 12, 13, 42, 46,	11	8: Pages 94-109 of Tab 6 of 196
12	47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59,	12	Respondents' Supplementary Document
13	60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 72, 73,	13	Brief (green book)
14	74, 78, 79, 100, 101, 102, 103, 104, 105, 106, 107,	14	9: Pages 113-123 of Tab 7 of 208
15	108, 111, 113, 118, 119, 120, 121, 123, 127, 128,	15	Respondents' Supplementary Document
16	129, 130, 131, 136, 138, 139, 142, 149, 150, 152,	16	Brief (green book)
17	153, 154, 205 and 238.	17	F: For Identification: Pages 110-112, 208
18		18	124-125 of Tab 7 of Respondents'
19	<b>I N D E X O F E X H I B I T S</b>	19	Supplementary Document Brief (green
20	<b>NUMBER/DESCRIPTION PAGE NO.</b>	20	book)
21	1: The Cash Store Financial Services 24	21	10: Pages 30, 32, 85 and 122 from 267
22	Inc. Investor Presentation September	22	Transcript of Nova Scotia Utility and
23	2012.	23	Review Board heard November 1, 2010
24		24	
25		25	

Page 6

1 --- Upon commencing at 10:07 a.m.  
 2 MICHAEL THOMPSON, Sworn  
 3 CROSS-EXAMINATION BY MR. BALA:  
 4 1 Q. Mr. Thompson, I take it that Mr.  
 5 Pinos has probably told you to answer the questions  
 6 put to you after I've asked the question fully; no  
 7 head nods, just because we're looking to paper a  
 8 transcript here essentially.  
 9 A. Correct.  
 10 2 Q. So I'm going to begin by asking  
 11 you some questions then about your background.  
 12 A. Sure.  
 13 3 Q. In your first affidavit you begin  
 14 it by stating that you're the senior vice-president  
 15 of corporate affairs at Cash Store Financial.  
 16 A. That's correct.  
 17 4 Q. And how long have you held this  
 18 position?  
 19 A. I've been in various roles with  
 20 the company for six years.  
 21 5 Q. And how long have you been  
 22 vice-president of corporate affairs?  
 23 A. I've been senior vice-president  
 24 with responsibility for corporate affairs since  
 25 February, 2007.

Page 7

1 6 Q. And in your current role what are  
 2 your duties?  
 3 A. Primarily responsible for  
 4 compliance related matters, and I deal with various  
 5 different communications and operational issues in  
 6 the company.  
 7 7 Q. And prior to your current role you  
 8 were also a vice-president of a different nature?  
 9 A. I was vice-president of government  
 10 affairs and investor relations.  
 11 8 Q. And where on the corporate  
 12 hierarchy are you? I mean essentially are you  
 13 under the CEO?  
 14 A. Correct.  
 15 9 Q. And between yourself and the CEO  
 16 is there anybody else?  
 17 A. There's a senior executive  
 18 vice-president, yes.  
 19 10 Q. And who right now is the CEO of  
 20 Cash Store Financial?  
 21 A. Gordon Reykdal.  
 22 11 Q. Now let's go to your reply  
 23 affidavit at paragraph 48.  
 24 MR. PINOS: Let him have a look at  
 25 paragraph 48 first.

Page 8

1 MR. BALA: No problem.  
 2 MR. PINOS: This is on page 13? **3**  
 3 MR. BALA: Presumably.  
 4 MR. PINOS: It's the one that starts,  
 5 "In paragraph 66 of his affidavit, Mr. Pitkin  
 6 suggests"?  
 7 MR. BALA: Yes.  
 8 BY MR. BALA:  
 9 12 Q. Now you state there that Cash  
 10 Store Financial is not a member of the Canadian  
 11 Payday Loans Association or the CPLA.  
 12 A. That's correct.  
 13 13 Q. Now Cash Store Financial was once  
 14 a member of the CPLA?  
 15 A. That's correct.  
 16 14 Q. And at the time Cash Store  
 17 Financial operated under the name Rent Cash?  
 18 A. That's correct.  
 19 15 Q. And when did Cash Store Financial  
 20 or Rent Cash leave the CPLA?  
 21 A. November, 2006.  
 22 16 Q. And Cash Store Financial or Rent  
 23 Cash was a member of the CPLA at the time that you  
 24 were president of the CPLA?  
 25 A. That's correct.

Page 9

1 17 Q. And so prior to your job with Cash  
 2 Store you were president of the CPLA?  
 3 A. That's correct.  
 4 18 Q. And for how long were you  
 5 president of the CPLA?  
 6 A. Six months.  
 7 19 Q. From when to when?  
 8 A. That would have been May, 2006 to  
 9 November, 2006.  
 10 20 Q. And what were your duties while  
 11 president of the CPLA?  
 12 A. I managed the association and  
 13 managed their lobbying function.  
 14 21 Q. Now paragraph 10 of your  
 15 affidavit -- we can go there if this point is  
 16 controversial, but you say -- or if you need to  
 17 refresh your memory.  
 18 MR. PINOS: I think we should always  
 19 look at the affidavit.  
 20 MR. BALA: No problem.  
 21 BY MR. BALA:  
 22 22 Q. Now you say that since 2000 Cash  
 23 Store Financial went from one location to 573  
 24 branches across Canada.  
 25 A. That's correct.

Page 10

1 23 Q. Now when did Cash Store Financial  
 2 first enter the Ontario marketplace?  
 3 A. I believe about seven years ago.  
 4 24 Q. And right now you have 199  
 5 branches in Ontario.  
 6 A. That's incorrect.  
 7 25 Q. That's what it says in your  
 8 affidavit.  
 9 A. We've since closed a number of  
 10 branches. We have 178 branches.  
 11 26 Q. So you've closed those branches  
 12 between the day that I received your affidavit and  
 13 today?  
 14 A. That's correct.  
 15 27 Q. I'm going to move on to some  
 16 questions about why people use payday loans. And  
 17 in your first affidavit at Exhibit B you cite the  
 18 Pollara survey, correct?  
 19 A. That's correct.  
 20 28 Q. Let's go to Exhibit B.  
 21 Now, Mr. Thompson, this survey was  
 22 commissioned by the CPLA?  
 23 A. That's what it says, yes.  
 24 29 Q. And when was the request made by  
 25 the CPLA to Pollara to undertake this survey?

Page 11

1 A. I don't know.  
 2 30 Q. Were you president of the CPLA at  
 3 the time that this request to Pollara was made?  
 4 A. Not to my recollection.  
 5 31 Q. Let's go to the first page of this  
 6 Pollara survey. It's Exhibit B, page 1. It's your  
 7 application record page 43.  
 8 A. Mm-hmm.  
 9 32 Q. And on the third bullet it says  
 10 that CPLA members provided lists of customers?  
 11 A. That's what it says, yes.  
 12 33 Q. And at the time of the study Cash  
 13 Store Financial wasn't a member of the CPLA?  
 14 A. According to the date on the  
 15 study, that's correct, yes.  
 16 34 Q. And so the customer information  
 17 used in the Pollara survey didn't include any  
 18 information provided by Cash Store Financial?  
 19 A. Correct.  
 20 35 Q. Now let's go to the first bullet.  
 21 It says here that this Pollara survey was conducted  
 22 by telephone.  
 23 A. That's what it says, yes.  
 24 36 Q. And the third bullet it says that  
 25 the CPLA members provided lists of customers and in

Page 12

1 total there were 13,233 records?  
 2 MR. PINOS: That's what it says. 4  
 3 THE DEPONENT: That's what it says.  
 4 BY MR. BALA:  
 5 37 Q. Now how did the CPLA go about  
 6 determining which customer records they would  
 7 provide to Pollara for the purposes of this study?  
 8 A. I don't know.  
 9 38 Q. Can I get an undertaking from you  
 10 to find out that information, how the CPLA members  
 11 went about determining --  
 12 R/F MR. PINOS: No. We won't give that  
 13 undertaking.  
 14 BY MR. BALA:  
 15 39 Q. I'll finish asking the  
 16 undertaking, that if the process was random what  
 17 was the process of randomization?  
 18 R/F MR. PINOS: Same answer.  
 19 BY MR. BALA:  
 20 40 Q. Let's go to the 4th bullet. Now  
 21 it says out of those 13,233 records that were  
 22 provided there were 503 actual telephone interviews  
 23 that were conducted.  
 24 A. That's what it says, yeah.  
 25 41 Q. Now how many people in total were

Page 13

1 telephoned in order to conduct the 503 interviews?  
 2 A. I wasn't responsible for this  
 3 survey. So I can't tell you that.  
 4 42 Q. Can I get an undertaking to find  
 5 out that information?  
 6 R/F MR. PINOS: No.  
 7 BY MR. BALA:  
 8 43 Q. How many payday loan customers  
 9 couldn't be reached at the telephone numbers  
 10 contained in the CPLA's records?  
 11 A. It's not my study.  
 12 44 Q. Is that an I don't know?  
 13 A. I don't know.  
 14 45 Q. Can I get an undertaking from you  
 15 for that information?  
 16 R/F MR. PINOS: No.  
 17 BY MR. BALA:  
 18 46 Q. How many payday loan customers  
 19 refused to answer the survey's questions?  
 20 R/F MR. PINOS: Don't answer that.  
 21 BY MR. BALA:  
 22 47 Q. Is that --  
 23 MR. PINOS: It's not relevant to  
 24 anything to do with the application.  
 25 BY MR. BALA:

Page 14

1 48 Q. Can I get an undertaking for how  
 2 many payday loan customers refused to answer the  
 3 survey's questions?  
 4 R/F MR. PINOS: No.  
 5 BY MR. BALA:  
 6 49 Q. How many of those 13,000 people  
 7 had working telephone numbers?  
 8 R/F MR. PINOS: Don't answer that.  
 9 BY MR. BALA:  
 10 50 Q. Can I get an undertaking for how  
 11 many of those 13,233 people had working telephone  
 12 numbers?  
 13 R/F MR. PINOS: No.  
 14 BY MR. BALA:  
 15 51 Q. Now let's go to page 4 of this  
 16 survey. It's page 46 of your application record.  
 17 This page is entitled Key Findings; is that  
 18 correct?  
 19 A. That's correct.  
 20 52 Q. And there is a first subheading  
 21 there that says, "Why Payday Loans?", correct?  
 22 A. Correct.  
 23 53 Q. Now under that first bullet it  
 24 says that 51 percent of people use payday loans  
 25 because they're "quick and easy"?

Page 15

1 A. That's correct.  
 2 54 Q. And you cite that statistic at  
 3 paragraph 9 of your affidavit?  
 4 A. I do. Hold on. I cite that  
 5 statistic. I don't know if that's the right  
 6 paragraph, but I do cite it, yes.  
 7 55 Q. Again, in the first bullet it says  
 8 18 percent of customers acquire payday loans  
 9 because it offers a "more convenient location."  
 10 See that?  
 11 A. Yes, I do.  
 12 56 Q. And that statistic is also cited  
 13 in your affidavit?  
 14 A. That's correct. Do I cite that?  
 15 MR. PINOS: I don't know. I think it's  
 16 best if we take our time and check the affidavit.  
 17 THE DEPONENT: I don't want to confirm  
 18 that I cited something if I didn't. I know I cited  
 19 the "quick and easy".  
 20 MR. PINOS: Paragraph 9?  
 21 MR. BALA: Paragraph 9.  
 22 MR. PINOS: There.  
 23 THE DEPONENT: Okay. That's correct.  
 24 BY MR. BALA:  
 25 57 Q. Can we go back to the Pollara

Page 16

1 study?  
 2 A. Sure.  
 3 MR. PINOS: Let me just tab paragraph 9  
 4 so we can go back to it if we need to.  
 5 BY MR. BALA:  
 6 58 Q. The second bullet says:  
 7 "Only 15% of respondent payday  
 8 loan customers indicate that they  
 9 use payday loans because they have  
 10 no other alternative sources for  
 11 borrowing."  
 12 A. That's what it says.  
 13 59 Q. Is it your position that this  
 14 statistic is accurate?  
 15 A. I don't believe I cite that in my  
 16 report. I wouldn't agree with that, no.  
 17 60 Q. So you disagree with that  
 18 statistic?  
 19 A. I said I wouldn't agree with it,  
 20 no.  
 21 61 Q. Do you disagree with it?  
 22 A. I don't know enough about what's  
 23 behind the statistic to give you an answer one way  
 24 or another. I have to state again it's not my  
 25 study. So there's a limit to what I can say about

Page 17

1 what's in here.  
 2 62 Q. Let's go to Exhibit C of your  
 3 affidavit. And this is advisory board's report?  
 4 A. Okay.  
 5 MR. PINOS: Advisory committee I think  
 6 is what they call themselves. They call it a  
 7 board, I stand corrected.  
 8 MR. BALA: Thank you, Mr. Pinos.  
 9 63 Q. Now let's go to page 12 of this  
 10 report. It's page 72 of your application record.  
 11 There's a subheading on the left that says, "Why  
 12 Consumers Use Payday Loans?" See that?  
 13 A. Yes, I do.  
 14 64 Q. And next what the board writes:  
 15 "We heard differing opinions.  
 16 Industry representatives contend  
 17 that payday loan customers are  
 18 average Canadians with near-median  
 19 household incomes. They say  
 20 borrowers are attracted by the quick  
 21 and simple lending process and  
 22 convenient store locations, with  
 23 only a small minority of customers  
 24 having no other borrowing options."  
 25 Do you see that, Mr. Thompson?

Page 18

1 A. I do.

2 65 Q. Let's look at the first sort of

3 two things, or two things that are stated in here.

4 The board cites industry representatives who tell

5 them that borrowers are attracted by the quick and

6 simple lending process, and convenient store

7 locations?

8 A. Correct.

9 66 Q. And that's consistent with page 4

10 of the Pollara study that I just took you to.

11 MR. PINOS: I think it actually

12 footnotes the Pollara study, doesn't it? It

13 certainly footnotes something from the Payday Loans

14 Association website.

15 THE DEPONENT: I would say it's

16 consistent with the two points that we talked about

17 with respect to the Pollara study, yes.

18 BY MR. BALA:

19 67 Q. Now let's talk about this footnote

20 that Mr. Pinos pointed out. And there's a footnote

21 9 in that paragraph?

22 A. Yes.

23 68 Q. And when we look at the bottom of

24 the page, the footnote 9, it says Canadian Payday

25 Loan Association website?

Page 19

1 A. Correct.

2 69 Q. And the title of the page that's

3 referred to in the citation is, "Who Uses Payday

4 Loans?"

5 A. Correct.

6 70 Q. And the website address that's

7 provided, if I click on that address I'm taken to

8 another page for which there's a link to the

9 Pollara study you cited at Exhibit B of your

10 affidavit.

11 A. It's possible.

12 71 Q. Can I get an undertaking from you,

13 as Mr. Pinos said, to check that link?

14 U/A MR. PINOS: We'll take it under

15 advisement.

16 BY MR. BALA:

17 72 Q. Mr. Thompson, in your view the

18 advisory board is an independent expert board? You

19 say it at paragraph 17. Feel free to go.

20 MR. PINOS: Paragraph 18.

21 THE DEPONENT: Yes, I agree with that.

22 BY MR. BALA:

23 73 Q. And it produced what you describe

24 at paragraph 18 as a "comprehensive report

25 assessing the payday lending industry", correct?

Page 20

1 A. Correct.

2 74 Q. And this advisory board challenged

3 the CPLA's view of who uses payday loans; is that

4 correct?

5 Why don't I take you there? Page 13 of

6 the advisory board's report. So this is your

7 application record at page 73, Exhibit C.

8 Page 13, are you there?

9 A. Yes. And what is it that you

10 would like me to comment on, please?

11 75 Q. There is a subheading on the left

12 that states, "Borrowers in Financial Distress." Do

13 you see that?

14 A. Yes, I do.

15 76 Q. And next to it the board writes:

16 "Overall, we challenge the

17 picture painted by some members of

18 the industry that payday loan

19 borrowers are 'average Canadians.'

20 The preponderance of evidence,

21 whether anecdotal or statistical, is

22 that the majority of these consumers

23 are in financial distress and have

24 limited options."

25 Do you see that?

Page 21

1 A. I do.

2 77 Q. And so am I correct that the

3 advisory board rejected the industry's view that

4 payday loan customers are "average Canadians"?

5 A. I would say that your statement

6 would agree with that paragraph.

7 78 Q. Am I correct that the advisory

8 board found that the majority of payday loan

9 customers are in financial distress and have

10 limited options?

11 A. I would say that that's what the

12 advisory committee has stated, yes.

13 79 Q. And they use the word "majority"?

14 A. They do use that word, yes.

15 80 Q. And the findings that they make in

16 that paragraph, as the board describes it, is on

17 the "preponderance of evidence, whether anecdotal

18 or statistical"; is that correct?

19 A. That's what that statement says,

20 yes.

21 81 Q. Now, Mr. Thompson, did you read

22 the advisory board's report prior to swearing your

23 first affidavit?

24 A. Yes, I do.

25 82 Q. Let's go to your reply affidavit.



Page 22

1 Paragraph 25. You say here that:  
 2 "Attached as Exhibit 'C' is a  
 3 chart showing the Cash Store  
 4 Financial's short-term loan user  
 5 profile..."  
 6 A. That's correct.  
 7 83 Q. Now you've attached Exhibit C, and  
 8 so let's go to Exhibit C.  
 9 A. Sure.  
 10 84 Q. Now Exhibit C of your affidavit  
 11 shows three pie charts, correct?  
 12 A. Correct.  
 13 85 Q. And there is a page 11 on the  
 14 bottom right-hand corner of this page?  
 15 A. That's correct.  
 16 86 Q. So this page is part of another  
 17 document, correct?  
 18 A. That's correct.  
 19 87 Q. Now I provided this book right  
 20 here, I see you've got it, and I'll call it my  
 21 supplementary documents. Let's go to tab 10 of my  
 22 supplementary documents.  
 23 A. Okay.  
 24 88 Q. Do you recognize this document,  
 25 Mr. Thompson?

Page 23

1 A. I do.  
 2 89 Q. What is it?  
 3 A. It's an investor presentation.  
 4 90 Q. Who authored it?  
 5 A. That would have been a product of  
 6 our senior management team.  
 7 91 Q. And do you know approximately when  
 8 it was authored?  
 9 A. September, 2012.  
 10 92 Q. Let's go to page 11 of this  
 11 investor presentation. And this is the same page  
 12 as exists at Exhibit C to your affidavit?  
 13 A. Correct.  
 14 93 Q. And so page 11 of Cash Store  
 15 Financial's 2012 Investor Presentation is what  
 16 you've attached at Exhibit C to your reply  
 17 affidavit?  
 18 A. That's correct.  
 19 94 Q. And the purpose of the investor  
 20 presentation is to attract investment?  
 21 A. That's correct.  
 22 95 Q. It's to persuade individual and/or  
 23 groups to invest in your company?  
 24 A. That's correct.  
 25 96 Q. Now can we mark this investor

Page 24

1 presentation as the first exhibit?  
 2 MR. PINOS: Sure. 7  
 3 EXHIBIT NO. 1: The Cash Store  
 4 Financial Services Inc. Investor  
 5 Presentation September 2012.  
 6 MR. BALA: What we'll do just for the  
 7 sake of simplicity maybe keep it open on the  
 8 right-hand side here and we'll flip through your  
 9 reply affidavit.  
 10 THE DEPONENT: Sure.  
 11 MR. PINOS: We'll open it up as we need  
 12 it.  
 13 MR. BALA: As you please.  
 14 BY MR. BALA:  
 15 97 Q. Let's go back to your reply  
 16 affidavit at Exhibit C.  
 17 On the very bottom it says:  
 18 "Source: A Report on  
 19 Stakeholder Input by the Payday Loan  
 20 Business Regulation Working  
 21 Committee, Government of Alberta."  
 22 A. That's correct.  
 23 98 Q. Now let's go to... actually let me  
 24 pause just a little bit and go back slightly. Go  
 25 back to paragraph 25 of your reply affidavit.

Page 25

1 Now you say here:  
 2 "Attached as Exhibit 'C' is a  
 3 chart showing the Cash Store  
 4 Financial's short-term loan user  
 5 profile..."  
 6 A. Correct.  
 7 99 Q. But the three pie charts that are  
 8 at Exhibit C to your reply affidavit they were not  
 9 based exclusively on information provided by Cash  
 10 Store Financial, correct?  
 11 A. That's correct.  
 12 100 Q. And these figures were based, just  
 13 like I showed you in the source, on a report  
 14 commissioned by the Government of Alberta?  
 15 A. That's correct.  
 16 101 Q. There's actually even a citation  
 17 on those three pie charts to that Government of  
 18 Alberta report?  
 19 A. I agree.  
 20 102 Q. So instead of calling these three  
 21 pie charts Cash Store Financial's short-term loan  
 22 user profile is it more accurate to call these  
 23 three pie charts a profile of short-term loan users  
 24 in Alberta generally?  
 25 A. Sure. I agree.

1 103 Q. Let's go back to Exhibit C of your  
 2 reply affidavit, the three pie charts. And, again,  
 3 just take a moment to read the source.  
 4 A. Yes.  
 5 104 Q. All right. Now let's go to what  
 6 I'm going to call my supplementary documents.  
 7 Let's go to tab 8 of this document.  
 8 This document at tab 8 is subtitled "A  
 9 Report on Stakeholder Input by the Payday Loan  
 10 Business Regulation Working Committee"; is that  
 11 correct?  
 12 A. That's correct.  
 13 105 Q. And that subtitle matches exactly  
 14 with the title of the source of information in  
 15 Exhibit C of your reply affidavit?  
 16 A. It does not.  
 17 106 Q. What's the difference?  
 18 A. The date. My table refers to a  
 19 February study and this report is dated June 2009.  
 20 107 Q. I'm going to get to the date in  
 21 just a second. But that phrase, "A Report on  
 22 Stakeholder Input by the Payday Loan Business  
 23 Regulation Working Committee" does that match the  
 24 title of the source of information at Exhibit C to  
 25 your reply affidavit?

1 A. It does.  
 2 108 Q. Now on the bottom right-hand  
 3 corner of tab 8 of what I'm calling my  
 4 supplementary documents it states "Government of  
 5 Alberta"?  
 6 A. That's correct.  
 7 109 Q. And that author matches exactly  
 8 with the author stated at the source of Exhibit C  
 9 of your affidavit?  
 10 A. It does.  
 11 110 Q. Your reply affidavit, I'm sorry.  
 12 A. Yes.  
 13 111 Q. Now the discrepancy you pointed  
 14 out in your reply affidavit and this tab 8 of my  
 15 supplementary documents is the date. This one, tab  
 16 8, says June 2009 and at Exhibit C it says February  
 17 2009, correct?  
 18 A. Correct.  
 19 112 Q. Let's go to the second page of my  
 20 tab 8. And this is the table of contents. There's  
 21 a page 127 in the top right corner. Do you see  
 22 that?  
 23 A. I do.  
 24 113 Q. Now the very last item on this  
 25 table of contents page says Exhibit D.

1 MR. PINOS: Appendix.  
 2 MR. BALA: Appendix, I'm so sorry. 8  
 3 Payday Loans Usage and Attitudes - Summary Report,  
 4 Leger Marketing, page 30. Do you see that?  
 5 THE DEPONENT: I do.  
 6 BY MR. BALA:  
 7 114 Q. And this table of contents, as Mr.  
 8 Pinos rightly pointed out, is Appendix D to this  
 9 report.  
 10 A. Okay.  
 11 115 Q. Is that a yes?  
 12 A. That's what it says.  
 13 116 Q. Now let's go to page 30. And at  
 14 page 30 it's the cover page of the study done by  
 15 Leger Marketing; is that correct?  
 16 A. That's correct.  
 17 117 Q. Is there a date on this cover  
 18 page?  
 19 A. February 2009.  
 20 118 Q. And that matches exactly with the  
 21 date of the source cited in Exhibit C to your reply  
 22 affidavit?  
 23 A. That's correct.  
 24 119 Q. Now, Mr. Thompson, not only do the  
 25 dates, the titles and the authors match up, but so

1 do some of the statistics. So let's flip the page,  
 2 let's go to page 2 of this. Are you there?  
 3 A. I am.  
 4 120 Q. Now at section 2 there's... the  
 5 section 2 is entitled Survey Results and there is  
 6 the first subheading under that that states,  
 7 "Characteristics of Payday Loan Users"?  
 8 A. That's correct.  
 9 121 Q. And let's go in that one paragraph  
 10 three lines from the bottom beginning with 46%.  
 11 See that?  
 12 A. Can you please direct me to where  
 13 you are?  
 14 122 Q. You can even look at mine on the  
 15 highlighted portion.  
 16 A. Yes.  
 17 123 Q. And, again, for the record, it's  
 18 under section 2, first subheading, Characteristics  
 19 of Payday Loan Users, three lines from the bottom.  
 20 It says there:  
 21 "46% of users report having  
 22 children in their household under 18  
 23 years of age, versus 39% in the  
 24 general population."  
 25 See that?

Page 30

1 A. I do.

2 124 Q. Now let's go to your reply  
3 affidavit at Exhibit C. And one of the three pie  
4 charts has a subheading that says Family?

5 A. Correct.

6 125 Q. And your pie chart says 46 percent  
7 are with children?

8 A. Correct.

9 126 Q. And that reflects what is cited in  
10 that Alberta study?

11 A. Correct.

12 127 Q. And your pie chart doesn't say  
13 though that that 46 percent is higher than in the  
14 general population.

15 A. That's correct.

16 128 Q. Now in that same paragraph, right  
17 after the sentence I took you to, there is another  
18 sentence, it's the second line up from the bottom  
19 beginning with "users' annual household incomes"?  
20 See that?

21 A. Correct.

22 129 Q. And it says here that:  
23 "Users' annual household  
24 incomes are below average, with 37%  
25 having incomes between \$20,000 and

Page 31

1 \$49,999 per year versus 23% for the  
2 general population."  
3 See that?

4 A. I do.

5 130 Q. So let's look at your three pie  
6 charts in Exhibit C under the one that says Annual  
7 Income.

8 A. Yes.

9 131 Q. And your pie chart says that 37  
10 percent have incomes between 20 and 50K.

11 A. That's correct.

12 132 Q. And that reflects what is cited in  
13 this Alberta study.

14 A. Correct.

15 133 Q. Your pie charts don't say,  
16 however, that users' annual household incomes are  
17 below average as the study does?

18 A. That's correct.

19 134 Q. Now let's go to the next page of  
20 tab 8 to my supplementary documents. There's page  
21 157 in the top right corner.

22 A. Got it.

23 135 Q. So it's 30B on the bottom -- they  
24 didn't come page numbered -- and there's 157 on the  
25 top.

Page 32

1 A. Yes.

2 136 Q. And there's a subheading here that  
3 says, "Motivations for Using Payday Loans"?

4 A. I see it, yes.

5 137 Q. And it says here that:  
6 "Users cite a range of  
7 situations of great need, or  
8 emergency situations in general, as  
9 their reasons for needing payday  
10 loans. The most frequently  
11 mentioned reason for needing a  
12 payday loan is to pay bills or  
13 prevent overdue bills (40%)."  
14 See that?

15 A. I do.

16 138 Q. Now your user loan profile at  
17 Exhibit C doesn't speak of these range of  
18 situations of great need or emergency situations in  
19 general, does it?

20 A. It does not.

21 139 Q. And it doesn't say that of this  
22 range that the most frequently cited reason is that  
23 40 percent of users take out loans to pay bills or  
24 prevent overdue bills?  
25 A. It does not.

Page 33

1 140 Q. Mr. Thompson, this Alberta  
2 Government report provides several statistics that  
3 are included in your Exhibit C and then several  
4 that are not included in your Exhibit C.  
5 And would you agree with me that  
6 including those statistics that you didn't in your  
7 short-term loan user profile would paint a more  
8 comprehensive picture of who uses payday loans in  
9 Alberta?

10 A. Sure. I'd agree with that.

11 141 Q. Now can we mark this as the next  
12 exhibit?

13 MR. PINOS: That's okay.  
14 EXHIBIT NO. 2: Government of Alberta  
15 Payday Loan Business Regulation  
16 Consultation June 2009.  
17 BY MR. BALA:

18 142 Q. Now, Mr. Thompson --  
19 A. Actually, I'd qualify that just to  
20 say it paints a picture. It's a study and it  
21 paints a picture.

22 143 Q. Now, Mr. Thompson, the statistics  
23 cited at Exhibit C of your rely affidavit --  
24 A. Yes.  
25 144 Q. -- were they sourced from this

1 document that I have attached at tab 8 to my  
 2 supplementary documents?  
 3 A. I don't recall if it came  
 4 specifically from this document or another document  
 5 that the Government of Alberta may have produced at  
 6 the time. I don't recall.  
 7 145 Q. Can I get an undertaking as to the  
 8 source, the document, to provide the document cited  
 9 as the source at Exhibit C of your reply affidavit?  
 10 A. Sure. I mean, Tim, you can answer  
 11 that question.  
 12 U/T MR. PINOS: We'll make inquiries, and  
 13 if we can locate it we'll produce it.  
 14 THE DEPONENT: The only reason why I  
 15 say that is because we put this chart together some  
 16 number of years ago, so. That's the only reason  
 17 why I say that.  
 18 MR. BALA: 2009 is the date of the  
 19 study, right? So it was some number of years ago.  
 20 146 Q. Now, Mr. Thompson, we spoke about  
 21 parts of your first and second affidavit where you  
 22 discuss who uses payday loans and why they use  
 23 them, correct?  
 24 A. Correct.  
 25 147 Q. And do you recall testifying about

1 A. Correct.  
 2 154 Q. And you sat next to each other  
 3 while testifying? 10  
 4 A. Correct.  
 5 155 Q. And you testified together?  
 6 A. Correct.  
 7 156 Q. And sometimes he answered a  
 8 question, sometimes you answered a question?  
 9 A. Correct.  
 10 157 Q. And sometimes he elaborated on  
 11 your answers, sometimes you elaborated on his  
 12 answers?  
 13 A. I'd agree with that.  
 14 158 Q. And in the course of your  
 15 testimony you made reference to your operations in  
 16 Ontario?  
 17 A. Correct.  
 18 159 Q. And so did Mr. Reykdal?  
 19 A. Correct.  
 20 160 Q. And in the course of your  
 21 testimony you also made reference to your  
 22 operations nationally?  
 23 A. Correct.  
 24 161 Q. And so did Mr. Reykdal?  
 25 A. Correct.

1 this subject before the Nova Scotia Utility and  
 2 Review Board in November 2010?  
 3 A. I recall testifying before the  
 4 Nova Scotia Utility and Review Board. I can't  
 5 remember if I spoke specifically to the types of  
 6 questions that you just asked me.  
 7 148 Q. Let's back up a little. You do  
 8 recall testifying before the Nova Scotia Utility  
 9 and Review Board in November 2010?  
 10 A. I do.  
 11 149 Q. And you testified at the same time  
 12 as Mr. Reykdal?  
 13 A. That's correct.  
 14 150 Q. Now Gordon Reykdal is the CEO of  
 15 Cash Store Financial?  
 16 A. That's correct.  
 17 151 Q. And he has been with Cash Store  
 18 Financial longer than you have?  
 19 A. Correct.  
 20 152 Q. And he is a higher ranking officer  
 21 of the company than you are?  
 22 A. Correct.  
 23 153 Q. And you and Mr. Reykdal took the  
 24 stand together at the Nova Scotia Utility and  
 25 Review Board in November 2010?

1 162 Q. Let's go to those transcripts at  
 2 page 30, line 3. Are you there?  
 3 A. Yes.  
 4 163 Q. Now at this point there's a  
 5 gentleman by the name Mr. Roberts who asks the  
 6 question that is answered by Mr. Reykdal, and I'm  
 7 just going to read this passage:  
 8 "MR. ROBERTS: And  
 9 approximately what percentage of  
 10 your customers would be repeat  
 11 customers?  
 12 MR. REYKDAL: Okay, this is an  
 13 important point. I think that  
 14 typically our customers at Cash  
 15 Store, once the emergency arises for  
 16 the need for the product or the  
 17 service the customer will come in,  
 18 obtain their loan. Our historical  
 19 data tells us that a customer takes  
 20 about three months, whether they're  
 21 a monthly wage earner or get paid  
 22 every two weeks, about three months  
 23 basically to be able to cycle  
 24 through their issue to be able to  
 25 make sure to get them back on their

1 feet and then our customers become  
 2 very infrequent users after that.  
 3 And in some cases are not users in  
 4 the future at all.  
 5 And our historical -- our data  
 6 shows us that our customer base  
 7 basically turns over 100 percent in  
 8 one year."  
 9 See that, Mr. Thompson?  
 10 A. I do.  
 11 164 Q. So here your company's CEO says  
 12 that your typical customer comes in when an  
 13 emergency arises, and once they are back on their  
 14 feet they become infrequent users or not users at  
 15 all; is that correct?  
 16 A. That's what it says.  
 17 165 Q. And do you agree with that  
 18 statement by your company's CEO?  
 19 A. I agree that's what he said.  
 20 166 Q. So according to your company's CEO  
 21 your typical customers seeks a payday loan to deal  
 22 with a "emergency" and they stop using their  
 23 services when they "get back on their feet"?  
 24 MR. PINOS: Or become infrequent, he  
 25 doesn't distinguish those two. The document speaks

1 with a customer is typically very  
 2 short term so it's not like another 11  
 3 type of financial service like a  
 4 bank where you secure a customer and  
 5 you retain that customer for life or  
 6 build a life-cycle relationship with  
 7 them. So a significant cost of the  
 8 business is attributable to  
 9 basically having to secure new  
 10 customers on an ongoing basis."  
 11 Now here your company's CEO reaffirms  
 12 that your typical customer is on that three-month  
 13 cycle; is that correct?  
 14 A. That's correct.  
 15 169 Q. And you describe your typical  
 16 customer as being "very short term"?  
 17 A. That's correct.  
 18 170 Q. And do you agree with what you  
 19 said and what the company's CEO said in the passage  
 20 I just took you to?  
 21 A. I do.  
 22 171 Q. Can I mark the -- we'll make these  
 23 transcripts the next exhibit.  
 24 MR. PINOS: Are you planning to refer  
 25 to any other passages in these transcripts?

1 for itself. You've read it out loud. That's what  
 2 he says.  
 3 MR. BALA: I take it that's a yes?  
 4 THE DEPONENT: I agree -- I defer to  
 5 what he says in that document, yes.  
 6 BY MR. BALA:  
 7 167 Q. Let's go to where you speak in  
 8 this document. So let's go to page 32, line 6.  
 9 A. Yes.  
 10 168 Q. And again Mr. Roberts is asking  
 11 questions. And I'm going to read this portion of  
 12 the transcript:  
 13 "MR. ROBERTS: You turn over a  
 14 new group of customers every 12  
 15 months is that what you're --  
 16 MR. REYKDAL: Well, our whole  
 17 customer base does. But the typical  
 18 consumer would be about a  
 19 three-month cycle with our -- with  
 20 our company and then after that they  
 21 become very infrequent users, if at  
 22 all, post that.  
 23 MR. THOMPSON: It's a feature of  
 24 our business which is not often  
 25 understood that the relationship

1 MR. BALA: Yes, I am. Then we'll pause  
 2 on it at the moment.  
 3 MR. PINOS: It may be better just to  
 4 mark the packages rather than the whole book.  
 5 MR. BALA: I agree.  
 6 BY MR. BALA:  
 7 172 Q. Now, Mr. Thompson, prior to these  
 8 new regulations, or these 2011 amendments that came  
 9 in, your companies delivered funds by way of  
 10 cheque, debit card and MasterCard; is that correct?  
 11 A. That's correct.  
 12 173 Q. And, again, prior to these new  
 13 regulations both the debit card and MasterCard were  
 14 in some way connected to Direct Cash Bank or DC  
 15 Bank?  
 16 A. I disagree.  
 17 174 Q. They weren't?  
 18 A. I'm sorry?  
 19 175 Q. These were not DC Bank debit cards  
 20 or MasterCards?  
 21 A. Oh, I'm sorry. Yes, they were,  
 22 correct. I apologize.  
 23 MR. PINOS: I think he used the word in  
 24 some way connected. They're DC Bank products.  
 25 MR. BALA: I used a loaded term.

Page 42

1 BY MR. BALA:  
 2 176 Q. Let's go to paragraph 35 of your  
 3 first affidavit.  
 4 Mr. Thompson, I'm sorry, the one thing  
 5 I never told you at the outset of this  
 6 cross-examination is that if there's a time you  
 7 feel you need a break please just tell me. -  
 8 A. No, I'm okay. I just need to get  
 9 a little bit more water, please.  
 10 177 Q. Paragraph 35. Are you at  
 11 paragraph 35?  
 12 A. I am.  
 13 178 Q. You say here that Cash Store  
 14 Financial acts as a limited agent for DC Bank?  
 15 A. That's correct.  
 16 179 Q. And as part of this agency  
 17 relationship Cash Store Financial sells goods and  
 18 services for DirectCash such as debit cards and  
 19 MasterCards?  
 20 MR. PINOS: Can you repeat the  
 21 question? I just want to make sure we get it  
 22 accurately.  
 23 BY MR. BALA:  
 24 180 Q. As part of this agency  
 25 relationship Cash Store Financial sells goods and

Page 43

1 services for DC Bank such as the debit cards and  
 2 MasterCards?  
 3 A. That's correct.  
 4 181 Q. In selling these products, DC Bank  
 5 products, Cash Store Financial receives commissions  
 6 or other kinds of payment?  
 7 R/F MR. PINOS: Don't answer that.  
 8 BY MR. BALA:  
 9 182 Q. Does Cash Store Financial receive  
 10 anything for selling these DC products, or is your  
 11 company doing it totally for free?  
 12 R/F MR. PINOS: Don't answer that.  
 13 BY MR. BALA:  
 14 183 Q. Now I'll even ask this one then,  
 15 assuming that Mr. Pinos allowed that one to go  
 16 forward, I'm going to suggest to you that your  
 17 company does receive some kind of commission from  
 18 DC Bank, and if that's the case, or that is the  
 19 case as I suggest to you, is the rate of commission  
 20 a percentage of all fees, or does it vary by the  
 21 particular DC Bank product or service?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 184 Q. Let's go to Exhibit G of your  
 25 affidavit. This is the DCBank Wallet Agreement?

Page 44

1 A. That's correct.  
 2 185 Q. And in the top right corner there **12**  
 3 is reference to several DirectCash companies?  
 4 A. That's correct.  
 5 186 Q. And you recognize the names of  
 6 these various companies?  
 7 A. I do.  
 8 187 Q. And they are all related to DC  
 9 Bank?  
 10 MR. PINOS: Let's correct that. DC  
 11 Bank is a federally chartered bank. DirectCash,  
 12 which I think is now called DirectCash Management,  
 13 is a separate entity. There is a relationship  
 14 between them, but one isn't a subsidiary of the  
 15 other.  
 16 MR. BALA: I wasn't even asking that,  
 17 but thank you.  
 18 MR. PINOS: You lumped them together as  
 19 if they were one entity and they are two separate  
 20 businesses.  
 21 BY MR. BALA:  
 22 188 Q. I actually just asked if the name  
 23 of several DirectCash companies appears in the top  
 24 right-hand corner.  
 25 MR. PINOS: You referred to this as a

Page 45

1 DC Bank agreement. It's a DirectCash and DC Bank  
 2 agreement.  
 3 MR. BALA: Oh. My apologies, Mr.  
 4 Pinos.  
 5 MR. PINOS: I just wanted to make sure  
 6 that's clear.  
 7 THE DEPONENT: What I would agree with,  
 8 just to be clear, because I can't really -- I'm not  
 9 an authorized spokesperson for DirectCash. I  
 10 didn't build their business model. What I'll agree  
 11 to is there's a list of companies in the top  
 12 right-hand corner of this document.  
 13 BY MR. BALA:  
 14 189 Q. And you recognize the names of  
 15 these companies?  
 16 A. I do.  
 17 190 Q. And as Mr. Pinos said, there is a  
 18 relationship, though not a subsidiary relationship,  
 19 a relationship between those companies and DC Bank?  
 20 MR. PINOS: Do you know?  
 21 THE DEPONENT: I don't know, or I can't  
 22 say definitively.  
 23 BY MR. BALA:  
 24 191 Q. Can I get an undertaking then to  
 25 get an answer to that question?

1 U/A MR. PINOS: I'll take that under  
 2 advisement. I think if you Google the two names  
 3 you'll come up -- DirectCash used to be an income  
 4 trust and is now I think back to being a publicly  
 5 traded company. So what we know is what's there.  
 6 And they refer to a relationship between DirectCash  
 7 and DC Bank, but I'll take it under advisement.

8 BY MR. BALA:

9 192 Q. There is a box in the middle of  
 10 this page that says, "Current Fees & Program  
 11 Details"?

12 A. I see that, yes.

13 193 Q. Now in the top left box under that  
 14 section it says, "ATM Cash Advance." Do you see  
 15 that?

16 A. I do.

17 194 Q. Now what is an ATM cash advance?

18 A. I assume that's when a person goes  
 19 to an ATM and takes money out.

20 195 Q. And so would it include  
 21 withdrawing money from a payday loan?

22 A. It could. Well, no. Actually,  
 23 no. No, it would not.

24 MR. PINOS: Do you know?

25 THE DEPONENT: I don't know. This is

1 BY MR. BALA:

2 200 Q. Assuming you did answer that, how  
 3 much of that \$2.50 fee would Cash Store Financial  
 4 receive in commission or otherwise?

5 R/F MR. PINOS: Don't answer that.

6 BY MR. BALA:

7 201 Q. Let's go to the second box from  
 8 the left. This one is, "Debit Card Funds  
 9 Transfer." Do you see that?

10 A. Yes, I see that.

11 202 Q. Now, Mr. Thompson, what is a debit  
 12 card funds transfer?

13 A. I assume that that --

14 MR. PINOS: Don't assume. Answer the  
 15 question if you know.

16 THE DEPONENT: Sorry. I understand  
 17 that to mean when monies are transferred into a  
 18 bank account to which a debit card is connected.

19 BY MR. BALA:

20 203 Q. Sorry, you said I understand that  
 21 to me?

22 A. I understand that to mean.

23 204 Q. Oh, okay. Now does Cash Store  
 24 Financial receive any portion of this fee in any  
 25 way?

1 not my chart. This is not my chart.

2 BY MR. BALA:

3 196 Q. Do your employees give this chart  
 4 to your customers?

5 A. They do.

6 197 Q. They do? And you don't know  
 7 anything about this chart?

8 A. What I would say is that I  
 9 understand the list of fees that are in this chart.  
 10 Or frankly I'll just be direct. Your question  
 11 about whether or not it includes a withdrawal from  
 12 a payday loan from my perspective is a loaded  
 13 question and I'm reluctant to answer it. I'll  
 14 be... it includes withdrawing money from a bank  
 15 machine.

16 198 Q. And suppose a payday loan got put  
 17 onto a card and I went into a bank machine and then  
 18 I withdrew that money, that circumstance would be  
 19 covered by the ATM Cash Advance fee?

20 A. Conceivably, yes.

21 199 Q. And the first box, again that ATM  
 22 Cash Advance fee of \$2.50, does Cash Store  
 23 Financial receive any portion of this fee in any  
 24 way?

25 R/F MR. PINOS: Don't answer that.

1 R/F MR. PINOS: Don't answer that.

2 BY MR. BALA:

3 205 Q. How much of that \$1.75 fee would  
 4 Cash Store Financial receive in commission or  
 5 otherwise?

6 R/F MR. PINOS: Don't answer that.

7 BY MR. BALA:

8 206 Q. The next box to the right it says,  
 9 "Requested Transaction Decline"?

10 A. I see that.

11 207 Q. And it's a fee of \$0.50?

12 A. I see that.

13 208 Q. What is a requested transaction  
 14 decline?

15 A. I don't know.

16 209 Q. Can I get an undertaking to  
 17 provide the answer to what is a requested  
 18 transaction decline?

19 R/F MR. PINOS: No.

20 BY MR. BALA:

21 210 Q. Does Cash Store Financial receive  
 22 any portion of this \$0.50 fee in any way?

23 R/F MR. PINOS: Don't answer that.

24 BY MR. BALA:

25 211 Q. How much of that \$0.50 fee would

1 Cash Store Financial receive in commission or  
 2 otherwise?  
 3 R/F MR. PINOS: Don't answer that.  
 4 BY MR. BALA:  
 5 212 Q. The top right box of the first  
 6 column it states, "Balance Inquiry"?  
 7 A. I see that.  
 8 213 Q. What does that mean?  
 9 A. I believe that means when a person  
 10 goes to their DC Bank account... when they go to  
 11 the DC Bank site to determine what the balance in  
 12 their account is.  
 13 214 Q. And you said "site" you mean  
 14 website?  
 15 A. That's correct.  
 16 215 Q. And would this apply if I wanted  
 17 to see how much of my payday loan I had left?  
 18 MR. PINOS: Do you know?  
 19 THE DEPONENT: No.  
 20 BY MR. BALA:  
 21 216 Q. Can I get an undertaking to find  
 22 that out?  
 23 R/F MR. PINOS: No.  
 24 BY MR. BALA:  
 25 217 Q. Does Cash Store receive any

1 R/F MR. PINOS: Don't answer that.  
 2 BY MR. BALA:  
 3 224 Q. How much of that \$17.95 fee would **14**  
 4 Cash Store Financial receive in commission or  
 5 otherwise?  
 6 R/F MR. PINOS: Don't answer that.  
 7 BY MR. BALA:  
 8 225 Q. Let's move to the next box on the  
 9 right, and this one is called, "Additional Advance  
 10 Limit EFT/Added (Card Load)"?  
 11 A. I see that.  
 12 226 Q. What does that mean?  
 13 A. Don't know.  
 14 227 Q. Can I get an undertaking to tell  
 15 us what does, "Additional Advance Limit EFT/Added  
 16 (Card Load)" mean as is used at Exhibit G?  
 17 R/F MR. PINOS: No.  
 18 BY MR. BALA:  
 19 228 Q. Does Cash Store Financial receive  
 20 any portion of this fee?  
 21 R/F MR. PINOS: Don't answer that.  
 22 BY MR. BALA:  
 23 229 Q. How much of that \$2.50 fee would  
 24 Cash Store Financial receive in commission or  
 25 otherwise?

1 portion of this fee in any way?  
 2 R/F MR. PINOS: Don't answer that.  
 3 BY MR. BALA:  
 4 218 Q. How much of that \$1.75 fee would  
 5 your companies receive in commission or otherwise?  
 6 R/F MR. PINOS: Don't answer that.  
 7 BY MR. BALA:  
 8 219 Q. Now under that box, Current Fees &  
 9 Program Details, there are two sets of fees that  
 10 are separated by essentially a blank line space?  
 11 See that?  
 12 A. Yes.  
 13 220 Q. The second set begins with, "Card  
 14 Activation (first time) Fee." Do you see that?  
 15 A. I do.  
 16 221 Q. Now what is a card activation  
 17 (first time) fee?  
 18 A. It's a fee that DC Bank charges to  
 19 a consumer who purchases a card to activate their  
 20 card.  
 21 222 Q. Does it apply to the debit card,  
 22 the MasterCard or both?  
 23 A. I believe it applies to both.  
 24 223 Q. Now does Cash Store Financial  
 25 receive any portion of this fee in any way?

1 R/F MR. PINOS: Don't answer that.  
 2 BY MR. BALA:  
 3 230 Q. Let's move to the right at the top  
 4 box in the next column and that one is called  
 5 Deactivation Fee?  
 6 A. I see that.  
 7 231 Q. Mr. Thompson, what does deactivate  
 8 mean in this context?  
 9 A. I don't know.  
 10 232 Q. Can I get an undertaking to answer  
 11 that question?  
 12 R/F MR. PINOS: No.  
 13 BY MR. BALA:  
 14 233 Q. How does a customer deactivate  
 15 their card?  
 16 A. I don't know.  
 17 234 Q. Can I get an undertaking to answer  
 18 that question?  
 19 R/F MR. PINOS: No.  
 20 BY MR. BALA:  
 21 235 Q. Does the fee apply for both the  
 22 debit and MasterCard?  
 23 R/F MR. PINOS: Don't answer that.  
 24 BY MR. BALA:  
 25 236 Q. Does Cash Store Financial receive



Page 54

1 any portion of this fee in any way?  
 2 R/F MR. PINOS: Don't answer that.  
 3 BY MR. BALA:  
 4 237 Q. How much of that fee, I believe  
 5 it's a \$3.00 fee, would your companies receive in  
 6 commission or otherwise?  
 7 R/F MR. PINOS: Don't answer that.  
 8 BY MR. BALA:  
 9 238 Q. Now the next row, the first  
 10 column, this box is entitled Monthly Fee for DCBank  
 11 Account?  
 12 A. I see that.  
 13 239 Q. Now what does this mean?  
 14 A. That's a fee that DirectCash  
 15 charges to holders of bank accounts.  
 16 240 Q. Does it apply to bank accounts  
 17 linked with the debit card, the MasterCard or both?  
 18 A. Can you ask that question again,  
 19 please?  
 20 241 Q. Does it apply to bank accounts  
 21 linked to -- see you have a box here that says  
 22 DCBank debit card and DCBank MasterCard?  
 23 A. Yes.  
 24 242 Q. Does it apply to both the DCBank  
 25 Account debit card and the DCBank Account

Page 55

1 MasterCard?  
 2 A. I believe so, yes.  
 3 243 Q. Now there's a footnote 3 showing  
 4 on the Monthly Fee for DCBank Account. Do you see  
 5 that?  
 6 A. I do.  
 7 244 Q. And footnote 3 states that this  
 8 fee applies regardless of whether the card is  
 9 active or deactive.  
 10 A. That's what it says.  
 11 245 Q. Does Cash Store Financial receive  
 12 any portion of this fee in any way?  
 13 R/F MR. PINOS: Don't answer that.  
 14 BY MR. BALA:  
 15 246 Q. How much of that \$9.95 fee would  
 16 Cash Store Financial receive in commission or  
 17 otherwise?  
 18 R/F MR. PINOS: Don't answer that.  
 19 BY MR. BALA:  
 20 247 Q. Let's move right to the box to the  
 21 right, and this one is called Monthly Fee Per  
 22 Interac Debit Prepaid Card?  
 23 A. I see that.  
 24 248 Q. Now what does this mean?  
 25 A. I don't know.

Page 56

1 249 Q. Can I get an undertaking?  
 2 R/F MR. PINOS: No. 15  
 3 BY MR. BALA:  
 4 250 Q. Let me finish asking for my  
 5 undertaking.  
 6 MR. PINOS: Oh, sorry, you paused. I  
 7 thought that was the end.  
 8 BY MR. BALA:  
 9 251 Q. Can I get an undertaking to  
 10 explain what is meant at Exhibit G by Monthly Fee.  
 11 Per Interac Debit Prepaid Card?  
 12 R/F MR. PINOS: No.  
 13 MR. BALA: Thank you, Mr. Pinos.  
 14 BY MR. BALA:  
 15 252 Q. Is this fee paid monthly by  
 16 everyone that has a debit card?  
 17 MR. PINOS: Do you know?  
 18 THE DEPONENT: I don't. It's not my  
 19 agreement. So I just have to be careful about what  
 20 I say about it because it's not my agreement.  
 21 BY MR. BALA:  
 22 253 Q. It is included at Exhibit G of  
 23 your affidavit.  
 24 A. I understand that.  
 25 254 Q. And your employees do provide

Page 57

1 copies of this to your customers?  
 2 A. That's correct.  
 3 255 Q. And footnote 3 here states that  
 4 this fee is applied to both active and deactivated  
 5 cards?  
 6 A. Footnote 3 says:  
 7 "If there is more than 1  
 8 Advance Limit authorized for a  
 9 prepaid card, only 1 monthly fee  
 10 will be charged. This fee applies  
 11 to both active and deactivated  
 12 Prepaid Cards."  
 13 256 Q. So it says this fee applies to  
 14 both activated and deactivated cards?  
 15 A. It says, "This fee applies to both  
 16 active and deactivated Prepaid Cards", yes.  
 17 257 Q. Does Cash Store Financial receive  
 18 any portion of this fee in any way?  
 19 R/F MR. PINOS: Don't answer that.  
 20 BY MR. BALA:  
 21 258 Q. How much of that \$4.95 fee would  
 22 Cash Store Financial receive in commission or  
 23 otherwise?  
 24 R/F MR. PINOS: Don't answer that.  
 25 BY MR. BALA:

Page 58

1 259 Q. Let's go to the next box to the  
 2 right. Now this states, Monthly Fee Per MasterCard  
 3 Credit Prepaid Card.  
 4 A. That's what it says, yes.  
 5 260 Q. What does it mean?  
 6 A. I believe that means it's a fee  
 7 that DCBank charges to its customers for a  
 8 MasterCard prepaid card.  
 9 261 Q. And they charge it every month?  
 10 A. This is what I understand, yes.  
 11 262 Q. And it's a fee that's paid by  
 12 everyone that has a MasterCard?  
 13 A. I believe so, yes.  
 14 263 Q. And again footnote 3 applies to  
 15 it?  
 16 A. That's what it says.  
 17 264 Q. And so that fee applies to both  
 18 active and deactivated cards?  
 19 A. That's what it says.  
 20 265 Q. Does Cash Store Financial receive  
 21 any portion of this fee in any way?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 266 Q. How much of that \$7.95 fee would  
 25 Cash Store Financial receive in commission or

Page 59

1 otherwise?  
 2 R/F MR. PINOS: Don't answer that.  
 3 BY MR. BALA:  
 4 267 Q. If there's only a less painful way  
 5 we could do this, Mr. Pinos, I'm all ears.  
 6 The last row, first column, box on the  
 7 left-hand side, it says, "Monthly Dormant Account  
 8 Fee." See that?  
 9 A. I do.  
 10 268 Q. Now what does this mean?  
 11 A. I don't know.  
 12 269 Q. Can I get an undertaking?  
 13 R/F MR. PINOS: No.  
 14 MR. BALA: Perhaps let me finish the  
 15 undertaking.  
 16 MR. PINOS: Sorry.  
 17 BY MR. BALA:  
 18 270 Q. Mr. Pinos, or Mr. Thompson, can I  
 19 get an undertaking as to what is meant by Monthly  
 20 Dormant Account Fee as stated in Exhibit G of your  
 21 affidavit in the Current Fees & Program Details set  
 22 of boxes?  
 23 R/F MR. PINOS: No.  
 24 BY MR. BALA:  
 25 271 Q. So how would dormancy be

Page 60

1 calculated?  
 2 A. I don't know. 16  
 3 272 Q. Can I get an undertaking to answer  
 4 that?  
 5 R/F MR. PINOS: No.  
 6 BY MR. BALA:  
 7 273 Q. Does it apply to the DCBank  
 8 account debit card?  
 9 A. According to the footnote here,  
 10 yes. Wait. Sorry, sorry, sorry. I don't know.  
 11 274 Q. Does it apply -- can I get an  
 12 undertaking to that effect?  
 13 R/F MR. PINOS: No.  
 14 BY MR. BALA:  
 15 275 Q. Does it apply to the DCBank  
 16 account MasterCard?  
 17 A. Don't know.  
 18 276 Q. Can I get an undertaking to  
 19 provide that information?  
 20 R/F MR. PINOS: No.  
 21 BY MR. BALA:  
 22 277 Q. Footnote 3 again applies to this?  
 23 A. That's what it says.  
 24 278 Q. And this is a monthly dormant  
 25 account fee, and footnote 3 says that that fee

Page 61

1 applies to deactivated cards. So how can a  
 2 deactivated card go dormant?  
 3 A. I can't answer that question. I  
 4 don't know.  
 5 279 Q. Can I get an undertaking to answer  
 6 that question?  
 7 R/F MR. PINOS: No.  
 8 BY MR. BALA:  
 9 280 Q. Does Cash Store Financial receive  
 10 any portion of this fee in any way?  
 11 R/F MR. PINOS: Don't answer that.  
 12 BY MR. BALA:  
 13 281 Q. How much of that \$10.70 would Cash  
 14 Store Financial receive in commission or otherwise?  
 15 R/F MR. PINOS: Don't answer that.  
 16 BY MR. BALA:  
 17 282 Q. Let's move two boxes to the right.  
 18 This one is called Statement Fee?  
 19 A. I see that.  
 20 283 Q. What does that mean?  
 21 A. Don't know.  
 22 284 Q. Can I get an undertaking to answer  
 23 the question of what is meant by Statement Fee at  
 24 Exhibit G of your affidavit --  
 25 MR. PINOS: No.

Page 62

1 BY MR. BALA:  
 2 285 Q. -- in the section I've just taken  
 3 you to?  
 4 R/F MR. PINOS: No.  
 5 BY MR. BALA:  
 6 286 Q. Thank you, Mr. Pinos. Does it  
 7 apply to all debit cards and MasterCard?  
 8 A. I don't know.  
 9 287 Q. Can I get an undertaking to that  
 10 effect?  
 11 R/F MR. PINOS: No.  
 12 BY MR. BALA:  
 13 288 Q. Does it apply to the DCBank  
 14 accounts?  
 15 A. Don't know.  
 16 289 Q. Can I get an undertaking to that  
 17 effect?  
 18 R/F MR. PINOS: No.  
 19 BY MR. BALA:  
 20 290 Q. How does it differ from the  
 21 balance inquiry fee that your customers are charged  
 22 \$1.75 for?  
 23 A. I would say that --  
 24 MR. PINOS: Do you know?  
 25 THE DEPONENT: I would say the salient

Page 63

1 point here is that these DCBank's customers, not my  
 2 customers, or excuse me, not the customers of Cash  
 3 Store. So these are fees charged to customers by  
 4 DCBank.  
 5 BY MR. BALA:  
 6 291 Q. So in response to my question how  
 7 does it differ from the balance inquiry fee that  
 8 your customers are charged \$1.75 for?  
 9 MR. PINOS: You said your customers.  
 10 You mean DCBank customers are charged this.  
 11 BY MR. BALA:  
 12 292 Q. How does it differ from the  
 13 balance inquiry fee that customers are charged  
 14 \$1.75 for?  
 15 A. Don't know.  
 16 293 Q. Can I get an undertaking to answer  
 17 that question?  
 18 R/F MR. PINOS: No.  
 19 BY MR. BALA:  
 20 294 Q. Does Cash Store Financial receive  
 21 any portion of this fee in any way?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 295 Q. How much of that \$2.25 would Cash  
 25 Store Financial receive in commission or otherwise?

Page 64

1 R/F MR. PINOS: Don't answer that.  
 2 BY MR. BALA: 17  
 3 296 Q. Let's move one box below. We're  
 4 at the end of these boxes, Mr. Thompson.  
 5 A. That's good, because I need to  
 6 take a break. So I was going to ask you how much  
 7 longer you were going to spend on this document.  
 8 297 Q. We'll finish off with these boxes  
 9 and then we'll go from there, is that okay?  
 10 A. That's great.  
 11 298 Q. So the box below this one is  
 12 called Live/Telephone Customer Service. Do you see  
 13 that?  
 14 A. I do.  
 15 299 Q. What does this mean?  
 16 A. Don't know.  
 17 300 Q. Can I get an undertaking to  
 18 provide an answer to my question?  
 19 R/F MR. PINOS: No.  
 20 BY MR. BALA:  
 21 301 Q. Do you know what types of things  
 22 people would call live customer service for in the  
 23 context of a bank card or debit card?  
 24 A. You would have to ask DCBank.  
 25 302 Q. Could I get an undertaking to

Page 65

1 answer that question?  
 2 R/F MR. PINOS: No.  
 3 BY MR. BALA:  
 4 303 Q. Does Cash Store Financial receive  
 5 any portion of this fee in any way?  
 6 R/F MR. PINOS: Don't answer that.  
 7 BY MR. BALA:  
 8 304 Q. How much of that \$2.50 would your  
 9 companies receive in commission or otherwise?  
 10 R/F MR. PINOS: Don't answer that.  
 11 MR. BALA: All right, Mr. Thompson,  
 12 time for your break.  
 13 THE DEPONENT: Thank you.  
 14 -- Recess at 11:06 a.m.  
 15 -- On resuming at 11:17 a.m.  
 16 BY MR. BALA:  
 17 305 Q. Mr. Thompson, this might be a  
 18 question for Mr. Pinos as well. You refused a  
 19 number of questions, both the questions and the  
 20 undertakings based on Exhibit G of your first  
 21 affidavit going to what the particular item is  
 22 listed under the Current Fees & Program Details  
 23 boxes and any revenues made by Cash Store Financial  
 24 with DCBank. What is the basis of your refusals?  
 25 MR. PINOS: Two-part. One is

1 relevance. It's not relevant to a judicial review  
 2 challenging the vires or otherwise of the  
 3 regulations. Secondly, these are matters within  
 4 the knowledge of DCBank and not the Cash Store.  
 5 So if Mr. Thompson happened to know  
 6 about what something was, that's fine, but we're  
 7 not required to make inquiries of third parties in  
 8 order to answer any definitional questions you may  
 9 have.

10 BY MR. BALA:

11 306 Q. On that note, Mr. Pinos, sticking  
 12 with Exhibit G, Mr. Thompson, do your employees  
 13 explain these fees to the customer?

14 R/F MR. PINOS: Don't answer that.

15 BY MR. BALA:

16 307 Q. Are your employees instructed to  
 17 explain these fees to the customer?

18 R/F MR. PINOS: Don't answer that.

19 BY MR. BALA:

20 308 Q. How are your employees instructed  
 21 to explain these fees to the customer?

22 R/F MR. PINOS: Don't answer that.

23 BY MR. BALA:

24 309 Q. Do your staff receive any training  
 25 materials, policies, communications, any documents

1 of this nature with respect to what these fees are  
 2 and how to explain them to customers?

3 R/F MR. PINOS: Don't answer that.

4 BY MR. BALA:

5 310 Q. Can I get an undertaking to  
 6 provide -- well there's no sense in asking for the  
 7 undertaking, you've refused it, Mr. Pinos. But  
 8 what I would like, as an undertaking, is copies of  
 9 any training materials, policies, communications,  
 10 with respect to the fees, DCBank fees, how your  
 11 employees explain them to customers and what these  
 12 fees are?

13 R/F MR. PINOS: No.

14 BY MR. BALA:

15 311 Q. And, again, Mr. Pinos, the reason  
 16 for your refusal is as stated earlier?

17 MR. PINOS: Yes. Primarily relevance.

18 BY MR. BALA:

19 312 Q. Mr. Thompson, how are all of the  
 20 fees here paid? Does DCBank send a bill to the  
 21 customers at the end of every month?

22 R/F MR. PINOS: Don't answer that.

23 BY MR. BALA:

24 313 Q. Now at Exhibit G again, the first  
 25 set of boxes. It says, "Customer Information &

1 Agreement"?

2 A. That's what it says.

18

3 314 Q. And there is a box that says  
 4 customer's signature in that first set?

5 A. Yes.

6 315 Q. Now next to it it says, "Purpose  
 7 For The Prepaid Card/Account." Do you see that?

8 A. I do.

9 316 Q. What do your employees put in that  
 10 box?

11 R/F MR. PINOS: Don't answer that.

12 BY MR. BALA:

13 317 Q. Do they ever write payday loan?

14 R/F MR. PINOS: Don't answer that.

15 BY MR. BALA:

16 318 Q. Do they ever write anything  
 17 synonymous with payday loan?

18 R/F MR. PINOS: Don't answer that.

19 BY MR. BALA:

20 319 Q. Mr. Thompson, what percentage of  
 21 your customers purchase DCBank products without  
 22 purchasing a payday loan?

23 R/F MR. PINOS: Don't answer that.

24 BY MR. BALA:

25 320 Q. Can I get an undertaking? I guess

1 no.

2 Mr. Thompson, when customers purchase  
 3 DCBank products they do so at the particular Cash  
 4 Store or Instalozans branch?

5 A. That's correct.

6 321 Q. And they interact with employees  
 7 of Cash Store Financial in making an agreement to  
 8 purchase DCBank products?

9 A. That's correct.

10 322 Q. Do you track how many DCBank  
 11 products have been sold by your employees?

12 R/F MR. PINOS: Don't answer that.

13 BY MR. BALA:

14 323 Q. Does anyone track how many DCBank  
 15 products are sold by your employees?

16 R/F MR. PINOS: Don't answer that.

17 BY MR. BALA:

18 324 Q. Do your employees receive any  
 19 commissions when any DCBank product is bought or  
 20 sold?

21 A. No.

22 MR. PINOS: Don't answer that.

23 BY MR. BALA:

24 325 Q. Does the ability to sell DCBank  
 25 products appear in any formal or informal

Page 70

1 performance reviews?  
 2 R/F MR. PINOS: Don't answer that.  
 3 BY MR. BALA:  
 4 326 Q. If one of your employees never  
 5 sold DCBank products what would the consequences  
 6 be?  
 7 R/F MR. PINOS: Don't answer that.  
 8 BY MR. BALA:  
 9 327 Q. Are there any scripts provided to  
 10 your employees or other training materials on how  
 11 to sell DCBank products?  
 12 R/F MR. PINOS: Don't answer that.  
 13 BY MR. BALA:  
 14 328 Q. Can I get an undertaking to  
 15 provide any copies of documents, of scripts,  
 16 training materials, etcetera, on how to sell DCBank  
 17 materials?  
 18 R/F MR. PINOS: Don't answer that.  
 19 BY MR. BALA:  
 20 329 Q. Now, Mr. Thompson, is there a  
 21 relationship between DirectCash Management,  
 22 DirectCash Bank and DirectCash payments?  
 23 MR. PINOS: Do you know?  
 24 THE DEPONENT: I couldn't speak, no.  
 25 BY MR. BALA:

Page 71

1 330 Q. Can I get an undertaking as to  
 2 whether there is a relationship between DirectCash  
 3 Management, DirectCash payment and Direct Cash  
 4 Bank?  
 5 R/F MR. PINOS: Not from us.  
 6 MR. BALA: That's a no?  
 7 MR. PINOS: That's correct.  
 8 BY MR. BALA:  
 9 331 Q. Mr. Thompson, does Cash Store  
 10 Financial also have a relationship with DirectCash  
 11 Management Inc.?  
 12 A. What do you mean?  
 13 332 Q. Let's go to your reply affidavit  
 14 at Exhibit A.  
 15 You guys may need to put your glasses  
 16 on. It's written in very small lettering. Page 21  
 17 of your supplementary record?  
 18 A. Yes.  
 19 333 Q. The first sentence in the  
 20 paragraph under where it states Account Number?  
 21 A. Yes.  
 22 334 Q. It states that DirectCash  
 23 Management Inc. is the electronic transaction  
 24 service provider for Instaloes.  
 25 A. Okay.

Page 72

1 335 Q. Do you see that?  
 2 A. I do. 19  
 3 336 Q. Now what is DC Management doing  
 4 for you when it's providing electronic transaction  
 5 services?  
 6 A. In the case of this agreement,  
 7 this is a pre-authorized debit agreement through  
 8 which loans can be deducted from a bank account  
 9 provided to us in respect of payment of their loan.  
 10 So if a customer takes a loan from us  
 11 they would typically sign a pre-authorized debit  
 12 agreement, and they may ask us to get payment from  
 13 their loan using that pre-authorized debit  
 14 agreement, or they may come in and pay out their  
 15 loan using a cheque. DirectCash Bank is the  
 16 service provider with respect to pre-authorized  
 17 debit.  
 18 337 Q. So it's for Cash Store Financial,  
 19 it's to take money out of the borrower or  
 20 customer's bank account DirectCash Management helps  
 21 you, facilitates the taking that money out of your  
 22 customer's bank account and giving it to you?  
 23 A. Just to be clear, so that we  
 24 understand what I mean, if you purchased a car and  
 25 you had a monthly pre-authorized debit to take a

Page 73

1 payment from your account there would be a service  
 2 provider that would facilitate the taking of that  
 3 payment. So the parallel here would be is that's  
 4 the service that DirectCash Management provides  
 5 with respect to pre-authorized debit.  
 6 338 Q. Now, Mr. Thompson, what is the  
 7 total amount of revenue that is either owing or has  
 8 been received by Cash Store Financial as a result  
 9 of its limited agency agreement with DCBank?  
 10 R/F MR. PINOS: Don't answer that.  
 11 BY MR. BALA:  
 12 339 Q. Why don't we go to Mr. Pitkin's  
 13 affidavit at Exhibit P?  
 14 Do you recognize this document?  
 15 A. I do.  
 16 340 Q. What is it?  
 17 A. It's our financial statements for  
 18 the three and nine months ended June 30, 2012.  
 19 341 Q. Would you agree with me that these  
 20 financial statements are posted on your company's  
 21 website?  
 22 A. I do.  
 23 342 Q. Let's go to page 17 of your  
 24 financial statements. It's page 243 of the  
 25 responding record.

Page 74

1 A. Yes.

2 343 Q. In the very middle of this page

3 there is a subheading that states Due from Vendors.

4 A. I see that.

5 344 Q. Now, in that paragraph it states

6 that there is money owing and has been received

7 from DirectCash Payments Inc.?

8 A. That's correct.

9 345 Q. Now, please explain to me how much

10 money is owing and has been received from

11 DirectCash Payments Inc.?

12 R/F MR. PINOS: Don't answer that.

13 MR. BALA: For the same grounds as you

14 stated earlier?

15 MR. PINOS: Yes. That's correct.

16 BY MR. BALA:

17 346 Q. Mr. Thompson, does this money

18 owing and paid have anything to do with Cash Store

19 Financial's agency agreement with DCBank?

20 R/F MR. PINOS: Don't answer that.

21 BY MR. BALA:

22 347 Q. Are the payments listed from DC

23 Payments Inc. in this paragraph in your company's

24 financial statements is it with respect to goods or

25 services that Cash Store Financial has sold for

Page 75

1 DCBank?

2 R/F MR. PINOS: Don't answer that.

3 BY MR. BALA:

4 348 Q. When did Cash Store Financial

5 enter into its limited agency agreement with DCBank

6 that you speak of in your first affidavit?

7 R/F MR. PINOS: Don't answer that.

8 BY MR. BALA:

9 349 Q. Can I get an undertaking for a

10 copy of Cash Store Financial's limited agency

11 agreement with DCBank?

12 R/F MR. PINOS: No.

13 BY MR. BALA:

14 350 Q. All right. In both your first and

15 your second affidavit you say that customers can

16 receive their loans by way of cheque, correct?

17 A. In Ontario, no. In other

18 provinces, yes.

19 351 Q. Sorry. Prior to November 2010 you

20 say in at least your second affidavit that

21 customers could receive their loan by way of

22 cheque?

23 A. That's correct.

24 MR. PINOS: Sorry. I don't understand

25 the November 2010 date. Can we stop there? Can

Page 76

1 you explain why you use that date? Because I don't

2 understand the context of that. 20

3 MR. BALA: I apologize. It wasn't

4 prior to November 2010. It's prior to September

5 2011.

6 MR. PINOS: Okay. In Ontario?

7 BY MR. BALA:

8 352 Q. In Ontario. Is that correct?

9 A. That's correct.

10 MR. PINOS: Let's make the answer

11 complete. Prior to September 1, 2011 Cash Store

12 customers in Ontario could receive their loan

13 proceeds by way of cheque.

14 THE DEPONENT: That's correct.

15 BY MR. BALA:

16 353 Q. You said November. Prior to

17 September 2011?

18 A. That's correct.

19 354 Q. You just confused it more, Mr.

20 Pinos. Now I'm going to use the November 2010

21 date. Prior to November 2010 if a customer wanted

22 payment by way of cheque, the cheque was not

23 printed at the Cash Store or Instalozans branch?

24 A. For specificity I believe that the

25 capacity to print the cheque in the branch was

Page 77

1 implemented on October 27th, if I remember

2 correctly.

3 355 Q. October 27, 2010?

4 A. That's correct.

5 356 Q. So we'll use October 27, 2010.

6 A. I believe that's the date it was

7 implemented, but on or about that time, yes.

8 357 Q. So on or about October 27, 2010 if

9 a customer wanted payment by way of cheques these

10 cheques were not printed at the branch?

11 A. That's correct.

12 358 Q. And prior to October 27, 2010

13 where physically were these cheques being printed

14 for a customer in Ontario?

15 A. I believe they were printed at our

16 head office.

17 359 Q. Where is your head office?

18 A. In Edmonton.

19 360 Q. Edmonton, Alberta?

20 A. That's correct.

21 361 Q. Prior to October 2010 were these

22 cheques sent to customers who requested loans by

23 way of cheque in Ontario by regular mail?

24 A. No.

25 362 Q. How were they sent?

Page 78

1 A. They would have been sent by  
 2 courier.  
 3 363 Q. What kind of courier?  
 4 A. I assume Federal Express.  
 5 364 Q. Overnight? Same day?  
 6 MR. PINOS: Do you know?  
 7 THE DEPONENT: Overnight I'm going to  
 8 say.  
 9 BY MR. BALA:  
 10 365 Q. Can I get an undertaking to  
 11 confirm?  
 12 U/T MR. PINOS: We'll undertake to make  
 13 inquiries, and if we still have that information  
 14 we'll let you know.  
 15 BY MR. BALA:  
 16 366 Q. Prior to October 2010 if a  
 17 customer in Toronto asked for their funds by way of  
 18 cheque could your employees tell them exactly what  
 19 time they would receive their cheque?  
 20 A. No.  
 21 367 Q. Again, prior to October 2010,  
 22 October 27, 2010, was there any training provided  
 23 to any of your employees on what to say when a  
 24 customer asked how long it would take for them to  
 25 receive a cheque?

Page 79

1 U/A MR. PINOS: I'll take that under  
 2 advisement.  
 3 BY MR. BALA:  
 4 368 Q. Please also then take under  
 5 advisement or answer my undertaking for any  
 6 training material, scripts, policies or  
 7 communications to your employees, and copies of  
 8 those materials, with respect to what to say to a  
 9 customer when they asked how long it will take for  
 10 my cheque to come?  
 11 U/A MR. PINOS: Same answer. We'll take  
 12 that under advisement.  
 13 BY MR. BALA:  
 14 369 Q. Now, prior to October 27, 2010 if  
 15 I was a customer in Toronto and I needed a payday  
 16 loan to for example buy groceries that same day I  
 17 couldn't avail myself of your cheque option, could  
 18 I?  
 19 R/F MR. PINOS: Don't answer that.  
 20 BY MR. BALA:  
 21 370 Q. The cheque, prior to October 27,  
 22 2010, wouldn't be in my hand within an hour or two  
 23 hours, three hours, four hours, would it?  
 24 A. That's correct.  
 25 371 Q. I wouldn't have the money in my

Page 80

1 hand right away?  
 2 R/F MR. PINOS: Don't answer that. **21**  
 3 MR. BALA: Again, Mr. Pinos, what's the  
 4 basis of these refusals?  
 5 MR. PINOS: These are being repetitive.  
 6 You have the answer to the questions you've already  
 7 asked. You're just asking the same question three  
 8 different ways.  
 9 MR. BALA: I really don't believe I am,  
 10 but no sense in bickering about it here.  
 11 MR. PINOS: No, no. I just put my  
 12 position on the record.  
 13 BY MR. BALA:  
 14 372 Q. Prior to October 27, 2010 did your  
 15 company provide any way by which I could use my  
 16 loan to buy groceries for that very day?  
 17 R/F MR. PINOS: Don't answer that.  
 18 BY MR. BALA:  
 19 373 Q. Did you have ways that I could  
 20 receive cash -- or not cash, I could receive my  
 21 loan for that day prior to October 27, 2010?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 374 Q. Prior to October 27, 2010 if I  
 25 chose the debit card option could I receive my

Page 81

1 payday loan that very day?  
 2 A. Yes.  
 3 375 Q. Prior to October 27, 2010 if I  
 4 took the MasterCard option could I receive my  
 5 payday loan that very day?  
 6 A. That's correct. Sorry, yes.  
 7 376 Q. Were there fees associated with  
 8 the debit card and the MasterCard?  
 9 A. Yes.  
 10 377 Q. And in addition to these fees  
 11 customers would also pay \$21.00 per 100 as the cost  
 12 of borrowing?  
 13 A. To be clear, they would pay \$21.00  
 14 to us for the amount of money that they borrow. If  
 15 they paid any money to DCBank they would do so  
 16 through a separate agreement with DCBank for  
 17 services that they purchased from them.  
 18 378 Q. From the customer's point of view  
 19 is the way I was asking it, they --  
 20 A. Just to be clear, I'm speaking  
 21 from the company's point of view.  
 22 379 Q. I get it. And I'm just trying to  
 23 get answers here. The customer would pay fees to  
 24 DCBank for the debit and MasterCard that are in  
 25 addition to the \$21.00 per 100 that they pay to

Page 82

1 your company?  
 2 MR. PINOS: How about putting an "or"?  
 3 Debit or MasterCard. They don't have to have both.  
 4 BY MR. BALA:  
 5 380 Q. Same question with the "or"?  
 6 A. Can you ask the question again,  
 7 please?  
 8 381 Q. Your customers if they chose the  
 9 debit card option or the MasterCard option they  
 10 would pay fees to DCBank in addition to the \$21.00  
 11 per 100 that they're paying your company?  
 12 A. They would pay us \$21.00 per  
 13 hundred for the amount of money that they borrow,  
 14 and they would pay fees to DCBank for services that  
 15 they purchased from them.  
 16 382 Q. Now if a customer, again, prior to  
 17 October 27, 2010, who needed money to for example  
 18 buy something for that very day and they didn't  
 19 have the money to pay for the DCBank fees or the  
 20 DCBank MasterCard fees up front would your company  
 21 loan them the amount of money to cover that fee?  
 22 A. Yes.  
 23 383 Q. And your company would charge them  
 24 \$21.00 per 100 on the portion of the loan used to  
 25 pay the DCBank fees?

Page 83

1 A. We would charge them \$21.00 per  
 2 100 on the total amount of loan principal that they  
 3 borrow.  
 4 384 Q. Which includes money that they  
 5 borrowed to pay the DCBank fees?  
 6 A. If they purchased DCBank services  
 7 from us, if they purchased a bank card from us when  
 8 they first arranged a payday loan, yes.  
 9 385 Q. Let's go to Exhibit "I" of your  
 10 first affidavit.  
 11 Now this is a letter from a ministry  
 12 compliance inspector to your lawyer in January  
 13 2010, correct?  
 14 A. That's correct.  
 15 386 Q. And in the first bullet the  
 16 inspector writes:  
 17 "In the Loan Agreement,  
 18 borrowers can receive their funds by  
 19 means of three methods; cheque,  
 20 Debit card and MasterCard. The last  
 21 2 methods incur an additional charge  
 22 to the borrower which is added to  
 23 the cost of borrowing. This must be  
 24 removed from the Loan Agreement as  
 25 it brings the cost of borrowing

Page 84

1 above maximum \$21/100."  
 2 Do you see that? 22  
 3 A. I do.  
 4 387 Q. And you read this letter?  
 5 A. I did.  
 6 388 Q. And did you respond to this  
 7 letter?  
 8 A. I believe I did, yes.  
 9 389 Q. All right. Let's go to what I'm  
 10 calling my supplementary documents.  
 11 A. Can you hold on a second? Did you  
 12 respond or did I respond?  
 13 MR. PINOS: We'll find out very  
 14 shortly.  
 15 MR. BALA: Tab 9.  
 16 THE DEPONENT: Okay. Yes, I did.  
 17 BY MR. BALA:  
 18 390 Q. Do you recognize this document?  
 19 A. I do.  
 20 391 Q. What is it?  
 21 A. It's a letter that I wrote to Mr.  
 22 Ramcharan. Hold on a second, let me confirm. I  
 23 believe this letter was from Mr. Ramcharan. Yes.  
 24 And this is my letter in reply to his January 11th  
 25 communication to Tim. So I responded to

Page 85

1 Ramcharan's letter to Tim.  
 2 392 Q. Let's go to the second page of  
 3 this letter.  
 4 A. Yes.  
 5 393 Q. There's a subheading there that  
 6 says, "Charges for Receipt of Funds through Debit  
 7 or Credit Card"?  
 8 A. I see that.  
 9 394 Q. And the third paragraph under that  
 10 subheading?  
 11 A. Yes.  
 12 395 Q. Beginning with, "our loan  
 13 agreements", do you see that?  
 14 A. I do.  
 15 396 Q. And you write:  
 16 "Our loan agreements clearly  
 17 specify that the customer has the  
 18 option to receive loan proceeds  
 19 through one of several options  
 20 including by way of cheque..."  
 21 You wrote that?  
 22 A. Yes.  
 23 397 Q. And in that passage I just read  
 24 you use the word "options" two times?  
 25 A. That's correct.



Page 86	Page 88
<p>1 398 Q. So you say that the cheque here -- 2 you say here the cheque was an option?</p>	<p>1 MR. PINOS: Sure. 2 EXHIBIT NO. 3: Letter dated February 22, 2010 to Mr. Ramcharan from Mr. Thompson.</p>
<p>3 A. That's correct.</p>	<p>3</p>
<p>4 399 Q. But at the time that your letter 5 was written if I was somebody who needed money that 6 same day the cheque was not a quote unquote option, 7 was it?</p>	<p>4 5 BY MR. BALA:</p>
<p>8 A. That's not -- from my perspective 9 that's not relevant. From our perspective the 10 customer had an option to get their loan proceeds 11 by one of three ways. If they didn't like the 12 options that we provided they could have gone 13 across the street to our competitor.</p>	<p>6 407 Q. All right. Back to your first 7 affidavit. Exhibit J. This is a July 2010 letter 8 written by Mr. Pitkin to yourself, correct? 9 A. Correct.</p>
<p>14 400 Q. At the time that your letter was 15 written if I was someone who needed money that same 16 day the cheque was not a quote unquote option?</p>	<p>10 408 Q. At the point No. 1 Mr. Pitkin 11 tells you here that the cheque is not immediately 12 available when the customer goes to the store, 13 correct?</p>
<p>17 A. If you were a person who needed 18 money the same day the options available to you 19 were to purchase one of those two options from us 20 or go to a competitor.</p>	<p>14 A. If you don't mind I'm just going 15 to read.</p>
<p>21 401 Q. One of those two options? What 22 are one of those two options?</p>	<p>16 409 Q. Please. In the middle paragraph, 17 "from the complaints I have received."</p>
<p>23 A. The two immediately available 24 options which would have been the DCBank products, 25 correct.</p>	<p>18 A. Can you repeat your question, 19 please?</p>
<p>Page 87</p>	<p>20 410 Q. Yes. At that point No. 1 right 21 here Mr. Pitkin states at this time, at least that 22 it's his position that the cheque is not 23 immediately available when the customer goes to 24 your store? 25 A. That's correct.</p>
<p>1 402 Q. Which are?</p>	<p>Page 89</p>
<p>2 A. The MasterCard and the debit card.</p>	<p>1 411 Q. And prior to July 2010 when this 2 letter was written you never advised Mr. Pitkin 3 that your cheques were printed offsite in another 4 province and sent by mail?</p>
<p>3 403 Q. Not the cheque?</p>	<p>5 A. I don't recall.</p>
<p>4 A. If you wanted to receive funds 5 immediately you would not be able to receive that 6 cheque immediately prior to October 2010, that's 7 correct.</p>	<p>6 412 Q. Well, this is something that he 7 discovered without your company telling him? 8 A. I don't remember.</p>
<p>8 404 Q. In this letter that you wrote on 9 February 2010 to the ministry compliance inspector 10 you didn't advise that the cheques were printed 11 offsite in another province and then sent via mail, 12 did you?</p>	<p>9 413 Q. Can I get an undertaking as to 10 your communications with the registrar or any 11 inspectors prior to July 2010 in regards to the 12 delivery of cheques?</p>
<p>13 A. Not in this letter, no.</p>	<p>13 U/A MR. PINOS: I'll take that under 14 advisement.</p>
<p>14 405 Q. And there is no mention in this 15 letter that the cheque option takes more time than 16 do the other two methods of loan delivery?</p>	<p>15 BY MR. BALA:</p>
<p>17 MR. PINOS: I think the letter speaks 18 for itself.</p>	<p>16 414 Q. Let's go to Exhibit K of your 17 first affidavit.</p>
<p>19 MR. BALA: I take that as a yes, Mr. 20 Pinos?</p>	<p>18 A. Yes.</p>
<p>21 MR. PINOS: The letter speaks for 22 itself.</p>	<p>19 415 Q. And this is your reply to Mr. 20 Pitkin's letter of July 2010?</p>
<p>23 BY MR. BALA:</p>	<p>21 A. That's correct.</p>
<p>24 406 Q. Can I mark this letter as the next 25 exhibit?</p>	<p>22 416 Q. And point No. 1, this deals with 23 the delivery of cheques? 24 A. Yes.</p>
<p>Page 88</p>	<p>25 417 Q. Now what does this mean in that</p>

Page 90

1 point No. 1?  
 2 MR. PINOS: Could you be a little more  
 3 specific?  
 4 BY MR. BALA:  
 5 418 Q. All right. When Mr. Pitkin wrote  
 6 to you about the delay in receiving cheques you  
 7 said that you were in compliance with the law  
 8 because the payday loan agreement is not effective  
 9 until the cheque is actually received by the  
 10 customer.  
 11 A. Can you repeat your question,  
 12 please?  
 13 419 Q. When Mr. Pitkin wrote to you about  
 14 the delay in receiving cheques you said that you  
 15 are in compliance with the law because the payday  
 16 loan agreement is not effective until the cheque is  
 17 received by the customer.  
 18 A. That's what I said, yes.  
 19 420 Q. And your position was regardless  
 20 of the length of time that it took for the customer  
 21 to actually receive the cheque?  
 22 A. That's correct.  
 23 421 Q. You never mention onsite cheque  
 24 printing in this letter?  
 25 A. That's correct.

Page 91

1 422 Q. And in fact, the first time that  
 2 onsite cheque printing is mentioned in your  
 3 correspondence with Mr. Pitkin is when he wrote to  
 4 you about it. The letter of November 2010.  
 5 A. I would have to say I don't recall  
 6 whether the first time we brought it to Mr.  
 7 Pitkin's attention was through written  
 8 correspondence to him in response to this or prior  
 9 to. I don't remember.  
 10 423 Q. Did any person in your company  
 11 communicate with Mr. Pitkin about onsite cheque  
 12 printing prior to his letter of November 2010 to  
 13 you?  
 14 A. I don't know.  
 15 424 Q. Can I get an undertaking?  
 16 U/T MR. PINOS: We'll make inquiries and  
 17 see if there were any form of communication prior  
 18 to November 25, 2010 about cheque printing.  
 19 BY MR. BALA:  
 20 425 Q. Now you never provided Mr. Pitkin  
 21 with the quote corporate-wide communication of  
 22 October 27th, 2010 that's referred to in your reply  
 23 affidavit?  
 24 A. I don't believe so, no.  
 25 426 Q. You never provided Mr. Pitkin with

Page 92

1 any indication that the cheque-for-loans process  
 2 was formally rolled out on November 9, 2010?  
 3 A. I don't believe so, no.  
 4 427 Q. You never provided Mr. Pitkin with  
 5 the cheque printing manual referred to in your  
 6 reply affidavit?  
 7 A. That's correct.  
 8 428 Q. Let's go to your reply affidavit.  
 9 A. Can we just hold on for a second?  
 10 429 Q. Yes.  
 11 A. I just want to consider the  
 12 questions that you just threw out there to make  
 13 sure I'm accurately stating my recollection.  
 14 430 Q. That's fine.  
 15 Why don't we do this, Madam Reporter,  
 16 why don't we take exactly five minutes, or even  
 17 three minutes. We'll just go off record and give  
 18 Mr. Thompson a chance to review. If that works.  
 19 A. Sure.  
 20 --- Recess at 11:47 a.m.  
 21 --- On resuming at 11:51 a.m.  
 22 BY MR. BALA:  
 23 431 Q. So you've looked through your  
 24 documents, you've had the time to?  
 25 A. I think we made an undertaking to

Page 93

1 just confirm and I'll just leave it at that.  
 2 432 Q. Okay. Let's go to your reply  
 3 affidavit at paragraph 8.  
 4 And it says at the third line is that  
 5 the cheque-for-loans process was being implemented  
 6 in all provinces?  
 7 A. Mm-hmm.  
 8 433 Q. Now when was it implemented in all  
 9 provinces by?  
 10 A. On or about October 27th.  
 11 434 Q. So in every province that you  
 12 operate in, on or about October 27, 2010 the  
 13 cheque-for-loans process was implemented?  
 14 A. That's correct.  
 15 435 Q. And in paragraph 8 you say that a  
 16 corporate-wide communication was announced on  
 17 October 27th indicating a cheque-for-loans process  
 18 that was being implemented in all provinces?  
 19 MR. PINOS: That's correct.  
 20 THE DEPONENT: That's correct, yes.  
 21 BY MR. BALA:  
 22 436 Q. And was this an oral  
 23 communication? A written communication? Both?  
 24 A. It would have been both.  
 25 437 Q. Was there just one communication

1 or several communications?  
2 A. If I remember correctly we would  
3 have issued a written communication and then our  
4 divisional vice-presidents would have been required  
5 to roll it through the company by speaking to their  
6 staff.

7 438 Q. And the written communication  
8 part, who was that sent to?

9 A. That would have been sent to all  
10 of the branches in -- well, actually it would have  
11 been sent to all of the branches across the  
12 company.

13 439 Q. And how was it sent to them?

14 A. Through corporate communication.

15 440 Q. Now can I get an undertaking to  
16 provide a copy of the corporate-wide communication  
17 that is referred to at paragraph 8 of your reply  
18 affidavit?

19 U/A MR. PINOS: We'll see if we can locate  
20 it. I'll take that under advisement.

21 BY MR. BALA:

22 441 Q. The written communication may be  
23 easier, but any documents in relation to the oral  
24 communication that was made as well.

25 MR. PINOS: As I said, we'll make

1 machines onsite?

2 A. They would have used a printer,  
3 yes. 25

4 446 Q. And for how long did this cheque  
5 printing process continue? The onsite cheque  
6 printing?

7 MR. PINOS: In Ontario?

8 MR. BALA: In Ontario.

9 THE DEPONENT: It would have continued  
10 until September 1, 2011.

11 BY MR. BALA:

12 447 Q. Now, between November, or October  
13 27, 2010, when this program was implemented in  
14 Ontario, and September 1, 2011 how many cheques  
15 were printed at each of the Cash Store Financial's  
16 Ontario locations?

17 U/A MR. PINOS: I'll take that question  
18 under advisement.

19 BY MR. BALA:

20 448 Q. Between October 27, 2010 and  
21 September 1, 2011 would your companies comply with  
22 a customer request to convert that cheque into  
23 cash?

24 A. I don't know that we were ever  
25 asked that question.

1 inquiries and take it under advisement.

2 BY MR. BALA:

3 442 Q. And at paragraph 8 you say that  
4 the cheque printing program was formally rolled out  
5 in Ontario on November 9, 2010?

6 A. That's correct.

7 443 Q. And you said it earlier though it  
8 was actually October 27, 2010.

9 A. The platform would have been  
10 rolled out on October 27. People would have been  
11 notified that the platform is in place. Formal  
12 training I believe was rolled out on November 9th.

13 444 Q. Now could I have an undertaking  
14 for any documentation with respect to this formally  
15 rolling out of the cheque-for-loans process on  
16 November 9, 2010? So you talked about the training  
17 and you talked about the formal... actually I  
18 forget what it was.

19 U/A MR. PINOS: Same answer as to the  
20 previous question. We'll make inquiries and take  
21 it under advisement.

22 BY MR. BALA:

23 445 Q. And so, Mr. Thompson, since  
24 October 27, 2010 all of your Ontario branches of  
25 the Cash Store and Instalozans had cheque printing

1 449 Q. Do you have any policies, training  
2 manuals, anything to this effect, if a customer  
3 says --

4 A. No.

5 450 Q. -- hey, thank you for the cheque?  
6 There's no policies or training manual?

7 A. If your question -- so make sure  
8 we're understanding each other. If your question  
9 is did we have a formal policy for a CSR to convert  
10 a cheque into cash if requested to do so by the  
11 customer, the answer is no.

12 451 Q. Did you have an informal policy?

13 A. No.

14 452 Q. Did you have the capacity to?

15 A. No.

16 453 Q. And by CSR you meant customer  
17 service representative?

18 A. That's correct.

19 454 Q. And those are your staff at each  
20 one of the branches?

21 A. That's correct.

22 455 Q. Let's go to Exhibit B of your  
23 reply affidavit. And this is the cheque-for-loan  
24 processing guide referred to in your reply  
25 affidavit?

Page 98

1 A. That's correct.

2 456 Q. And this guide was provided to all

3 of your employees throughout Ontario?

4 A. It would have been made available

5 to them on our intranet site, that's correct.

6 457 Q. And did your employees receive

7 training on this guide?

8 A. That is my understanding, correct,

9 yes.

10 458 Q. Did your employees have to sign or

11 initial anything after they had been trained on the

12 guide?

13 MR. PINOS: Do you know?

14 THE DEPONENT: I can't say one way or

15 the other.

16 BY MR. BALA:

17 459 Q. Can I get an undertaking to answer

18 that question?

19 U/A MR. PINOS: I'll take that under

20 advisement.

21 BY MR. BALA:

22 460 Q. If the answer to that question is

23 no, that they didn't have to sign or initial

24 anything, how did you know -- did you have any

25 mechanism by which you could verify that your

Page 99

1 employees had been trained on the guide?

2 U/A MR. PINOS: I'll take that under

3 advisement.

4 BY MR. BALA:

5 461 Q. Let's go to page 3 of this guide.

6 It's page 29 of your supplementary record.

7 A. Okay.

8 462 Q. And it says here:

9 "When a customer requests their

10 loan proceeds to be payable by

11 check, the branch will complete the

12 cheque requisition by..."

13 And then there are six steps?

14 A. Yes, correct.

15 463 Q. And let's go now to page 4. And

16 at the top of this page it states, "Security

17 Measures - Additional Steps Required Before Cheque

18 Approval"?

19 A. Yes.

20 464 Q. So in addition to the six steps at

21 page 3 of this guide these are additional steps?

22 A. That's correct. They're control

23 procedures.

24 465 Q. Now at point No. 1?

25 A. Yes.

Page 100

1 466 Q. It says that the person at the

2 branch has to do a print screen, they scan it and **26**

3 then they e-mail it to two places, one is

4 ccd@csfinancial.ca and the other person who is

5 e-mailed is the regional manager?

6 A. That's correct.

7 467 Q. And No. 2 says:

8 "Your Regional Manager will

9 review the customer's loan screen

10 shot and REPLY ALL with their

11 approval"?

12 A. That's what it says.

13 468 Q. And "reply all" is written in all

14 caps and italicized?

15 A. Yes.

16 469 Q. Now what is the regional manager?

17 A. A regional manager would be a

18 manager that has responsibility for anywhere

19 between eight and, say, 13 or 14 branches.

20 470 Q. And between October 27, 2010 and

21 September 1, 2011 do you know how many regional

22 managers you had in Ontario?

23 U/A MR. PINOS: I'll take that under

24 advisement.

25 BY MR. BALA:

Page 101

1 471 Q. And you said that there were about

2 eight to 10 branches? Eight to 10 stores per

3 regional manager?

4 A. I said anywhere between eight to

5 12 and 13 branches.

6 472 Q. Oh. Eight to 12 and 13 branches.

7 A. Yes, thereabouts.

8 473 Q. Would there be a difference, in

9 sort of larger urban centres a regional manager may

10 have more stores versus --

11 R/F MR. PINOS: Don't answer that.

12 BY MR. BALA:

13 474 Q. Is the regional manager -- how

14 many employees would the regional manager be

15 responsible for?

16 R/F MR. PINOS: Don't answer that.

17 BY MR. BALA:

18 475 Q. Is the regional manager sitting at

19 a desk during your branch hours waiting for these

20 e-mails?

21 R/F MR. PINOS: Don't answer that.

22 BY MR. BALA:

23 476 Q. Does your regional manager have

24 other responsibilities in addition to what's listed

25 at point No. 2 here at page 4?

Page 102

1 R/F MR. PINOS: Don't answer that.  
 2 BY MR. BALA:  
 3 477 Q. What are the other duties of your  
 4 regional manager?  
 5 R/F MR. PINOS: Don't answer that.  
 6 BY MR. BALA:  
 7 478 Q. Can I get an undertaking as to  
 8 what the duties are of your regional manager?  
 9 R/F MR. PINOS: No.  
 10 BY MR. BALA:  
 11 479 Q. If your regional manager is in a  
 12 meeting is that meeting interrupted to send this  
 13 approval?  
 14 R/F MR. PINOS: Don't answer that.  
 15 BY MR. BALA:  
 16 480 Q. During your branch hours is it  
 17 possible that your regional manager may be driving  
 18 from point A to point B from one store to the next?  
 19 R/F MR. PINOS: Don't answer that.  
 20 BY MR. BALA:  
 21 481 Q. During your branch hours is it  
 22 possible that your regional manager may be  
 23 somewhere where cell phone service isn't readily  
 24 available?  
 25 R/F MR. PINOS: Don't answer that.

Page 103

1 BY MR. BALA:  
 2 482 Q. Between November 9, 2010 and  
 3 September 1, 2011 do you know what your branch  
 4 hours were in Ontario?  
 5 R/F MR. PINOS: Don't answer that.  
 6 BY MR. BALA:  
 7 483 Q. Was there always a regional  
 8 manager on call during the time that your branches  
 9 were open?  
 10 R/F MR. PINOS: Don't answer that.  
 11 BY MR. BALA:  
 12 484 Q. Is it conceivable that the  
 13 customer would have to wait for some length of time  
 14 before the regional manager can reply all to the  
 15 e-mail as stated at page 4, No. 2 of your guide?  
 16 R/F MR. PINOS: Don't answer that.  
 17 BY MR. BALA:  
 18 485 Q. Do you keep any statistics on the  
 19 length of time taken by your regional manager to do  
 20 as they're required to do under the  
 21 cheque-for-loans process?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 486 Q. Can I get an undertaking as to any  
 25 statistics if you have them?

Page 104

1 R/F MR. PINOS: No.  
 2 BY MR. BALA:  
 3 487 Q. Let's go to page 5 of this same **27**  
 4 guide. Now in addition to the regional manager the  
 5 request for a cheque goes to the cheque cashing  
 6 department?  
 7 A. That's correct.  
 8 488 Q. And what were the hours of  
 9 operation of the cheque cashing department between  
 10 October 27, 2010 and September 1, 2011?  
 11 R/F MR. PINOS: Don't answer that.  
 12 BY MR. BALA:  
 13 489 Q. And was there a difference between  
 14 the hours of operation of your cheque cashing  
 15 department and the hours of operation of all of  
 16 your Cash Store and Instalooan branches in Ontario?  
 17 R/F MR. PINOS: Don't answer that.  
 18 BY MR. BALA:  
 19 490 Q. And where is the cheque cashing  
 20 department located? I presume Alberta?  
 21 R/F MR. PINOS: Don't answer that.  
 22 BY MR. BALA:  
 23 491 Q. Are you aware that Ontario has two  
 24 different time zones?  
 25 R/F MR. PINOS: Don't answer that.

Page 105

1 BY MR. BALA:  
 2 492 Q. And are you aware that the two  
 3 different time zones in Alberta are different than  
 4 the time zone -- sorry, the two different time  
 5 zones in Ontario --  
 6 MR. PINOS: Don't answer that.  
 7 MR. BALA: -- are different --  
 8 MR. PINOS: Sorry. Continue, Mr. Bala.  
 9 You paused and I interpreted that as --  
 10 MR. BALA: I just needed to take a  
 11 breath.  
 12 493 Q. Are you aware that the two time  
 13 zones in Ontario are different than the time zone  
 14 in Alberta?  
 15 R/F MR. PINOS: Don't answer that.  
 16 BY MR. BALA:  
 17 494 Q. Is it conceivable that there are  
 18 times when the cheque cashing department in Alberta  
 19 is closed for business when a Cash Store/Instalooan  
 20 branch in Ontario is open?  
 21 R/F MR. PINOS: Don't answer that.  
 22 BY MR. BALA:  
 23 495 Q. How many people worked in the  
 24 cheque cashing department between October 27, 2010  
 25 and September 1, 2011?

Page 106

1 R/F MR. PINOS: Don't answer that.  
 2 BY MR. BALA:  
 3 496 Q. How many people were on duty at  
 4 the cheque cashing department at any given time?  
 5 R/F MR. PINOS: Don't answer that.  
 6 BY MR. BALA:  
 7 497 Q. Between October 27, 2010 and  
 8 September 1, 2011 did the individuals working in  
 9 the cheque cashing department have any other  
 10 responsibility other than to approve cheques for  
 11 payday loan customers in these circumstances?  
 12 R/F MR. PINOS: Don't answer that.  
 13 BY MR. BALA:  
 14 498 Q. If the answer to that is yes, what  
 15 were these other responsibilities?  
 16 R/F MR. PINOS: Don't answer that.  
 17 BY MR. BALA:  
 18 499 Q. Is it possible that the customer  
 19 would have to wait for some length of time before  
 20 the cheque cashing department can do what it needs  
 21 to do with respect to the cheque request?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 500 Q. Do you keep any statistics on the  
 25 length of time taken by the cheque cashing

Page 107

1 department to complete all of their duties under  
 2 the cheque-for-loans processing guide?  
 3 R/F MR. PINOS: Don't answer that.  
 4 BY MR. BALA:  
 5 501 Q. Okay. Page 5.  
 6 MR. PINOS: I thought that's where we  
 7 were.  
 8 BY MR. BALA:  
 9 502 Q. I just wanted to get us back  
 10 there. We had a lot of don't answer that's.  
 11 A. And a lot of questions.  
 12 503 Q. Cuts both ways, doesn't it?  
 13 It says:  
 14 "Once Cheque Cashing has  
 15 approved the request, they will:  
 16 (a) Notify the Vice President of  
 17 Finance of the amounts so he/she can  
 18 ensure funds are deposited for  
 19 clearing of the cheque; and  
 20 (b) Call the branch to inform  
 21 them to load the cheque stock  
 22 (paper)..."  
 23 And then there is passage right after,  
 24 right under (b), that states:  
 25 "To eliminate errors and to

Page 108

1 place controls in effect the  
 2 following rule has been set in  
 3 place: If the Cheque Cashing  
 4 Department has not provided the VP  
 5 of Finance with cheque authorization  
 6 approval, no money will be  
 7 transferred and the cheque will  
 8 bounce."  
 9 See that, Mr. Thompson?  
 10 A. I do.  
 11 504 Q. Now who was the vice-president of  
 12 finance between October 27, 2010 and September 1,  
 13 2011?  
 14 R/F MR. PINOS: Don't answer that.  
 15 BY MR. BALA:  
 16 505 Q. Where is the vice-president of  
 17 finance located?  
 18 R/F MR. PINOS: Don't answer that.  
 19 BY MR. BALA:  
 20 506 Q. What are the vice-president of  
 21 finance's hours of operation?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 507 Q. Where on the organizational  
 25 hierarchy is the vice-president of finance?

Page 109

1 R/F MR. PINOS: Don't answer that.  
 2 BY MR. BALA:  
 3 508 Q. What are the other  
 4 responsibilities of the vice-president of finance?  
 5 R/F MR. PINOS: Don't answer that.  
 6 BY MR. BALA:  
 7 509 Q. Let's go to page 8 of this guide.  
 8 MR. PINOS: You don't want to talk  
 9 about page 6 and 7?  
 10 MR. BALA: I do, but what I thought is  
 11 I'd skip back and forth.  
 12 MR. PINOS: Keep us awake.  
 13 BY MR. BALA:  
 14 510 Q. There is a subheading, or the  
 15 second line, it's actually the first line on this  
 16 page under that box, it says that -- or instructs  
 17 your CSR, or whoever in the branch, to "Make a  
 18 photocopy of the printed cheque before giving the  
 19 original printed cheque to the customer." Do you  
 20 see that?  
 21 A. Yes.  
 22 511 Q. You offered onsite cheque printing  
 23 in Ontario between October 27, 2010 and September  
 24 1, 2011, correct?  
 25 A. That's correct.

28

Page 110

1 512 Q. And when a customer wants their  
 2 loan by way of cheque they start by filling out a  
 3 form as they would had they been receiving their  
 4 loan in any other way?  
 5 MR. PINOS: They have to complete the  
 6 loan documentation.  
 7 BY MR. BALA:  
 8 513 Q. And once that's done your employee  
 9 would access a special website and input specific  
 10 information? Those are the 1 to 6.  
 11 A. That's what this manual says, yes.  
 12 514 Q. Let me Mr. Pinos confirm.  
 13 U/A MR. PINOS: I'll take that under  
 14 advisement. I'm not sure it's a special website.  
 15 I think it's part of the regular loan processing  
 16 website.  
 17 MR. BALA: So they access a website and  
 18 then they --  
 19 MR. PINOS: In the same fashion they do  
 20 with every loan.  
 21 MR. BALA: Although there is some  
 22 uniqueness associated with respect to the cheque.  
 23 MR. PINOS: There are different  
 24 procedures with respect to the issuance of the  
 25 cheque than there are with respect to the issuance

Page 111

1 of a debit card or prepaid MasterCard on behalf of  
 2 DCBank.  
 3 BY MR. BALA:  
 4 515 Q. On that one page though, page 3,  
 5 they go to that website, they log in, they input  
 6 specific information about the customer?  
 7 MR. PINOS: Yes.  
 8 BY MR. BALA:  
 9 516 Q. Now once that's done they print  
 10 the contents of I think it's another screen, and  
 11 then they scan it and then they send it by e-mail  
 12 to two places?  
 13 MR. PINOS: Well, we've been through  
 14 that. The answer to that is what they print is the  
 15 Cash Store system that applies to all loans, okay?  
 16 It's not a special screen.  
 17 BY MR. BALA:  
 18 517 Q. So they print. They do a print  
 19 screen, the contents of the screen, they scan it,  
 20 and then they send it by e-mail to two places; is  
 21 that right?  
 22 MR. PINOS: That's what the document  
 23 says.  
 24 BY MR. BALA:  
 25 518 Q. And one of the two places they

Page 112

1 send it to is the regional manager?  
 2 MR. PINOS: We've been through that.  
 3 BY MR. BALA:  
 4 519 Q. And the regional manager approves  
 5 the request and hits rely all?  
 6 MR. PINOS: We've already answered that  
 7 question.  
 8 BY MR. BALA:  
 9 520 Q. Going through all of these various  
 10 processes then, the regional manager approval, the  
 11 cheque department, the printing, the scanning, the  
 12 photocopy at the end, during that whole time what  
 13 is the customer doing?  
 14 MR. PINOS: Do you know? Do you know?  
 15 THE DEPONENT: I don't know.  
 16 BY MR. BALA:  
 17 521 Q. Can I get an undertaking to answer  
 18 that question?  
 19 R/F MR. PINOS: No.  
 20 BY MR. BALA:  
 21 522 Q. Now I want to compare the cheque  
 22 process, Mr. Thompson, to the process required to  
 23 receive a loan by way of debit card or MasterCard.  
 24 For every debit and MasterCard  
 25 transaction did your employees do a print screen,

Page 113

1 scan it and send it to the regional manager?  
 2 A. I don't know.  
 3 523 Q. Can I get an undertaking to find  
 4 that answer?  
 5 U/A MR. PINOS: I'll take that under  
 6 advisement.  
 7 BY MR. BALA:  
 8 524 Q. For every debit card and  
 9 MasterCard transaction, again, this is between the  
 10 period October 27, 2010 and September 1, 2011, did  
 11 the regional manager approve of every transaction  
 12 by way of credit or debit card?  
 13 U/A MR. PINOS: I'll take that under  
 14 advisement.  
 15 BY MR. BALA:  
 16 525 Q. Between October 27, 2010 and  
 17 September 1, 2011 did the request for every debit  
 18 or credit card go to a department in Alberta for  
 19 approval?  
 20 U/A MR. PINOS: I'll take that under  
 21 advisement.  
 22 BY MR. BALA:  
 23 526 Q. Between October 27, 2010 and  
 24 September 1, 2011 did the vice-president of finance  
 25 ensure that funds are deposited for the clearing of

1 every credit and debit transaction?  
 2 U/A MR. PINOS: I'll take that under  
 3 advisement.  
 4 BY MR. BALA:  
 5 527 Q. Between October 27, 2010 and  
 6 September 1, 2011 did the cheque cashing department  
 7 call the branch and ask them to load paper for  
 8 every debit and MasterCard transaction?  
 9 R/F MR. PINOS: It would be fair to say  
 10 that -- don't answer that, because that question on  
 11 its face makes no sense.  
 12 MR. BALA: Well there's no sense in  
 13 arguing about it here.  
 14 528 Q. Between October 27, 2010 and  
 15 September 1, 2011 did your employee make  
 16 photocopies of the debit or MasterCard before  
 17 banding it off to the customer?  
 18 R/F MR. PINOS: Don't answer that.  
 19 BY MR. BALA:  
 20 529 Q. Between November 2010 and  
 21 September 2011 was there in place a guide or guides  
 22 for processing debit and MasterCards similar to the  
 23 cheque guide at Exhibit B of your reply affidavit?  
 24 A. There are training manuals for the  
 25 sale of DCBank products, yes.

1 and they will add new cheques to  
 2 your inventory."  
 3 Do you see that? **30**  
 4 A. I do.  
 5 534 Q. Now this passage on page 4 at the  
 6 bottom refers to finance, who is finance?  
 7 A. The department of finance.  
 8 535 Q. Of Cash Store Financial?  
 9 A. That's correct.  
 10 536 Q. Where are they located?  
 11 A. In Edmonton.  
 12 537 Q. How do they send the cheques?  
 13 A. Courier.  
 14 538 Q. And they would send the cheques  
 15 from Edmonton?  
 16 A. Correct.  
 17 539 Q. And the couriers that they use,  
 18 are they same-day couriers?  
 19 A. They would be overnight.  
 20 540 Q. Overnight couriers. And if your  
 21 branch starts off with three cheques when is it  
 22 that your company would consider that branch to be  
 23 quote unquote running low?  
 24 MR. PINOS: Do you know that?  
 25 THE DEPONENT: I would say that the

1 530 Q. That were in force between October  
 2 27, 2010 and September 1, 2011?  
 3 A. Yes.  
 4 531 Q. Can I get an undertaking to  
 5 provide copies of those guides --  
 6 MR. PINOS: I'll take that --  
 7 MR. BALA: -- or training manuals?  
 8 U/A MR. PINOS: I'll take that under  
 9 advisement.  
 10 BY MR. BALA:  
 11 532 Q. All right. Let's go to Exhibit B,  
 12 page 3. There would be a page 29 in the top  
 13 right-hand corner. It says right at the top of the  
 14 page in capital letters:  
 15 "Each branch will receive 3  
 16 blank cheques which will be used to  
 17 process a loan by cheque request  
 18 from a customer."  
 19 Do you see that?  
 20 A. I do.  
 21 533 Q. Let's go to page 4 of this  
 22 processing guide. It says on the very bottom again  
 23 in all capital letters:  
 24 "When the branch is running low  
 25 on cheques, finance will be notified

1 number of cheques provided to the branches were  
 2 provided on the basis of historical uptake of  
 3 cheques in the operation. This was a relatively  
 4 new process that we had rolled out across the  
 5 company. So at that time we wouldn't have known.  
 6 And the system that was set up was set  
 7 up in a way that it was for financial controls  
 8 because there was a risk of fraud. So we had to  
 9 test the system and make sure it was robust before  
 10 we made final decisions regarding inventory levels.  
 11 BY MR. BALA:  
 12 541 Q. If the branch started off with  
 13 three cheques, when is it that the branch would be  
 14 considered to be running low as is stated at the  
 15 bottom of page 4 of this guide?  
 16 A. I've never received a request or  
 17 been part of this operational aspect of the  
 18 business so I can't tell you.  
 19 542 Q. Can I get an undertaking to answer  
 20 my question?  
 21 U/A MR. PINOS: I'll take that under  
 22 advisement.  
 23 BY MR. BALA:  
 24 543 Q. It says here that finance will be  
 25 notified. How is it that finance is notified when



Page 118	Page 120
<p>1 a branch is running low?  2 MR. PINOS: Do you know?  3 THE DEPONENT: Yes. They'd be notified  4 through our intranet site.  5 BY MR. BALA:  6 544 Q. And who notifies them? What's the  7 specifics of the notification process?  8 A. I don't know. We have an internal  9 communications platform that would have been  10 utilized for those purposes.  11 545 Q. Can I get an undertaking then to  12 tell us who would advise finance when inventories  13 of cheques are running low?  14 U/A MR. PINOS: I'll take that under  15 advisement.  16 BY MR. BALA:  17 546 Q. Now how long -- you said you send  18 it overnight courier. Do you have any statistics  19 on how long then it would take to get your  20 replenishment of cheques to centres such as  21 Timmins?  22 MR. PINOS: I thought Mr. Thompson used  23 the word "overnight".  24 BY MR. BALA:  25 547 Q. So overnight. Does that mean</p>	<p>1 have an average like this there will obviously be  2 stores operating above the average and stores  3 operating below the average? 31  4 R/F MR. PINOS: Don't answer that.  5 BY MR. BALA:  6 553 Q. Between October 27, 2010 and  7 September 1, 2011, what store in Ontario had the  8 highest average number of payday loans?  9 R/F MR. PINOS: Don't answer that.  10 BY MR. BALA:  11 554 Q. Can I get an undertaking for what  12 store that was and how many payday loans per day?  13 R/F MR. PINOS: No.  14 BY MR. BALA:  15 555 Q. Are there any particular times of  16 the year in which the average number of payday  17 loans increases, for example in and around  18 Christmas time?  19 R/F MR. PINOS: Don't answer that.  20 BY MR. BALA:  21 556 Q. Are there any particular days of  22 the week in which the average number of payday  23 loans increases? I mean, for example, grocery  24 stores are busiest on Saturday. Is there any  25 particular day of the week that payday loan</p>
Page 119	Page 121
<p>1 9 a.m.? 12?  2 A. I don't know.  3 548 Q. Can I get an undertaking to find  4 out?  5 R/F MR. PINOS: No.  6 BY MR. BALA:  7 549 Q. Now, I apologize. In your  8 affidavit you say you have 199 stores, but earlier  9 you said that you've closed a few and so you have  10 170 something?  11 A. 178 I believe.  12 550 Q. And between October 27, 2010 and  13 September 1, 2011 do you know what the average  14 number of payday loans was per day per store in  15 Ontario?  16 R/F MR. PINOS: Don't answer that.  17 BY MR. BALA:  18 551 Q. I take it then you don't want to  19 give me an undertaking to answer that?  20 MR. PINOS: That's correct.  21 BY MR. BALA:  22 552 Q. I'm going to suggest to you that  23 at page 7 of the advisory board's report they say  24 that it's 16 loans per day on average per store in  25 Ontario. And would you agree with me that when you</p>	<p>1 companies or your payday loan company is busiest in  2 Ontario?  3 R/F MR. PINOS: Don't answer that.  4 BY MR. BALA:  5 557 Q. Mr. Thompson, I'm going to suggest  6 to you that your stores do as the advisory board  7 says about 16 loans on average per day, and I'm  8 also going to suggest to you that there are stores  9 operating above and below that, and that you have  10 busy times and you have less busier times, and on  11 that basis every store still gets three blank  12 cheques?  13 R/F MR. PINOS: Don't answer that.  14 BY MR. BALA:  15 558 Q. If Instaloes opened at 9 a.m.,  16 and if the first three loans are conducted by way  17 of cheque in the first three hours, let's say, and  18 then the 4th customer walks in at noon, that 4th  19 customer can't receive their loan by way of cheque?  20 R/F MR. PINOS: Don't answer that.  21 BY MR. BALA:  22 559 Q. And you have three blank cheques  23 at each location; how many blank debit and credit  24 cards do you have at each location?  25 R/F MR. PINOS: Don't answer that.</p>

1 BY MR. BALA:  
 2 560 Q. Mr. Thompson, would you agree with  
 3 me that a cheque that is printed at Cash Store or  
 4 Instaloans, that can't be used to buy groceries  
 5 from any major retailer?  
 6 R/F MR. PINOS: Don't answer that.  
 7 BY MR. BALA:  
 8 561 Q. In order to be useful for the  
 9 purposes of buying goods or services generally,  
 10 such as groceries, that cheque that you print at  
 11 your store must be converted to another medium of  
 12 exchange, correct?  
 13 R/F MR. PINOS: Don't answer that.  
 14 BY MR. BALA:  
 15 562 Q. My understanding is that most, if  
 16 not all, of the major chartered banks such as TD  
 17 Bank and Bank of Montreal place holds on cheques  
 18 provided by Cash Store, is that your understanding  
 19 as well?  
 20 R/F MR. PINOS: Don't answer that.  
 21 BY MR. BALA:  
 22 563 Q. Why don't we go to the transcripts  
 23 of your testimony and Mr. Reykdal's testimony  
 24 before the Nova Scotia board.  
 25 A. I'm just going to get some water.

1 the money for, let's say, Friday I couldn't take my  
 2 cheque to a hank that would even put a two-day hold  
 3 on it, could I? **32**  
 4 R/F MR. PINOS: Don't answer that.  
 5 That is not what this refers to. It  
 6 talks about customer's cheques, not Cash Store  
 7 cheques.  
 8 MR. BALA: Okay. Well then customer's  
 9 cheques.  
 10 MR. PINOS: If you look at the context  
 11 of this, Mr. Bala, this is in the context of the  
 12 hank account service that's sold by DCBank via the  
 13 Cash Store that allows for immediate cheque cashing  
 14 without holds. And these are third-party cheques,  
 15 not Cash Store cheques.  
 16 MR. BALA: I 100 percent agree with  
 17 you, Mr. Pinos. All I'm saying is that the  
 18 company's CEO acknowledged here that most Canadian  
 19 hanks, if not all, would put holds on customer's  
 20 cheques.  
 21 567 Q. Now is there a distinction between  
 22 the customer's cheques referred to here and Cash  
 23 Store Financial cheques?  
 24 A. I don't know. I didn't make that  
 25 statement.

1 564 Q. No problem. Let's go to page 85.  
 2 And at this time point there's a  
 3 gentleman named Mr. Deveau that's asking questions  
 4 and Mr. Reykdal answers. And I'll begin at line 7  
 5 where it starts:  
 6 "MR. REYKDAL: There's  
 7 additional services that are  
 8 provided to the consumer --  
 9 MR. DEVEAU: Right.  
 10 MR. REYKDAL: -- that otherwise  
 11 wouldn't be offered through other  
 12 Canadian chartered hanks and  
 13 probably one notable one would be  
 14 most of the Canadian hanks, if not  
 15 all, would put holds on customer's  
 16 cheques."  
 17 Do you see that, Mr. Thompson?  
 18 A. I do.  
 19 565 Q. And so your company's CEO  
 20 acknowledges in that paragraph that most of the  
 21 Canadian hanks, if not all, would put holds on  
 22 customer's cheques?  
 23 A. He states that, yes.  
 24 566 Q. And so if I received a cheque from  
 25 Cash Store or Instaloans on Thursday and I needed

1 568 Q. I'm going to suggest to you that  
 2 hanks place holds on cheques provided by Cash Store  
 3 Financial in at least some circumstances. And on  
 4 that premise, if I received a cheque from Cash  
 5 Store or Instaloans on Thursday and I needed to buy  
 6 groceries or something like this on Friday I  
 7 couldn't take my cheque to a hank that would even  
 8 put a two-day hold on it, could I? I wouldn't have  
 9 my money right away?  
 10 A. I'm not going to speak on behalf  
 11 of what a consumer does with the cheque that we  
 12 give to them.  
 13 569 Q. I'm asking about the usability of  
 14 that cheque to purchase goods and services. So if  
 15 they took it to a hank that hank may put a hold on  
 16 it, is that correct?  
 17 MR. PINOS: Do you know?  
 18 THE DEPONENT: It's conceivable.  
 19 BY MR. BALA:  
 20 570 Q. In the circumstance like that, if  
 21 I was that customer in the hypothetical I just gave  
 22 you I could nevertheless avail myself of Cash Store  
 23 Financial's cheque cashing service, couldn't I? Do  
 24 you offer a cheque cashing service?  
 25 A. We do.

Page 126

1 571 Q. And cashing the cheque it's a hit  
 2 of a misnomer because you don't provide the value  
 3 of the cheque in cash you provide it on a card,  
 4 correct?  
 5 A. That's correct.  
 6 572 Q. And that would be a card  
 7 associated with a DirectCash company?  
 8 A. That's correct.  
 9 573 Q. What would Cash Store or  
 10 Instaloans have charged me if I brought them a  
 11 cheque to cash?  
 12 A. I can't answer that question.  
 13 Only because I don't spend a lot of time on the  
 14 cheque cashing service.  
 15 574 Q. 2.99 percent, that's what's listed  
 16 on your website I'm going to suggest to you, does  
 17 that sound about right?  
 18 A. That does, yes.  
 19 575 Q. And would you charge that 2.99  
 20 percent even if it was a cheque that was issued by  
 21 Cash Store or Instaloans?  
 22 A. I don't know of any circumstance  
 23 in which we've been faced with that scenario.  
 24 576 Q. Can I get an undertaking to verify  
 25 whether or not if a Cash Store or Instaloans'

Page 127

1 customer gets a cheque printed by or from the Cash  
 2 Store or Instaloans and they ask you to cash the  
 3 cheque using your cheque cashing services whether  
 4 or not the cheque cashing fee would apply?  
 5 U/A MR. PINOS: We'll take that under  
 6 advisement.  
 7 BY MR. BALA:  
 8 577 Q. And a customer who would cash a  
 9 cheque with you you would put it on a DCBank card  
 10 of some kind, a debit card or a MasterCard, and  
 11 again there are fees associated with that card?  
 12 A. That's correct.  
 13 578 Q. It's 12:25. I need a two-minute  
 14 break. I leave it in your gentlemen's discretion.  
 15 Could we go off record for a second?  
 16 --- Off-the-record discussion  
 17 --- Recess at 12:25 p.m.  
 18 --- On resuming at 12:31 p.m.  
 19 BY MR. BALA:  
 20 579 Q. Now, Mr. Thompson, we covered in  
 21 this section -- touched on cheque cashing fees, and  
 22 if I came with a cheque to Cash Store and I wanted  
 23 to cash the cheque and you would load it onto a  
 24 card, a DCBank card, correct?  
 25 A. That's correct.

Page 128

1 580 Q. Now, these cheque cashing fees  
 2 when are they collected? Are they collected at the  
 3 time that I'm cashing my cheque? **33**  
 4 A. Yes.  
 5 581 Q. Now, suppose I got a payday loan  
 6 on a DC card of some kind, and I got that -- let's  
 7 say, I got my -- the payday loan on my card Monday  
 8 at noon and my term wasn't until Friday at noon,  
 9 when would those DC fees be collected?  
 10 R/F MR. PINOS: Don't answer that.  
 11 BY MR. BALA:  
 12 582 Q. Let's go to paragraph 34 of your  
 13 first affidavit. And you say:  
 14 "Subsequent to the New  
 15 Regulations, Cash Store Financial  
 16 only delivers payday loans by way of  
 17 electronic funds transfer  
 18 ("EFT")..."  
 19 A. That's correct.  
 20 583 Q. And so after September 1, 2011 you  
 21 stopped offering cheques printed in-store?  
 22 A. That's correct.  
 23 584 Q. In Ontario at least?  
 24 A. That's correct.  
 25 585 Q. Why did you stop offering cheques

Page 129

1 printed in-store in Ontario?  
 2 A. Because the regulation had been  
 3 drafted in such a way that it would require us to  
 4 offer cash to the consumer when we provided them  
 5 with a cheque which we're not willing to do for  
 6 public safety reasons.  
 7 586 Q. And so you say right now you  
 8 replace the cheques with the electronic funds  
 9 transfer to an existing bank account such as TD  
 10 Bank?  
 11 A. Correct.  
 12 587 Q. And like the cheques if the EFT  
 13 went to my TD Bank account the only charge to the  
 14 customer would be \$21.00 per \$100 loaned, correct?  
 15 A. We charge \$21.00 per \$100 loaned  
 16 to a customer under any circumstance, so yes.  
 17 588 Q. If I had an EFT from your company  
 18 and a payday loan sent to my TD Bank account I  
 19 wouldn't have any DCBank fees in that type of  
 20 transaction?  
 21 R/F MR. PINOS: Don't answer this. I can  
 22 tell you, Mr. Bala, we're not going to answer any  
 23 questions about the loan process or procedure after  
 24 September 1, 2011.  
 25 MR. BALA: But he's referred to it at

Page 130

1 paragraph 34 of his affidavit.  
 2 MR. PINOS: Yes, to that extent. To  
 3 the extent that he's referred to it you can ask  
 4 questions about them, but you can't go beyond that.  
 5 BY MR. BALA:  
 6 589 Q. Now this EFT process, Mr.  
 7 Thompson, how long does it take before a customer  
 8 has the money in their account?  
 9 R/F MR. PINOS: Don't answer that.  
 10 BY MR. BALA:  
 11 590 Q. I'm going to suggest to you that  
 12 many people have complained that when an EFT goes  
 13 into a customer's bank account, into a customer's  
 14 own bank account, such as a TD account, that they  
 15 do not receive their funds until a few days later.  
 16 MR. PINOS: Don't answer that.  
 17 MR. BALA: I didn't even ask a question  
 18 yet.  
 19 591 Q. Do you have any explanation why  
 20 that may be the case?  
 21 R/F MR. PINOS: Don't answer that.  
 22 BY MR. BALA:  
 23 592 Q. Have you authored any  
 24 correspondence or been privy to any correspondence  
 25 dealing with the delay in customers receiving their

Page 131

1 money or their funds by way of EFT?  
 2 R/F MR. PINOS: Don't answer that.  
 3 BY MR. BALA:  
 4 593 Q. Do you train your employees on how  
 5 to respond when a customer asks how long an EFT  
 6 will take to get into their TD Bank account, for  
 7 example?  
 8 R/F MR. PINOS: Don't answer that.  
 9 BY MR. BALA:  
 10 594 Q. I also would like an undertaking  
 11 to provide any training documents to that effect,  
 12 but I take it, Mr. Pinos, will say don't answer  
 13 that or no.  
 14 R/F MR. PINOS: We won't give you that  
 15 undertaking. I'll change my answer to we won't  
 16 give you that undertaking.  
 17 MR. BALA: Thank you, Mr. Pinos.  
 18 BY MR. BALA:  
 19 595 Q. Now if the EFT is directed -- you  
 20 say here the EFT going to any bank account provided  
 21 by the customer or suitable cash card. By suitable  
 22 cash card what do you mean?  
 23 MR. PINOS: You can answer that.  
 24 THE DEPONENT: A suitable cash card  
 25 would be a cash card that is provided by DCBank.

Page 132

1 If a bank, another bank were to have a cash card  
 2 that was able to receive funds we would load it **34**  
 3 onto those cards.  
 4 BY MR. BALA:  
 5 596 Q. And so if an EFT was directed to a  
 6 DCBank card how long would it take for the customer  
 7 to have that money on their card?  
 8 R/F MR. PINOS: Don't answer that.  
 9 MR. BALA: We can either go for lunch  
 10 now, or we can go for lunch in about 20 minutes,  
 11 half hour, the preference is up to you.  
 12 MR. PINOS: Oh. You're at a breaking  
 13 point now? Do you want lunch now or keep going?  
 14 THE DEPONENT: Power on.  
 15 BY MR. BALA:  
 16 597 Q. Let's go to your reply affidavit  
 17 at paragraph 6.  
 18 And here it says:  
 19 "Attached as Exhibit 'A' is a  
 20 copy of Cash Store Financial's loan  
 21 documents as they were prior to the  
 22 enactment of the New Regulations on  
 23 September 1, 2011."  
 24 Do you see that?  
 25 A. I do.

Page 133

1 598 Q. And so in your first affidavit you  
 2 didn't provide a copy of the loan documents that  
 3 existed before September 1, 2011?  
 4 A. That's correct.  
 5 599 Q. Let's go to Exhibit A.  
 6 Now there are seven pages as part of  
 7 what you describe as your quote unquote loan  
 8 documents; is that correct? Feel free. Take the  
 9 time, count them.  
 10 A. Just to correct the record here,  
 11 from my perspective the only thing that constitutes  
 12 part of the loan documents from a regulatory  
 13 standpoint is the first two pages, page 19 and 20.  
 14 600 Q. So why do you say from a  
 15 regulatory standpoint?  
 16 A. Those are the only documents that  
 17 are regulated.  
 18 601 Q. Now let's go to --  
 19 A. Pursuant to the Payday Loan Act.  
 20 602 Q. Let's go to the first page of what  
 21 you described --  
 22 A. Sure.  
 23 603 Q. -- as your loan documents. And  
 24 this is page 19 in the top right-hand corner, and  
 25 this is the Promissory Note and Disclosure of All

Page 134

1 Costs?  
 2 A. Mm-hmm.  
 3 604 Q. Second page, page 20, these are  
 4 notices and cancellations? Cancellation rights and  
 5 refunds essentially?  
 6 A. That's correct.  
 7 605 Q. Let's go to the third page. This  
 8 is the Pre-Authorized Debit Agreement?  
 9 A. That's correct.  
 10 606 Q. And you explained earlier what a  
 11 pre-authorized debit agreement is?  
 12 A. Correct.  
 13 607 Q. And this is the 4th page which you  
 14 described as your loan documents. There's a page  
 15 22 in the right-hand corner. And this is the  
 16 application for the Instaloes Payday Loan Payment  
 17 Protection Plan, correct?  
 18 A. It's an application for the  
 19 Instaloes Payday Loan Protection Plan but it does  
 20 not constitute part of the loan agreement.  
 21 608 Q. Can you go back to paragraph 6 of  
 22 your affidavit?  
 23 A. Sure.  
 24 609 Q. What do you say at paragraph 6 of  
 25 your affidavit?

Page 135

1 A. It says:  
 2 "Attached as Exhibit 'A' is a  
 3 copy of Cash Store Financial's loan  
 4 documents as they were prior to the  
 5 enactment of the New Regulations on  
 6 September 1, 2011."  
 7 610 Q. Is this Instaloes Payday Loan  
 8 Payment Protection Plan application in Exhibit A?  
 9 A. Yes, it is.  
 10 611 Q. What is the Instaloes Payday Loan  
 11 Payment Protection Plan?  
 12 A. It's an insurance program that is  
 13 provided by TGI which is a subsidiary of The Brick  
 14 that customers can purchase to provide them for --  
 15 to cover their loan payment if they have an  
 16 accident, lose their job, or have a number of  
 17 different types of illnesses that might occur in  
 18 the period after which they've taken a loan.  
 19 612 Q. By loan you mean payday loan?  
 20 A. That's correct.  
 21 613 Q. Let's go to the 5th page of what  
 22 you describe at paragraph 6 as your loan documents.  
 23 A. Mm-hmm.  
 24 614 Q. This is entitled Customer Receipt  
 25 Partial, correct?

Page 136

1 A. Correct.  
 2 615 Q. Why does this document say that  
 3 the customer receipt is partial? **35**  
 4 A. Don't know.  
 5 616 Q. Can I get an undertaking to answer  
 6 that question?  
 7 U/T MR. PINOS: Sure.  
 8 BY MR. BALA:  
 9 617 Q. Let's go to the 6th page of what  
 10 you describe at paragraph 6 to your reply affidavit  
 11 as being part of your loan documents. And this is  
 12 the Payment Protection Plan Certificate of  
 13 Insurance, correct?  
 14 A. That's correct.  
 15 618 Q. And the 7th page of Exhibit A is  
 16 page 2 of the Payment Protection Plan Certificate  
 17 of Insurance?  
 18 A. That's correct.  
 19 619 Q. Now the certificate of insurance,  
 20 let's hang here for a second.  
 21 A. Sure.  
 22 620 Q. Let's go to the last page. And on  
 23 the last page of this certificate of insurance --  
 24 A. Page 25?  
 25 621 Q. Page 25. At part (g)?

Page 137

1 A. Yes.  
 2 622 Q. These are the general exclusions  
 3 to the certificate of insurance?  
 4 A. That's what it says, yes.  
 5 623 Q. Do you know the type and size of  
 6 font that is used to describe the general  
 7 exclusions to your insurance?  
 8 A. I do not.  
 9 624 Q. Can I get an undertaking as to  
 10 what is the type and size of font used to describe  
 11 the general exclusions in the certificate of  
 12 insurance at Exhibit A of your affidavit?  
 13 R/F MR. PINOS: No.  
 14 BY MR. BALA:  
 15 625 Q. Are the general and specific  
 16 exclusions exhaustively listed in the certificate  
 17 of insurance or are there more?  
 18 A. It's not my certificate, so I  
 19 don't know. Let me rephrase that. It's not a  
 20 certificate that is issued by our company, so I  
 21 can't tell you.  
 22 626 Q. Now let's flip back a few pages.  
 23 Flip back a few pages to the 4th page of what you  
 24 described at paragraph 6 of your reply affidavit as  
 25 your loan documents, and this is the Instaloes

Page 138

1 Payday Loan Payment Protection Plan Application?  
 2 A. That's correct.  
 3 627 Q. No. 4?  
 4 A. Yes.  
 5 628 Q. No. 4 says:  
 6 "I understand that payment  
 7 under this Plan is subject to  
 8 exceptions, limitations and  
 9 exclusions more particularly set out  
 10 in the Master Policies referenced  
 11 above and that they may be  
 12 incompletely summarized in the  
 13 Certificate of Insurance provided  
 14 hereunder. Copies of pertinent  
 15 provisions of the Master Policies  
 16 can be obtained by contacting Trans  
 17 Global."  
 18 Do you see that?  
 19 A. I do.  
 20 629 Q. So the agreement that customers  
 21 sign states that there may be exclusions in their  
 22 insurance contract that is not contained anywhere  
 23 in what you describe as your quote loan documents?  
 24 A. Do you have a question? Sorry.  
 25 630 Q. That was the question.

Page 139

1 MR. PINOS: The document speaks for  
 2 itself.  
 3 BY MR. BALA:  
 4 631 Q. So to get a complete list of my  
 5 exclusions, according to point No. 4 of the  
 6 Instaloes Payday Loan Payment Protection Plan, I  
 7 must contact Trans Global Insurance at the number  
 8 that's provided?  
 9 R/F MR. PINOS: Don't answer that.  
 10 BY MR. BALA:  
 11 632 Q. And is Trans Global Insurance  
 12 situated in Alberta?  
 13 R/F MR. PINOS: Don't answer that.  
 14 BY MR. BALA:  
 15 633 Q. What are the business hours of  
 16 Trans Global Insurance?  
 17 R/F MR. PINOS: Don't answer that.  
 18 BY MR. BALA:  
 19 634 Q. Is it possible that your Ontario  
 20 customers may be offered insurance at the time the  
 21 Trans Global Insurance in Alberta is closed?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 635 Q. Do your employees receive any  
 25 training about what to do when a customer wants to

Page 140

1 know about the exclusions for Trans Global  
 2 Insurance? 36  
 3 R/F MR. PINOS: Don't answer that.  
 4 BY MR. BALA:  
 5 636 Q. I take it then you'll refuse my  
 6 undertaking that I'm going to ask for as well for  
 7 that information?  
 8 R/F MR. PINOS: I was going to say, tell me  
 9 what the undertaking is and I'll respond; but, no,  
 10 we will not provide that undertaking.  
 11 BY MR. BALA:  
 12 637 Q. Does your company offer the Payday  
 13 Loan Payment Protection Plan to individuals on  
 14 social assistance?  
 15 R/F MR. PINOS: Don't answer that.  
 16 BY MR. BALA:  
 17 638 Q. Now, clause No. 4 on the document  
 18 entitled, "Instaloans Payday Loan Payment  
 19 Protection Plan - Application", 4th page of what  
 20 you describe as your loan documents, what is the  
 21 type and size of font used here?  
 22 R/F MR. PINOS: Don't answer that.  
 23 BY MR. BALA:  
 24 639 Q. The 4th page again of what you  
 25 describe as your loan documents, page 22 of

Page 141

1 supplementary record, at No. 2 it says right there  
 2 that the premium -- it speaks about how the premium  
 3 is calculated. And it says that the premium is  
 4 calculated at 3.77 percent of the combined total of  
 5 the loan amount, broker fee and interest amount as  
 6 shown above. Do you see that?  
 7 A. I do.  
 8 640 Q. It actually uses the phrase "as  
 9 shown above"?  
 10 No. 2? You see it? And interest  
 11 amount as shown above. Do you see it?  
 12 A. I'm reading it.  
 13 That's what it says, yes.  
 14 641 Q. Now where exactly is this "as  
 15 shown above" referring to?  
 16 A. I don't know.  
 17 642 Q. Can I get an undertaking?  
 18 U/T MR. PINOS: We'll make inquiries and  
 19 attempt to provide you with an answer.  
 20 BY MR. BALA:  
 21 643 Q. Mr. Thompson, is it possible that  
 22 the "as shown above" is referring to the first page  
 23 of your loan documents?  
 24 A. It's possible.  
 25 644 Q. Is there a loan amount listed on

Page 142

1 the first page of your loan documents at Exhibit A?  
 2 A. There is.  
 3 645 Q. Is there a broker fee listed on  
 4 the first page of Exhibit A and which you describe  
 5 as your loan documents?  
 6 A. Yes. That would be the total cost  
 7 of borrowing.  
 8 646 Q. Is there an interest amount  
 9 referred to on the first page of what you describe  
 10 as your loan documents?  
 11 A. I believe there's a reference to  
 12 an interest amount that would be charged to a  
 13 customer in instances in which they went  
 14 delinquent.  
 15 647 Q. Now, Mr. Thompson, if I purchase  
 16 that insurance but I don't have that money to pay  
 17 for this insurance product, the application of  
 18 which is at page 4 of the loan documents, if I  
 19 don't have the money to pay for that upfront, the  
 20 3.77 percent, would your company loan me that money  
 21 to buy that product?  
 22 A. Yes, we would.  
 23 648 Q. And you would charge me a rate of  
 24 \$21.00 per 100 on the amount that I have borrowed  
 25 to pay for the insurance product?

Page 143

1 A. That's correct.  
 2 649 Q. And if I receive a loan from you  
 3 Monday at noon that was due Friday at noon and I  
 4 purchased the insurance --  
 5 A. Yes.  
 6 650 Q. -- when is it that that 3.77  
 7 percent premium is collected?  
 8 R/F MR. PINOS: Don't answer that.  
 9 BY MR. BALA:  
 10 651 Q. Is it collected before Friday at  
 11 noon?  
 12 R/F MR. PINOS: Refusal maintained.  
 13 BY MR. BALA:  
 14 652 Q. Let's go to your first affidavit.  
 15 Exhibit "I". Now, again, this is a letter from the  
 16 ministry compliance inspector to your lawyer in  
 17 January 2010, correct?  
 18 A. That's correct.  
 19 653 Q. And as we went over earlier you  
 20 responded to this letter?  
 21 A. That's correct.  
 22 654 Q. Now at the second bullet point it  
 23 says:  
 24 "In the Loan Agreement  
 25 borrowers are offered the 'Payday

Page 144

1 Loan Protection Plan'. This product  
 2 can not be offered in conjunction **37**  
 3 with a payday loan. This provision  
 4 must be removed from the agreement  
 5 as it violates section 27 (1-6) of  
 6 the regulation."  
 7 Do you see that?  
 8 A. I do.  
 9 655 Q. And you did respond to this  
 10 letter, correct?  
 11 A. I do.  
 12 656 Q. Let's go to your response. We've  
 13 already marked it as an exhibit, however, it is at  
 14 tab 9 of what I've been calling --  
 15 MR. PINOS: Green book.  
 16 MR. BALA: Yeah, green book.  
 17 657 Q. Now, again, you do recognize this  
 18 document?  
 19 A. I do.  
 20 658 Q. And it's your response to the  
 21 compliance inspector's letter to Mr. Pinos?  
 22 A. Yes.  
 23 659 Q. And on the second page there is a  
 24 subtitle that states, "Offering of the Payday Loan  
 25 Protection Plan in the Loan Agreement." Correct?

Page 145

1 A. Yes.  
 2 660 Q. And you say:  
 3 "Our inclusion of the Payday  
 4 Loan Protection Plan in the Loan  
 5 Agreement does appear to be contrary  
 6 to s. 27(1) of the Regulation, as  
 7 you pointed out. This violation was  
 8 also inadvertent and we will take  
 9 steps to remedy it as soon as  
 10 possible by preparing a separate,  
 11 optional agreement with respect to  
 12 the Payday Loan Protection Plan.  
 13 Thank you for bringing this issue to  
 14 our attention as well."  
 15 You wrote that?  
 16 A. I did.  
 17 661 Q. And so at the time that the  
 18 inspector wrote you the letter in January 2010 the  
 19 Payday Loan Payment Protection Plan was on the same  
 20 page as the pre-authorized debit agreement?  
 21 A. Incorrect.  
 22 662 Q. Where was it?  
 23 A. What I was referring to in this  
 24 letter was the statement on page 1 of the loan  
 25 agreement that says this loan agreement is covered

1 by the payment protection plan. I was not  
 2 referring to any other documents.  
 3 663 Q. So when you say that this is --  
 4 A. And that has nothing -- just to  
 5 fully answer your question, the payment protection  
 6 plan has nothing to do with the pre-authorized  
 7 debit agreement. They're separate items  
 8 completely.  
 9 664 Q. In your loan document then show  
 10 me. Is this this part that I've highlighted, is  
 11 that what you're referring to?  
 12 A. If you're talking about that part,  
 13 that's correct, yes.  
 14 665 Q. So in your letter of February 22,  
 15 2010, the second page at the very top when you say  
 16 that it appears to be contrary to section 27(1) of  
 17 the reg. you were referring to the part that  
 18 states, "This Payday Loan is protected by the  
 19 Payment Protection Plan for payday loans?"  
 20 A. Correct.  
 21 666 Q. As existed on page 1 of what you  
 22 describe as your loan documents?  
 23 A. That's correct.  
 24 667 Q. Which is at Exhibit A.  
 25 Now, you state to Mr. Ramcharan in this

1 671 Q. So you told Mr. Ramcharan that  
 2 you're going to remove it from the document and you  
 3 never removed it from the document? 38  
 4 A. No, I didn't say that. I said I  
 5 can't tell you whether or not we removed it.  
 6 672 Q. So you nevertheless you told Mr.  
 7 Ramcharan you would remove it from the document?  
 8 A. That's correct.  
 9 673 Q. But you don't know whether or not  
 10 you removed it?  
 11 A. That's correct.  
 12 674 Q. I find something somewhat puzzling  
 13 about all of this. I'm going to suggest to you  
 14 that I've looked through what your documents were  
 15 at the time that you wrote this letter, and the  
 16 Instaloes or Cash Store Payday Loan Payment  
 17 Protection Plan, that was written on the exact same  
 18 page as the pre-authorized debit agreement. Same  
 19 page. Top of the page was the pre-authorized debit  
 20 agreement. The bottom of the page was the  
 21 Instaloes Payday Loan Payment Protection Plan.  
 22 And I noticed after that that the  
 23 Instaloes payday loan protection plan was put onto  
 24 another page. Does that accord with your  
 25 recollection as well?

1 letter that you're going to prepare a separate  
 2 optional agreement with respect to the Payday Loan  
 3 Payment Protection Plan, is that what you say?  
 4 A. That's what I said, yes.  
 5 668 Q. And so is it your evidence here  
 6 now that you removed this one sentence from the  
 7 first page of your loan documents?  
 8 A. Well, the evidence that we're  
 9 referring to says what I said in that paragraph and  
 10 as I described it to you, yes.  
 11 669 Q. I just want to confirm here. In  
 12 this paragraph right here which you're referring to  
 13 is on the first page of your Promissory Note and  
 14 Disclosure of All Costs that says, "This Payday  
 15 Loan is protected by the Payment Protection Plan  
 16 for payday loans."  
 17 A. That's correct.  
 18 670 Q. And what you did was to come into  
 19 compliance with the law was you removed that one  
 20 sentence from the portion of your loan documents  
 21 entitled Promissory Note and Disclosure of All  
 22 Costs, correct?  
 23 A. I can't tell you right now whether  
 24 or not that was removed from the document, I don't  
 25 know.

1 A. No. We weren't a sizable  
 2 operation, I'm sorry, I can't remember.  
 3 675 Q. What did you say at the beginning  
 4 of this cross-examination when we discussed what  
 5 your role was? What did you say? Regulatory  
 6 compliance was involved?  
 7 A. That's correct.  
 8 676 Q. You said it just a couple minutes  
 9 ago that at least these first two pages relate  
 10 to -- are regulated documents you said?  
 11 A. That's correct.  
 12 677 Q. And you're talking to a ministry  
 13 compliance inspector in this letter.  
 14 A. That's correct.  
 15 678 Q. So you're telling me you don't  
 16 know whether or not after this letter was written  
 17 you took the Instaloes payment protection plan  
 18 portion off of page 3 of your loan documents and  
 19 you stuck it on page 4?  
 20 A. That's correct.  
 21 679 Q. I'm going to suggest to you that's  
 22 exactly what you did, Mr. Thompson. You took the  
 23 Instaloes payday loan payment protection plan, it  
 24 used to be on page 3 of your loan documents, and  
 25 you stuck it on page 4. Does that sound correct to



Page 150

1 you?  
 2 A. I've already told you I don't  
 3 recall.  
 4 680 Q. I would like to get an undertaking  
 5 that after you wrote this letter of February 22 --  
 6 why don't we do it this way: Can we see what your  
 7 quote unquote loan documents looked like prior to  
 8 this letter, an undertaking for that? And an  
 9 undertaking what your loan documents looked like  
 10 let's say 30 days after this letter was written?  
 11 U/T MR. PINOS: Sure.  
 12 BY MR. BALA:  
 13 681 Q. You were you saying that you  
 14 referred to here in the first page of your  
 15 Promissory Note and Disclosure of All Costs?  
 16 A. That's correct.  
 17 682 Q. It states here in hold hig  
 18 affirmative writing, "This Payday Loan is protected  
 19 by the Payment Protection Plan for payday loans"?  
 20 A. That's correct.  
 21 683 Q. Now, Mr. Thompson, what percentage  
 22 of your customers purchase a payday loan payment  
 23 protection plan?  
 24 R/F MR. PINOS: Don't answer that.  
 25 BY MR. BALA:

Page 151

1 684 Q. What percentage of your customers  
 2 purchase a payday loan protection plan without  
 3 purchasing a payday loan?  
 4 R/F MR. PINOS: Don't answer that.  
 5 BY MR. BALA:  
 6 685 Q. When customers purchase the payday  
 7 loan payment protection plan they do so at a  
 8 particular Cash Store or Instaloes branch?  
 9 A. Yes.  
 10 686 Q. And they interact with your  
 11 employees in making the agreement to huy the Cash  
 12 Store or Instaloes payment protection plan?  
 13 A. That's correct.  
 14 687 Q. Let's go to page 4 of Exhibit A,  
 15 and what you descrihe at paragraph 6 of your  
 16 affidavit as your loan documents, page 22, top  
 17 right comer.  
 18 Does the name of your company appear at  
 19 the very top and very bottom of this document?  
 20 A. Which page are you referring to?  
 21 Just so I'm clear.  
 22 688 Q. Page 22 I said. So it's the 4th  
 23 page of what you descrihe at paragraph 6 of your  
 24 reply affidavit as your loan documents.  
 25 A. Yes, it does.

Page 152

1 689 Q. The very top and the very hottom?  
 2 A. That's correct. **39**  
 3 690 Q. And let's start with the very  
 4 hottom.  
 5 A. Sure.  
 6 691 Q. At the very hottom it says, "Thank  
 7 you for using Instaloes's Services." Correct?  
 8 A. That's correct.  
 9 692 Q. And Instaloes is your company?  
 10 A. That's correct.  
 11 693 Q. And the statement that says,  
 12 "Thank you for using Instaloes's Services" is  
 13 holded?  
 14 A. That's correct.  
 15 694 Q. And if this loan was from Cash  
 16 Store on Cash Store documents it would say thank  
 17 you for using Cash Store's services?  
 18 A. That's correct.  
 19 695 Q. And at the very top in holded and  
 20 all caps is the title of this document, correct?  
 21 A. Sorry?  
 22 696 Q. At the very top, the text written,  
 23 is it holded?  
 24 A. It appears to he, yes.  
 25 697 Q. Is it in all capital letters?

Page 153

1 A. It is.  
 2 698 Q. And the title is Instaloes Payday  
 3 Loan Payment Protection Plan - Application,  
 4 correct?  
 5 A. That's correct.  
 6 699 Q. And with the Cash Store that top  
 7 line would say the Cash Store Payday Loan Payment  
 8 Protection Plan Application?  
 9 A. That's correct.  
 10 700 Q. And this document at the very top,  
 11 the title does not say Trans Glohal Payday Loan  
 12 Payment Protection Plan Application, does it?  
 13 A. It does not.  
 14 701 Q. And at the very hottom this  
 15 document does not conclude with thank you for using  
 16 Trans Global services?  
 17 A. That's correct.  
 18 702 Q. Rather it says thank you for using  
 19 Instaloes's services?  
 20 A. That's correct.  
 21 703 Q. Now in selling the payday loan  
 22 payment protection plan does Cash Store Financial  
 23 receive commission or any other payment?  
 24 R/F MR. PINOS: Don't answer that.  
 25 BY MR. BALA:

Page 154

1 704 Q. How is the rate of commission or  
 2 any other payment determined?  
 3 R/F MR. PINOS: Don't answer that.  
 4 BY MR. BALA:  
 5 705 Q. Do you set the fee and charge  
 6 everything you want, anything on top afterwards?  
 7 R/F MR. PINOS: Don't answer that.  
 8 BY MR. BALA:  
 9 706 Q. How much revenue has your company  
 10 made on selling this insurance product in Ontario  
 11 prior to September 1, 2011?  
 12 R/F MR. PINOS: Don't answer that.  
 13 BY MR. BALA:  
 14 707 Q. Do you track how many insurance  
 15 plans are sold by your employees?  
 16 R/F MR. PINOS: Don't answer that.  
 17 BY MR. BALA:  
 18 708 Q. Do your employees receive any  
 19 commissions when any insurance is sold to a  
 20 customer?  
 21 R/F MR. PINOS: Don't answer that.  
 22 BY MR. BALA:  
 23 709 Q. Does the ability to sell this  
 24 payday loan payment protection plan which I've also  
 25 been calling insurance, does that appear in any

Page 155

1 formal or informal performance reviews?  
 2 R/F MR. PINOS: Don't answer that.  
 3 BY MR. BALA:  
 4 710 Q. And if one of your companies never  
 5 sold this Instalozans or Cash Store payday loan  
 6 protection plan would there be any consequences?  
 7 R/F MR. PINOS: Don't answer that.  
 8 BY MR. BALA:  
 9 711 Q. Is there any training material,  
 10 communications, policies provided to your employees  
 11 on the selling of this payday loan payment  
 12 protection plan?  
 13 R/F MR. PINOS: Don't answer that.  
 14 BY MR. BALA:  
 15 712 Q. Is there some kind of agreement  
 16 between Casb Store Financial and Trans Global  
 17 Insurance with respect to the payment protection  
 18 plan?  
 19 R/F MR. PINOS: Don't answer that.  
 20 BY MR. BALA:  
 21 713 Q. Can I get a copy of any document  
 22 or any agreement between the Casb Store Financial  
 23 and Trans Global Insurance with respect to this  
 24 payment protection plan?  
 25 R/F MR. PINOS: No.

Page 156

1 MR. BALA: Go off record.  
 2 --- Recess at 1:01 p.m. 40  
 3 --- On resuming at 1:51 p.m.  
 4 BY MR. BALA:  
 5 714 Q. Mr. Thompson, we spoke earlier  
 6 about the insurance in the payday loan payment  
 7 protection plan, and that was 3.77 percent as the  
 8 document, the 4th page of what you describe as your  
 9 loan documents at Exhibit A states, correct?  
 10 A. Correct.  
 11 715 Q. And that 3.77 percent, the  
 12 insurance fee I'll call it, this is collected by  
 13 Casb Store Financial?  
 14 A. I can't answer that question  
 15 because I don't know exactly the mechanics on that.  
 16 716 Q. Can I get an undertaking?  
 17 U/A MR. PINOS: I'll take that under  
 18 advisement.  
 19 BY MR. BALA:  
 20 717 Q. That 3.77 percent it gets paid to  
 21 your company though?  
 22 A. No, it does not.  
 23 718 Q. Who does it get paid to?  
 24 A. I understand that it gets paid to  
 25 TGI.

Page 157

1 719 Q. And how does it get paid to them?  
 2 A. I don't know the mechanics of  
 3 that.  
 4 720 Q. Can I get an undertaking to that  
 5 effect?  
 6 U/A MR. PINOS: I'll take that under  
 7 advisement.  
 8 BY MR. BALA:  
 9 721 Q. Let's go to your first affidavit.  
 10 Exhibit "I". This is a letter again from the  
 11 ministry compliance inspector to your lawyer?  
 12 A. That's correct.  
 13 722 Q. And as we stated earlier, as you  
 14 stated earlier you had responded to this letter?  
 15 A. That's correct.  
 16 723 Q. Now in the subject line of this  
 17 letter it says, "Payday Loan Inspection #28520."  
 18 Do you see that?  
 19 A. I do.  
 20 724 Q. And in the second paragraph of  
 21 this letter the compliance inspector states:  
 22 "I recently conducted an  
 23 initial inspection at your retail  
 24 outlet located at 3323 Lakeshore Ave  
 25 West in Toronto."

Page 158

1 Do you see that?  
 2 A. I do.  
 3 725 Q. Let's go to your Exhibit "O" of  
 4 your first affidavit. And this is a letter from  
 5 your lawyer to Mr. Pitkin?  
 6 A. Yes.  
 7 726 Q. On the second page of that letter  
 8 it says that it is copied to yourself?  
 9 A. That's correct.  
 10 727 Q. And let's go back to the first  
 11 page of this. Mr. Pinos in this letter makes  
 12 reference to two inspections in the first sentence  
 13 of that letter?  
 14 A. Correct.  
 15 728 Q. And in the last sentence he states  
 16 attached are the inspection deficiency forms left  
 17 by the inspector? Last sentence of the first  
 18 paragraph?  
 19 A. Correct.  
 20 729 Q. And in this letter there are  
 21 copies of inspection deficiency field visit  
 22 notices?  
 23 A. Correct.  
 24 730 Q. And so you have had some  
 25 experience with the ministry's inspection regime

Page 159

1 under the Payday Loans Act?  
 2 A. Yes.  
 3 731 Q. And you're aware that in some  
 4 cases inspection deficiency field visit notices are  
 5 provided to your employees at the branch level?  
 6 A. That's correct.  
 7 732 Q. And your employees are trained to  
 8 send these inspection deficiency notices to head  
 9 office?  
 10 A. That's correct.  
 11 733 Q. And you're aware that in some  
 12 cases the ministry inspector communicates with your  
 13 store manager or highest level employee about the  
 14 results of the inspection?  
 15 A. I wouldn't say that necessarily,  
 16 no.  
 17 734 Q. Are your store managers trained to  
 18 take notes when they have discussions with ministry  
 19 compliance inspectors?  
 20 A. They are.  
 21 735 Q. And are they trained to send you  
 22 the contents of their conversations that they have  
 23 with ministry compliance inspectors?  
 24 A. They are.  
 25 736 Q. And you're aware that as part of

Page 160

1 the inspection process photocopies of what you  
 2 describe in your reply affidavit as your quote **41**  
 3 unquote loan documents are taken from your  
 4 branches?  
 5 A. Yes, I am.  
 6 737 Q. Now let's go to what Mr. Pinos has  
 7 been calling my green book that I've been calling  
 8 my supplementary documents. Just keep this handy  
 9 for one second.  
 10 Let's go to Exhibit "I" of your first  
 11 affidavit. Keep this green book handy.  
 12 Again, we've covered this many times.  
 13 This is the ministry compliance inspector's letter  
 14 to your lawyer?  
 15 A. That's correct.  
 16 738 Q. Now we'll go to tab 1 of the green  
 17 book, page 23 in the top right-hand corner.  
 18 That is an exact copy of the letter at  
 19 Exhibit "I" of your affidavit?  
 20 A. It appears to be, yes.  
 21 739 Q. Go to page 25. And this is your  
 22 letter in response to the ministry compliance  
 23 inspector?  
 24 A. It is, yes.  
 25 740 Q. And in the subject line you write

Page 161

1 Payday Loan Inspection #28520; is that correct?  
 2 A. Correct.  
 3 741 Q. And that is the same number  
 4 written on the ministry compliance inspector's  
 5 letter to Mr. Pinos?  
 6 A. That's correct.  
 7 742 Q. Now, let's go to the first page of  
 8 tab 1. In the top left corner in the first field  
 9 it says Inspection #, do you see that?  
 10 A. I do.  
 11 743 Q. And that inspection number is  
 12 28520?  
 13 MR. PINOS: That's what it says  
 14 although we never received a copy of this document.  
 15 MR. BALA: Prior to my giving it to  
 16 your office about a month ago.  
 17 MR. PINOS: Yes. So we don't know what  
 18 this document is.  
 19 BY MR. BALA:  
 20 744 Q. But you see that there's an  
 21 inspection number?  
 22 A. I see that, yes.  
 23 745 Q. And that inspection number says  
 24 28520?  
 25 A. Yes.

Page 162

1 746 Q. And that is the same number as  
2 listed in the ministry compliance inspector's  
3 letter to Mr. Pinos?  
4 A. Yes.  
5 747 Q. And it is the same number as  
6 exists in your letter to the ministry compliance  
7 inspector?  
8 A. That's correct.  
9 748 Q. And the address 3323 Lakeshore  
10 Boulevard West in the top left corner, that is the  
11 same address as in the ministry compliance  
12 inspector's letter at Exhibit "I" of your  
13 affidavit?  
14 A. That's correct.  
15 749 Q. Let's go to tab 1, page 4. Do you  
16 recognize this document?  
17 A. Yes, I do. Well I recognize it to  
18 be one of our loan documents, yes.  
19 750 Q. Does it resemble what you describe  
20 as your loan documents at Exhibit A of your reply  
21 affidavit?  
22 A. It resembles the first page of  
23 those documents, yes.  
24 751 Q. Does the second page resemble  
25 those pages?

Page 163

1 A. It does.  
2 752 Q. All right. And this document  
3 right here it appears to be an executed Promissory  
4 Note and Disclosure of All Costs? There's customer  
5 signatures?  
6 A. Yes.  
7 753 Q. And this one is dated December 18,  
8 2009?  
9 A. Yes, it is.  
10 754 Q. And this one is from the  
11 Instaloes branch on Lakeshore West at 3323  
12 Lakeshore Boulevard West in Etobicoke?  
13 A. Yes, it is.  
14 755 Q. And that is the same address as  
15 listed in the ministry compliance inspector's  
16 letter to your lawyer?  
17 A. Yes, it is.  
18 756 Q. In the middle the page it says:  
19 "I understand that I have 3  
20 options to receive my loan proceeds:  
21 Cheque, Debit Card and MasterCard."  
22 A. Yes.  
23 757 Q. There is a space for a customer to  
24 initial next to each of the three options?  
25 A. That's correct.

Page 164

1 758 Q. And there is a reproduction of  
2 these three options at paragraph 5 of your reply  
3 affidavit? Why don't we go to paragraph 5 of your  
4 reply affidavit. We'll put this on bold for a  
5 second.  
6 At the very bottom of paragraph 5 you  
7 state at the last line:  
8 "Specifically, in the  
9 'Promissory Note and Disclosure of  
10 All Costs' document provided to and  
11 signed by all customers who borrowed  
12 funds from Cash Store or Instaloes,  
13 a customer was required to initial  
14 one of the following options:"  
15 Do you see that?  
16 A. I do.  
17 759 Q. And then there is the three  
18 options from your Promissory Note and Disclosure of  
19 All Costs that is reproduced?  
20 A. That's correct.  
21 760 Q. And at the top of page 3 of your  
22 affidavit it states that the customer was required  
23 to initial one of the following options, one of the  
24 three options, correct?  
25 A. That's correct.

Page 165

1 761 Q. And at the top of page 3 you state  
2 that the document was signed by "all customers who  
3 borrowed funds from Cash Store or Instaloes"?  
4 A. That's correct.  
5 762 Q. And you use the phrase "all  
6 customers"?  
7 A. I did.  
8 763 Q. All customers means every  
9 customer, correct?  
10 A. Correct.  
11 764 Q. Now let's go back to what I've  
12 been calling my supplementary documents, page 4,  
13 the very same page that I took you to. The page 1  
14 of what you have as your loan documents.  
15 Again, do you see that portion that  
16 states, "I understand that I have 3 options to  
17 receive the loan proceeds: Cheque, Debit Card,  
18 MasterCard"?  
19 A. I do.  
20 765 Q. And there's a space to initial  
21 next to each of those three?  
22 A. Correct.  
23 766 Q. And there is no initial next to  
24 any of these three options, correct?  
25 A. That appears to be the case, yes.

Page 166

1 767 Q. And despite that lack of initial  
 2 there was \$361.70 loaded onto the Freedom Debit  
 3 Card?  
 4 A. If in this case it was loaded onto  
 5 the Freedom Debit Card, then, yes. I don't know.  
 6 I have to look at... correct.  
 7 768 Q. Now can you look through this  
 8 particular loan document and tell me whether or not  
 9 this customer borrowed any money to pay for any  
 10 ancillary services? Does it appear from this  
 11 document?  
 12 A. No.  
 13 769 Q. It doesn't appear from this  
 14 document?  
 15 A. No. This document relates to the  
 16 amount of money that the customer borrowed.  
 17 770 Q. So the customer -- so there's a  
 18 section entitled Loan Detail?  
 19 A. That's correct.  
 20 771 Q. And it says loan amount \$361.70?  
 21 A. That's correct.  
 22 772 Q. So your position is that a  
 23 customer walked into your store and said, I want to  
 24 borrow \$361.70?  
 25 A. My position is that the customer

Page 167

1 agreed to borrow \$361.70 and that's how much we  
 2 lent to them.  
 3 773 Q. Let's go to the third page of this  
 4 set of loan documents. So it's page 6 in the top  
 5 right-hand corner.  
 6 Now there are two sections to this  
 7 page. On the top it says Pre-Authorized Debit  
 8 Agreement?  
 9 A. Yes.  
 10 774 Q. And the second section is entitled  
 11 Instaloans Payday Loan Payment Protection Plan?  
 12 A. That's correct.  
 13 775 Q. And when you wrote to Mr.  
 14 Rambaran in February 2010 and said that the  
 15 inclusion of the payday loan protection plan does  
 16 appear contrary to section 27(1) were you referring  
 17 to this page here?  
 18 A. I would say yes.  
 19 776 Q. And, again, in order to come into  
 20 compliance with the law you took this part, or at  
 21 some point thereafter February 2010 you took this  
 22 part out, off of this page, this part about the  
 23 Instaloans Payday Loan Payment Protection Plan  
 24 Application, you took it off of this page and put  
 25 it onto a separate page?

Page 168

1 A. I believe earlier I said I don't  
 2 recall and that remains the case. We made <sup>43</sup>  
 3 undertaking to look into that. I don't remember  
 4 the procedures that were applied at that time.  
 5 777 Q. Let's go to the next page. Again,  
 6 this says Customer Receipt Partial. It says PPP  
 7 Fee?  
 8 A. Yes.  
 9 778 Q. What is the PPP fee?  
 10 A. PPP fee is the payment protection  
 11 plan fee.  
 12 779 Q. At the bottom of this document it  
 13 says, "Thank you for coming to Instaloans"?  
 14 A. It does.  
 15 780 Q. And this payment protection plan  
 16 fee is \$14.70?  
 17 A. That's what it says there, yes.  
 18 781 Q. And who issues this customer  
 19 receipt partial? Is it Cash Store Financial?  
 20 A. Cash Store Financial would do  
 21 that, yes. Or the Cash Store or Instaloan, sorry.  
 22 It wouldn't be Cash Store Financial. It would be  
 23 one of those two entities.  
 24 782 Q. Let's go to page 12 in this very  
 25 same tab. Do you recognize this document?

Page 169

1 A. I recognize it to be one of our  
 2 loan documents.  
 3 783 Q. This appears to be a loan document  
 4 signed by one of your customers?  
 5 A. Yes.  
 6 784 Q. And this one is from an Instaloans  
 7 branch at 3323 Lakeshore West in Etobicoke?  
 8 A. Yes.  
 9 785 Q. And that is the same address as  
 10 listed in the ministry compliance inspector's  
 11 letter to Mr. Pinos?  
 12 A. That's correct.  
 13 786 Q. In the middle of the page it says:  
 14 "I understand that I have 3  
 15 options to receive the loan  
 16 proceeds: Cheque, Debit Card,  
 17 MasterCard."  
 18 A. That's correct.  
 19 787 Q. There's a space for a customer to  
 20 initial as to each of the three options?  
 21 A. That's correct.  
 22 788 Q. But there is no initial in any of  
 23 the three spaces provided?  
 24 A. Not on this document, no.  
 25 789 Q. And despite the lack of initial

Page 170

1 this document suggests that the loan was of  
 2 \$1,011.90 loaded onto a card?  
 3 A. That's correct.  
 4 790 Q. Let's go to page 14 of this same  
 5 tab. This document is entitled Pre-Authorized  
 6 Debit Agreement?  
 7 A. That's correct.  
 8 791 Q. On this document is there also the  
 9 Instaloans Payday Loan Payment Protection Plan?  
 10 A. Appears not.  
 11 792 Q. Can you flip the page? What is  
 12 the title of this document?  
 13 A. Instaloans Payday Loan Payment  
 14 Protection Plan.  
 15 793 Q. So you took the Instaloans Payday  
 16 Loan Payment Protection Plan off of the same page  
 17 as the Pre-Authorized Debit Agreement and you put  
 18 it on the following page?  
 19 A. I can't confirm that.  
 20 794 Q. Can you confirm that? Can I get  
 21 an undertaking?  
 22 U/T MR. PINOS: We'll make inquiries and if  
 23 we can find any information that's relevant to that  
 24 question we'll let you know.  
 25 BY MR. BALA:

Page 171

1 795 Q. Will you go to page 16? This page  
 2 is entitled Customer Receipt Partial?  
 3 A. Correct.  
 4 796 Q. Similar to the document attached  
 5 as Exhibit A to your reply affidavit?  
 6 A. Correct.  
 7 797 Q. And here the payment protection  
 8 plan fee is \$34.22?  
 9 A. That's correct.  
 10 798 Q. All right. Before we move on  
 11 let's mark this tab 1 as the next exhibit.  
 12 MR. PINOS: Well, I guess the  
 13 difficulty is -- I'm happy to mark the documents  
 14 that we've identified as being ours, but I'm  
 15 reluctant to mark the first three pages, or mark  
 16 documents that either aren't ours or that we didn't  
 17 receive. So I'm happy to mark pages 4 through 26,  
 18 but not the first three pages.  
 19 MR. MANUEL: Can we mark the first  
 20 three for identification purposes?  
 21 MR. PINOS: If you want. I can't stop  
 22 you from doing that. They haven't been proved.  
 23 They've just been thrown our way.  
 24 MR. BALA: The first three will be  
 25 Exhibit A. And then the remaining will be

Page 172

1 exhibit... I don't know what number we're at.  
 2 MR. MANUEL: Four. **44**  
 3 EXHIBIT NO. 4: Pages 4-24 of Tab 1 of  
 4 Respondents' Supplementary Document  
 5 Brief (green book)  
 6 EXHIBIT NO. A: For Identification:  
 7 Pages 1-3 of Tab 1 of Respondents'  
 8 Supplementary Document Brief (green  
 9 book)  
 10 BY MR. BALA:  
 11 799 Q. Could we go to tab 2 of the green  
 12 book, page 41? The very last page.  
 13 Do you recognize this document?  
 14 A. I recognize it, yes, I do.  
 15 800 Q. What is it?  
 16 A. Inspection Deficiency Field Visit  
 17 Notice.  
 18 801 Q. Does it resemble the Inspection  
 19 Deficiency Field Visit Notice at Exhibit "O", or  
 20 notices I should say at Exhibit "O" of your first  
 21 affidavit?  
 22 MR. PINOS: It's the same form.  
 23 THE DEPONENT: You know what, they're  
 24 not all the same. It changed over time. So I need  
 25 to see...

Page 173

1 The form resembles the form at this  
 2 exhibit, yes.  
 3 BY MR. BALA:  
 4 802 Q. All right. In the top right  
 5 corner there's an inspection number that's  
 6 provided?  
 7 A. Yes.  
 8 803 Q. And the number on this document is  
 9 28574?  
 10 A. Correct.  
 11 804 Q. And do you see in the bottom  
 12 left-hand corner that this document was  
 13 acknowledged by a Sherry Lemon?  
 14 A. I do.  
 15 805 Q. Let's go to the 4th page of this  
 16 tab. Page 30 in the top right corner. This  
 17 appears to be a photocopy of a business card of  
 18 Sherry Lemon?  
 19 A. Mm-hmm.  
 20 806 Q. And her position is listed as  
 21 manager of the Port Colborne location of the Cash  
 22 Store?  
 23 A. That's correct.  
 24 807 Q. Let's go to the first page of this  
 25 tab. Do you see in the top left corner there is an

Page 174

1 inspection number provided?  
 2 A. I do.  
 3 808 Q. And that number is 28574?  
 4 A. Correct.  
 5 809 Q. And that is the same number as  
 6 written on the Inspection Deficiency Field Visit  
 7 Notice?  
 8 A. That's correct.  
 9 810 Q. And the address provided is the  
 10 same address as on Ms. Sherry Lemon's business  
 11 card?  
 12 A. It is.  
 13 811 Q. Let's go to the 5th page of tab 2,  
 14 which is page 31 in the top right corner.  
 15 Again, do you recognize this document?  
 16 A. I do.  
 17 812 Q. What is it?  
 18 A. It's a loan document.  
 19 813 Q. It's a loan document belonging to  
 20 one of your companies?  
 21 A. That's correct.  
 22 814 Q. And this appears to have been  
 23 signed by one of your customers?  
 24 A. It does.  
 25 815 Q. This one is dated January 2010?

Page 175

1 A. Correct.  
 2 816 Q. And it is from the Cash Store  
 3 branch in Port Colbome?  
 4 A. Correct.  
 5 817 Q. This is the same location as on  
 6 Sherry Lemon's business card?  
 7 A. Correct.  
 8 818 Q. In the middle of the page it says:  
 9 "I understand that I have 3  
 10 options to receive my loan proceeds:  
 11 Cheque, Debit Card, MasterCard."  
 12 A. It does.  
 13 819 Q. There's a space for a customer  
 14 initial next to each of the three options?  
 15 A. That's correct.  
 16 820 Q. But there is no initial in any of  
 17 the three spaces provided?  
 18 MR. PINOS: It's hard to tell. There's  
 19 a mark on the sheet here above the debit card slot.  
 20 You have to look at the original to see whether  
 21 that's any form of initial or just a piece of dust.  
 22 BY MR. BALA:  
 23 821 Q. Go to page 32 of this same  
 24 document. In the bottom right-hand corner do you  
 25 see it says initial?

Page 176

1 A. Yes.  
 2 822 Q. And this customer's initials are **45**  
 3 CT?  
 4 A. Correct.  
 5 823 Q. Do you see anything resembling  
 6 that in the three spaces provided for an initial?  
 7 A. I do not.  
 8 824 Q. And before we move on, despite  
 9 this lack of initial, there was \$529.51 loaded onto  
 10 the Freedom Debit Card?  
 11 A. That would appear to be the case,  
 12 yes.  
 13 825 Q. Can you go to page 34? It appears  
 14 that there is a portion of this page that's cut off  
 15 at the top, but it is nevertheless the Payday Loan  
 16 Payment Protection Plan?  
 17 A. That's correct.  
 18 826 Q. Application, I'm sorry. At the  
 19 very bottom it says, "Thank you for using The Cash  
 20 Store's Services"?  
 21 A. That's correct.  
 22 827 Q. The next page, page 35, the  
 23 payment protection plan fee here is \$21.51?  
 24 A. That's correct.  
 25 828 Q. Can we mark this then as the next

Page 177

1 exhibit? And I guess, Mr. Pinos, I presume --  
 2 MR. PINOS: I'd make the same request.  
 3 MR. BALA: So we'll start at page 30  
 4 with Sherry Lemon's business card.  
 5 MR. MANUEL: B is pages 27 to 29.  
 6 EXHIBIT NO. B: For Identification:  
 7 Pages 27-29 of Tab 2 of Respondents'  
 8 Supplementary Document Brief (green  
 9 book)  
 10 MR. MANUEL: Then 5 will be 30 to 41.  
 11 EXHIBIT NO. 5: Pages 30-41 of Tab 2 of  
 12 Respondents' Supplementary Document  
 13 Brief (green book)  
 14 BY MR. BALA:  
 15 829 Q. Let's go to tab 4, page 61. Last  
 16 page. Mr. Thompson, do you recognize this  
 17 document?  
 18 A. I believe so.  
 19 830 Q. What is it?  
 20 A. It's an Inspection Deficiency  
 21 Field Visit Notice.  
 22 831 Q. It resembles the form of the  
 23 Inspection Deficiency Field Visit Notice at Exhibit  
 24 "O" of your first affidavit?  
 25 A. That's correct.

Page 178

1 832 Q. At the top right-hand corner  
 2 there's an inspection number provided?  
 3 A. Correct.  
 4 833 Q. And that number is 28796?  
 5 A. Correct.  
 6 834 Q. And the business address under  
 7 that section here it states that this is in  
 8 Keswick, Ontario, correct?  
 9 A. That's correct.  
 10 835 Q. The bottom left-hand corner?  
 11 A. Yes.  
 12 836 Q. Do you see in the bottom left that  
 13 this document was acknowledged by a Vicki  
 14 Grosskurth?  
 15 A. That's correct.  
 16 837 Q. And it states that Vicki  
 17 Grosskurth is a store manager?  
 18 A. That's correct.  
 19 838 Q. Let's go one page before it, page  
 20 60 in the top right-hand corner.  
 21 A. Yes.  
 22 839 Q. This appears to be a photocopy of  
 23 Vicki Grosskurth's business card?  
 24 A. That's correct.  
 25 840 Q. And her position is identified as

Page 179

1 manager of the Keswick, Ontario branch of the Cash  
 2 Store?  
 3 A. That's correct.  
 4 841 Q. Let's go to the first page. Do  
 5 you see in the top left-hand corner there's an  
 6 inspection number provided?  
 7 A. I do.  
 8 842 Q. And that number is 28796?  
 9 A. That's correct.  
 10 843 Q. And that is the same number as  
 11 written on the Inspection Deficiency Field Visit  
 12 Notice?  
 13 A. That's correct.  
 14 844 Q. And the address in the top left  
 15 corner matches the address on Ms. Grosskurth's  
 16 business card?  
 17 155 Riverglen Drive. Page 60 for Ms.  
 18 Grosskurth's business card.  
 19 A. Thank you. It does.  
 20 845 Q. Let's go to the 4th page of this.  
 21 So it's page 51 in the top right-hand corner.  
 22 Do you recognize this document?  
 23 A. It appears to be one of our loan  
 24 documents.  
 25 846 Q. And this appears to be a loan

Page 180

1 document that has been signed by one of your  
 2 customers?  
 3 A. That's correct. **46**  
 4 847 Q. This one is dated April 23, 2010?  
 5 A. Correct.  
 6 848 Q. It is from the Cash Store branch  
 7 in Keswick, Ontario?  
 8 A. That's correct.  
 9 849 Q. And that is the branch listed on  
 10 Ms. Grosskurth's business card?  
 11 A. Yes, that's correct.  
 12 850 Q. In the middle of the page it says:  
 13 "I understand that I have 3  
 14 options to receive my loan proceeds:  
 15 Cbeque, Debit Card and MasterCard."  
 16 A. Correct.  
 17 851 Q. There is a space for a customer  
 18 initial next to each of the three options?  
 19 A. Correct.  
 20 852 Q. And there is no initial in any of  
 21 the three spaces provided?  
 22 A. That's correct.  
 23 853 Q. Let's go to two pages over. This  
 24 contains the Pre-Authorized Debit Agreement?  
 25 A. Hold on, sorry. That's correct.

Page 181

1 854 Q. And at the time that Mr. Ramcharan  
 2 wrote Mr. Pinos in January 2010 the payday loan  
 3 protection plan was included on the same page as  
 4 this document?  
 5 MR. PINOS: That's not what Mr.  
 6 Ramcharan says. That's how you interpret what he  
 7 said.  
 8 MR. BALA: No, I'm just saying at the  
 9 time that he wrote that letter.  
 10 THE DEPONENT: And as I mentioned  
 11 before, I don't recall.  
 12 BY MR. BALA:  
 13 855 Q. In January 2010 -- you don't  
 14 recall? Let's go to the next page. Page 54.  
 15 And so in this agreement of April 2010  
 16 the payday loan payment protection plan is on the  
 17 page following the Pre-Authorized Debit Agreement?  
 18 A. That's correct.  
 19 856 Q. Let's go to the next page over,  
 20 page 55 top right-hand corner.  
 21 A. Okay.  
 22 857 Q. There's a PPP fee, and that's the  
 23 payment protection plan fee?  
 24 A. That's correct.  
 25 858 Q. That's \$8.02?



Page 182

1 A. Correct.

2 859 Q. At the bottom it says, "Thank you

3 for coming to The Cash Store?"

4 A. That's correct.

5 860 Q. Mark this as the next exhibit.

6 And, Mr. Pinos, I take it you have the same

7 concerns as before?

8 MR. PINOS: Yes.

9 MR. BALA: So it would be pages 47 to

10 50 that are letter C, I believe, and 51 to 61 that

11 is numbered as the next exhibit.

12 EXHIBIT NO. 6: Pages 51-61 of Tab 4 of

13 Respondents' Supplementary Document

14 Brief (green book)

15 EXHIBIT NO. C: For Identification:

16 Pages 47-50 of Tab 4 of Respondents'

17 Supplementary Document Brief (green

18 book)

19 BY MR. BALA:

20 861 Q. Let's go to tab 5. Page 72.

21 Do you recognize this document? Wrong

22 page, Mr. Pinos. Page 72, tab 5.

23 A. I recognize this to be an

24 inspection deficiency field notice, yes.

25 862 Q. In the top right-hand corner there

Page 183

1 is an inspection number provided?

2 A. Correct.

3 863 Q. And that number is 28800, correct?

4 A. Correct.

5 864 Q. Do you see in the bottom left-hand

6 corner that this document was acknowledged by a

7 Jeannie Robertshaw?

8 A. I do.

9 865 Q. And it states that Ms. Robertshaw

10 is a manager?

11 A. Correct.

12 866 Q. Let's go to the third page of tab

13 5, page 64 in the top right-hand corner.

14 A. Yes.

15 867 Q. This appears to be a photocopy of

16 Ms. Robertshaw's business card?

17 A. Correct.

18 868 Q. And her position is identified as

19 manager of the Newmarket, Ontario branch of the

20 Cash Store?

21 A. Correct.

22 869 Q. Let's go to the first page of tab

23 4. Do you see in the top left-hand corner there's

24 an inspection number provided?

25 A. I do.

Page 184

1 870 Q. And that number is 28800?

2 A. Correct. 47

3 871 Q. And that is the same number as

4 written on the Inspection Deficiency Field Visit

5 Notice?

6 A. Correct.

7 872 Q. And the address provided that is

8 the same address as exists on Ms. Robertshaw's

9 business card?

10 A. That's correct.

11 873 Q. Let's go to the 4th page of tab 5,

12 page 65 in the top right-hand corner.

13 A. Yes.

14 874 Q. Do you recognize this document?

15 A. I do.

16 875 Q. What is it?

17 A. Well, I recognize it to be one of

18 our loan documents, yes.

19 876 Q. And this loan document appears to

20 have been signed by one of your customers?

21 A. It does appear to have been signed

22 by one of our customers, yes.

23 877 Q. And this one is dated May 15,

24 2010?

25 A. Yes, it is.

Page 185

1 878 Q. It is from a Cash Store branch in

2 Newmarket, Ontario?

3 A. Correct.

4 879 Q. And it is the branch where Ms.

5 Robertshaw is the manager.

6 A. I believe so, yes.

7 880 Q. In the middle of the page it

8 states:

9 "I understand that I have 3

10 options to receive the loan

11 proceeds: Cheque, Debit Card,

12 MasterCard."

13 A. Correct.

14 881 Q. There's a space for a customer to

15 initial next to each of the three options?

16 A. That's correct.

17 882 Q. And on this one there is an

18 initial next to the debit card option?

19 A. Correct.

20 883 Q. Now let's flip the page. No,

21 wrong tab. We will mark this one as the next

22 exhibit, Mr. Pinos, on the same terms as earlier.

23 Actually, Mr. Pinos, I'm going to --

24 this one right here half of it is a reproduction of

25 a tab earlier. So this tab should only go to page

Page 186

1 74 at the end.  
 2 MR. PINOS: So you're going to mark for  
 3 identification 62, 63, 73, 74?  
 4 MR. BALA: Yes.  
 5 MR. PINOS: And then the 64 through 72  
 6 you've marked as an exhibit?  
 7 MR. BALA: Works for me.  
 8 EXHIBIT NO. D: For Identification:  
 9 Pages 62, 63, 73, 74 of Tab 5 of  
 10 Respondents' Supplementary Document  
 11 Brief (green book)  
 12 EXHIBIT NO. 7: Pages 64-72 of Tab 5 of  
 13 Respondents' Supplementary Document  
 14 Brief (green book)  
 15 BY MR. BALA:  
 16 884 Q. Tab 6, page 109.  
 17 Do you recognize this document?  
 18 A. I do.  
 19 885 Q. What is it?  
 20 A. It's an inspection deficiency  
 21 field notice.  
 22 886 Q. And, again, does this document  
 23 resemble the deficiency field notice at Exhibit "O"  
 24 of your first affidavit?  
 25 A. It does.

Page 187

1 887 Q. Now you actually have a copy of  
 2 this very document at Exhibit "O" of your first  
 3 affidavit? Feel free to go, page 56.  
 4 A. I'll take your word for it.  
 5 888 Q. The top right-hand corner there is  
 6 an inspection number provided. Do you see that?  
 7 A. I do.  
 8 889 Q. And that number is 29004?  
 9 A. Yes, correct.  
 10 890 Q. And in the bottom left-hand corner  
 11 of this document there's a name Judy Redhead?  
 12 MR. PINOS: Yes.  
 13 BY MR. BALA:  
 14 891 Q. And the second last page of tab 6?  
 15 A. Yes.  
 16 892 Q. So this is page 108 in the top  
 17 right corner?  
 18 A. Yes.  
 19 893 Q. There is a business card, or what  
 20 appears to be a business card, a copy of it of the  
 21 Cash Store Financial?  
 22 A. Yes.  
 23 894 Q. The position is listed as customer  
 24 service representative?  
 25 A. Correct.

Page 188

1 895 Q. And the name says Judy?  
 2 A. Correct. 48  
 3 896 Q. And it lists the particular branch  
 4 of the Cash Store as 1550 Kingston Road in  
 5 Pickering?  
 6 A. Correct.  
 7 897 Q. And going to page 109 that is the  
 8 Inspection Deficiency Field Visit Notice that is  
 9 the same address?  
 10 MR. PINOS: It looks like it. It's  
 11 hard to make it out, but...  
 12 THE DEPONENT: Yes.  
 13 BY MR. BALA:  
 14 898 Q. Let's go to the 6th page of tab 6.  
 15 It's page 94 in the top right corner. Actually  
 16 before we get there. Let's go to the first page of  
 17 tab 4.  
 18 A. First page of tab 4?  
 19 899 Q. Not tab 4, tab 6, my apologies.  
 20 Do you see in the top left corner  
 21 there's an inspection number provided?  
 22 A. I do.  
 23 900 Q. And that number is 29004?  
 24 A. That's correct.  
 25 901 Q. And that is the same number as

Page 189

1 written on the Inspection Deficiency Field Visit  
 2 Notice? It should be last page of that.  
 3 A. That's correct.  
 4 902 Q. And the address in the top left  
 5 corner is 1550 Kingston Road in Pickering, Ontario?  
 6 A. Correct.  
 7 903 Q. And that is the same address as on  
 8 Judy's business card?  
 9 A. Correct.  
 10 904 Q. Now let's go to the 6th page of  
 11 this tab which is page 94 in the top right corner.  
 12 Do you recognize this document?  
 13 A. I recognize it to be one of our  
 14 loan documents.  
 15 905 Q. This appears to have been signed  
 16 by one of your customers?  
 17 A. Yes, it does.  
 18 906 Q. This one is dated September 30,  
 19 2010?  
 20 A. Correct.  
 21 907 Q. It's from a Cash Store branch in  
 22 Pickering, Ontario?  
 23 A. Yes.  
 24 908 Q. The very branch listed on Judy's  
 25 business card?

Page 190

1 A. Correct.  
 2 909 Q. In the middle of the page it says:  
 3 "I understand that I have 3  
 4 options to receive the loan  
 5 proceeds: Cheque, Debit Card,  
 6 MasterCard."  
 7 A. That's correct.  
 8 910 Q. There's a space for a customer to  
 9 initial next to each of the three options?  
 10 A. Correct.  
 11 911 Q. And if you go to the third page of  
 12 this document you'll see that the customer's  
 13 initials are K and S?  
 14 A. Yes.  
 15 912 Q. Go back to the first page. Is  
 16 there either a K or S in any of the three options?  
 17 A. I can't tell.  
 18 913 Q. There appears to be a little tick.  
 19 MR. PINOS: There's something beside  
 20 the MasterCard.  
 21 BY MR. BALA:  
 22 914 Q. Does it resemble maybe somebody  
 23 putting an X there?  
 24 MR. PINOS: No. It actually resembles  
 25 the upstroke of part of her signature or part of

Page 191

1 her initials.  
 2 MR. BALA: Handwriting expert.  
 3 MR. PINOS: No.  
 4 BY MR. BALA:  
 5 915 Q. Do you see a K there, Mr.  
 6 Thompson?  
 7 A. I do not.  
 8 916 Q. Do you see a KS there?  
 9 A. I do not.  
 10 917 Q. Let's go to the 5th page of tab 6.  
 11 There's a page 93 in the top right-hand corner. So  
 12 it's the page before.  
 13 A. Page 93?  
 14 918 Q. Yes. There's a date on this page,  
 15 December 1, 2010. And the document is titled,  
 16 "Notes Inspection 29004"?  
 17 A. Yes.  
 18 919 Q. Now you're aware that during  
 19 inspections the inspectors sometimes they have  
 20 discussions with your staff?  
 21 A. I am.  
 22 920 Q. And your staff, as you stated  
 23 earlier, is trained to take notes of these  
 24 conversations and pass them along to head office?  
 25 A. That's correct.

Page 192

1 921 Q. And, again, this date is December  
 2 1, 2010? Correct? 49  
 3 A. Correct.  
 4 922 Q. And you said earlier that October  
 5 27, 2010 was the day that the cheque-for-loans  
 6 process was formally rolled out in Ontario?  
 7 A. That's correct.  
 8 923 Q. Let's look at this point No. 1.  
 9 MR. PINOS: Well, let's make it clear,  
 10 we've never received this document before. We've  
 11 never seen it before until you sent us the book.  
 12 It's not attached to the inspection field  
 13 deficiency notice. It's not in Mr. Pitkin's  
 14 affidavit. It's not on the record in this. It's  
 15 in a book of documents you've sent us.  
 16 So I'll bear your question, and you can  
 17 ask us to make whatever assumptions about the  
 18 providence of this document, and then I'll make my  
 19 decision as to whether Mr. Thompson will answer at  
 20 this point now.  
 21 BY MR. BALA:  
 22 924 Q. Now point No. 1 here, Mr.  
 23 Thompson, it states that, "She advised", and  
 24 they're speaking of Judy Redhead:  
 25 "...that in her 2 mths she has

Page 193

1 never mentioned the 'free option'  
 2 (in store chq) to any borrowers.  
 3 Sbe is not aware of whether the  
 4 store has the capacity to print in  
 5 store cheques as sbe has never had a  
 6 borrower ask for this option."  
 7 Do you see that?  
 8 A. Yes, I do.  
 9 925 Q. Maybe in order to resolve any  
 10 questions can we get an undertaking as to how many  
 11 loans were issued by cheque at the Cash Store  
 12 location at Pickering, Ontario up until the date of  
 13 December 1, 2010?  
 14 U/A MR. PINOS: I'll take that under  
 15 advisement.  
 16 BY MR. BALA:  
 17 926 Q. Let's look at No. 2:  
 18 "The payment protection is  
 19 offered on the majority of the  
 20 loans. The fees for the loan  
 21 protection is not on the actual loan  
 22 agreement, but it is introduced to  
 23 the consumer during the loan  
 24 calculations and is presented on a  
 25 separate piece of paper that makes

1 up the loan agreement. The cost for  
 2 loan protection is a % of the loan  
 3 amount and is part of the overall  
 4 fees charges to the consumer."  
 5 Now, as of December 1, 2010 is that an  
 6 accurate description of the manner in which the  
 7 payday loan payment protection plan was offered to  
 8 consumers?

9 A. I would say that the statement  
 10 that the separate piece of paper makes up part of  
 11 the loan agreement is not correct, but apart from  
 12 that I would agree with that statement.

13 927 Q. Why don't we do this in order to  
 14 resolve the discrepancy, can I get an undertaking  
 15 as to any training materials, company policies,  
 16 practices or any statements with respect to how  
 17 insurance was to be sold to consumers as of  
 18 December 1, 2010?

19 U/A MR. PINOS: I'll take that under  
 20 advisement.

21 BY MR. BALA:

22 928 Q. Now, Mr. Thompson, you stated  
 23 earlier that your employees are trained when they  
 24 have these discussions with ministry inspectors to  
 25 take notes and forward the contents of their

1 I don't know if it's incomplete, or if  
 2 it ended instead of putting a period they put **50**  
 3 however it is, but I recognize your point.

4 MR. PINOS: It's not a complete  
 5 sentence. It's the introduction to. It says:  
 6 "Some other charges connected  
 7 to the credit card that are added to  
 8 the loaned amt:"

9 MR. BALA: And I see that.

10 MR. PINOS: It appears to be the start  
 11 of a new thought. Anyway, I note that for the  
 12 record.

13 So you want to mark for identification  
 14 89 through 93, and 94 through 109 as an exhibit,  
 15 that's fine. And can we have a short break?

16 MR. BALA: Yeah, no problem,  
 17 EXHIBIT NO. E: For Identification:  
 18 Pages 89-93 of Tah 6 of Respondents'  
 19 Supplementary Document Brief (green  
 20 hook)

21 EXHIBIT NO. 8: Pages 94-109 of Tah 6  
 22 of Respondents' Supplementary Document  
 23 Brief (green book)

24 --- Recess at 2:39 p.m.  
 25 --- On resuming at 2:49 p.m.

1 conversations to head office?

2 A. They are, yes.

3 929 Q. Can I have an undertaking then to  
 4 provide a copy of whatever notes or documents or  
 5 reports provided by your employees as a result of  
 6 the conversations they had with the ministry  
 7 inspectors?

8 U/A MR. PINOS: We'll make inquiries and  
 9 take that under advisement.

10 MR. BALA: Let's mark this as the next  
 11 exhibit.

12 MR. PINOS: Now the parts that we've  
 13 never seen before you sent these documents go up to  
 14 page 93. I note the document at page 93 on its  
 15 face is incomplete.

16 MR. BALA: Why are you referring to  
 17 that? Because of the semicolon?

18 MR. PINOS: Look at the semicolon on  
 19 the last line.

20 MR. BALA: I can't quarrel with you on  
 21 that. Except if you'll give me a moment I may find  
 22 reason to.

23 MR. PINOS: Okay. It may have been  
 24 shuffled?

25 MR. BALA: These things happen.

1 BY MR. BALA:

2 930 Q. Let's go to tab 7. Page 123 top  
 3 right-hand corner.

4 Do you recognize this document, Mr.  
 5 Thompson?

6 A. I recognize it to be an Inspection  
 7 Deficiency Field Visit Notice.

8 931 Q. Does it resemble the Inspection  
 9 Deficiency Field Visit Notice at Exhibit "O" of  
 10 your first affidavit?

11 A. It does.

12 932 Q. You actually have a copy of this  
 13 very document at Exhibit "O" of your first  
 14 affidavit?

15 MR. PINOS: Yes.

16 BY MR. BALA:

17 933 Q. In the top right-hand corner  
 18 there's an inspection number provided?

19 A. Yes.

20 934 Q. And that number is 29006?

21 A. Correct.

22 935 Q. And the address listed here is  
 23 1575 Eglinton Avenue West?

24 A. That's correct.

25 936 Q. And that is the same address as

Page 198

1 referred to in your lawyer's letter at Exhibit "O"  
 2 of your first affidavit?  
 3 A. Yes.  
 4 937 Q. Now let's go to the Inspection  
 5 Deficiency Field Visit Notice. Again, on the  
 6 bottom left-hand corner do you see that this  
 7 document was acknowledged by a Brandy Buckmire?  
 8 A. Mm-hmm.  
 9 938 Q. And it states that Ms. Buckmire  
 10 was a manager on December 17, 2010?  
 11 A. It does.  
 12 939 Q. Let's go to the first page of tab  
 13 7.  
 14 A. Page 110?  
 15 940 Q. Page 110. Do you see in the top  
 16 left corner there is an inspection number provided?  
 17 A. I do.  
 18 941 Q. And that number is 29006?  
 19 A. Correct.  
 20 942 Q. And that is the same number as  
 21 written on the Inspection Deficiency Field Visit  
 22 Notice?  
 23 A. That is correct.  
 24 943 Q. And the address that's listed  
 25 there, 1575 Eglinton West in Toronto is the same

Page 199

1 address as appeared in the Inspection Deficiency  
 2 Field Visit Notice?  
 3 A. That's correct.  
 4 944 Q. And it's the same address that  
 5 appears in your lawyer's letter at Exhibit "O" of  
 6 your first affidavit?  
 7 A. That's correct.  
 8 945 Q. Now the top right of this page it  
 9 says, "Inspection Date", do you see that?  
 10 There's a box for it entitled  
 11 Inspection Date and that date is December 17, 2010?  
 12 A. Correct.  
 13 946 Q. And that is the same date that  
 14 appears under Brandy Buckmire's name in the  
 15 Inspection Deficiency Field Visit Notice, correct?  
 16 A. Correct.  
 17 947 Q. Let's go to the 4th page of tab 7.  
 18 Do you recognize this document?  
 19 A. I do.  
 20 948 Q. What is it?  
 21 A. It appears to be one of our loan  
 22 documents.  
 23 949 Q. And this loan document appears to  
 24 have been signed by one of your customers?  
 25 A. That's correct.

Page 200

1 950 Q. And this one is dated December 15,  
 2 2010? 51  
 3 A. It is.  
 4 951 Q. And it is from the Cash Store  
 5 branch on Eglinton Avenue West in Toronto?  
 6 A. That's correct, yes.  
 7 952 Q. In the middle of the page it says:  
 8 "I understand that I have 3  
 9 options to receive the loan  
 10 proceeds: Cheque, Debit Card,  
 11 MasterCard."  
 12 A. It does.  
 13 953 Q. There is a space for a customer  
 14 initial next to each of the three options?  
 15 A. Correct.  
 16 954 Q. And on this one there are no  
 17 initials next to the debit card option, or next to  
 18 any of the options?  
 19 A. There's an initial right beside  
 20 the MasterCard option I see.  
 21 955 Q. There is what actually appears to  
 22 be an X?  
 23 MR. PINOS: No, it doesn't. I differ  
 24 with you, counsel. It's a bad photocopy of exactly  
 25 the same start of a signature.

Page 201

1 BY MR. BALA:  
 2 956 Q. Let's go to page 115. Do you see  
 3 here that the customer's initials are R and B?  
 4 MR. PINOS: It's on 114 are the  
 5 initials.  
 6 MR. BALA: 115. 115.  
 7 MR. PINOS: 115 is the full signature.  
 8 BY MR. BALA:  
 9 957 Q. The full name of the borrower if  
 10 you took their initials it is RB, correct?  
 11 MR. PINOS: Don't ask me that question.  
 12 That's your assertion.  
 13 MR. BALA: I ask Mr. Thompson that  
 14 question.  
 15 THE DEPONENT: Those would be the  
 16 initials, correct.  
 17 BY MR. BALA:  
 18 958 Q. And on the first page next to the  
 19 three options can you make out an R or a B?  
 20 A. No.  
 21 959 Q. In the middle of the page there is  
 22 a section entitled Loan Detail?  
 23 A. Correct.  
 24 960 Q. The third line under Loan Detail  
 25 this says, "Total Amount to be repaid to the payday

Page 202

1 lender." Do you see that?  
 2 A. Yes.  
 3 961 Q. And it says \$916.18?  
 4 A. Correct.  
 5 962 Q. And then the next item under the  
 6 section Loan Detail says, "Loaded on Freedom Debit  
 7 Card." Do you see that?  
 8 A. I do.  
 9 963 Q. And that is \$757.18?  
 10 A. Correct.  
 11 964 Q. Can you explain to us the  
 12 discrepancy between the total amount to be repaid  
 13 to the payday lender and what was actually loaded  
 14 on the Freedom Debit Card?  
 15 A. That would be the cost -- the  
 16 amount of money that the person borrowed plus the  
 17 cost of borrowing. I assume.  
 18 965 Q. Think about that answer perhaps.  
 19 I think it's just been a long day.  
 20 MR. PINOS: I think he's right. If you  
 21 look at the Details of Payday Credit Agreement at  
 22 the bottom it says, "Amount Borrowed \$757.18.  
 23 Total Cost of Borrowing \$159.00." And add those  
 24 two numbers together and you get the amount to be  
 25 paid back at the end of the agreement of \$916.18.

Page 203

1 BY MR. BALA:  
 2 966 Q. I actually meant can you explain  
 3 the discrepancy, and I think -- there's no  
 4 controversy --  
 5 MR. PINOS: It's not a discrepancy.  
 6 You haven't asked it about any of these other  
 7 agreements. There's no discrepancy. They all add  
 8 up.  
 9 MR. BALA: Mr. Pinos, there's no  
 10 controversy here at all. I just think that when he  
 11 gave the answer -- I think it was unfair if I just  
 12 moved on. That's personally why I asked again.  
 13 But, no, that's fine.  
 14 MR. PINOS: We're all on the same page  
 15 then?  
 16 MR. BALA: We're definitely on the same  
 17 page.  
 18 967 Q. Let's go to the second last page  
 19 of tab 7. And halfway down this page it states  
 20 Notes Inspection 29006?  
 21 A. Yes.  
 22 MR. PINOS: I note for the record that  
 23 we've never seen this document until it was  
 24 produced in this green book. So it hasn't been  
 25 proved in any way.

Page 204

1 BY MR. BALA:  
 2 968 Q. And just above that it states 52  
 3 Changed by: RAMCHARANM on 12/23/2010 09:40,  
 4 correct?  
 5 A. Correct.  
 6 969 Q. Now let's go to the third  
 7 paragraph from the top. It begins with, "Sheldon  
 8 Pais and I." Do you see that?  
 9 A. Yes, I do.  
 10 970 Q. And it states here:  
 11 "Sheldon Pais and I attended  
 12 The Cash Store located at 1575  
 13 Eglinton Ave. West in Toronto. We  
 14 were able to speak with the store  
 15 Manager Brandy Bukmir. She advised  
 16 that she has been with the company  
 17 for just over 2 years.  
 18 I) She advised that in her time  
 19 with the company she has never  
 20 mentioned the 'free option' (in  
 21 store cbq) to any borrowers.  
 22 Neither she nor her staff has ever  
 23 offered the borrower a 'free  
 24 option'. If a borrower does request  
 25 the cbq option the chq is sent from

Page 205

1 bead office and takes 7-10 business  
 2 days once approved. She is aware  
 3 that recently the stores were given  
 4 the capacity to print in store  
 5 cheques, but this has been limited  
 6 to money transfer only. Chq  
 7 printing is not offered for PDL to  
 8 her knowledge."  
 9 See that, Mr. Thompson?  
 10 A. I do.  
 11 971 Q. Now in the Inspection Deficiency  
 12 Field Visit Notice a Brandy Buckmire identified  
 13 herself as manager of the Cash Store location?  
 14 A. I see that.  
 15 972 Q. Now can I get an undertaking for  
 16 how long Ms. Buckmire worked for your company in  
 17 any of the positions that she occupied?  
 18 U/A MR. PINOS: I'll take that under  
 19 advisement.  
 20 BY MR. BALA:  
 21 973 Q. And with respect to that point No.  
 22 I where our inspectors report that Ms. Buckmire was  
 23 not aware of on-site cheque printing, as of  
 24 December 17, 2010 assume -- I'm going to suggest  
 25 that that is the case. And if that is the case,

Page 206

1 would you agree with me that a manager and a  
 2 two-year employee that didn't know about the  
 3 on-site cheque printing is a serious lack of  
 4 understanding about your business model as it  
 5 existed at that time?  
 6 R/F MR. PINOS: Don't answer that. That's  
 7 purely hypothetical.  
 8 MR. BALA: I'm putting a proposition to  
 9 him, Mr. Pinos.  
 10 MR. PINOS: It's a hypothetical  
 11 proposition.  
 12 BY MR. BALA:  
 13 974 Q. How would you have ensured that  
 14 the manager of the store read and implemented your  
 15 corporate-wide communication on October 27, 2010?  
 16 R/F MR. PINOS: Don't answer that.  
 17 BY MR. BALA:  
 18 975 Q. Is there any documentary trail  
 19 with respect to which managers had read the  
 20 corporate-wide communication and any documents  
 21 related to the cheque printing process?  
 22 R/F MR. PINOS: Same answer.  
 23 BY MR. BALA:  
 24 976 Q. Your store managers again are  
 25 trained to make detailed notes of discussions with

Page 207

1 our inspectors, correct?  
 2 A. Correct.  
 3 977 Q. And can I get an undertaking to  
 4 provide any notes, copies or reports made by Ms.  
 5 Buckmore in her discussions with ministry  
 6 compliance inspectors?  
 7 U/A MR. PINOS: We'll make inquiries and  
 8 take the question under advisement.  
 9 BY MR. BALA:  
 10 978 Q. And as part of that inquiry going  
 11 under the advisement can you also ensure that the  
 12 dates were provided of when the notes were made or  
 13 reports were made?  
 14 U/A MR. PINOS: Same answer.  
 15 BY MR. BALA:  
 16 979 Q. Now one last thing, have you heard  
 17 the acronym as PDL as standing for payday loan?  
 18 A. Yes.  
 19 980 Q. Let's mark this one as the next  
 20 exhibit. Mr. Pinos...  
 21 MR. PINOS: Again, excluding pages 110,  
 22 111, 112, and 124 and 125, which can be marked for  
 23 identification, and then the remaining pages can be  
 24 marked as an exhibit.  
 25 MR. BALA: So pages 113 to 123 is an

Page 208

1 exhibit and then the remainder is for  
 2 identification. 53  
 3 MR. PINOS: That's correct.  
 4 EXHIBIT NO. 9: Pages 113-123 of Tab 7  
 5 of Respondents' Supplementary Document  
 6 Brief (green book)  
 7 EXHIBIT NO. F: For Identification:  
 8 Pages 110-112, 124-125 of Tab 7 of  
 9 Respondents' Supplementary Document  
 10 Brief (green book)  
 11 BY MR. BALA:  
 12 981 Q. Let's go to your reply affidavit,  
 13 Mr. Thompson, at Exhibit A. This is again the  
 14 first page of your loan documents. And there is  
 15 mention of what it says, "Loaded on Freedom Debit  
 16 Card." Do you see that?  
 17 A. I do.  
 18 982 Q. Is that a DCBank product?  
 19 A. It is.  
 20 983 Q. And I notice that the actual term  
 21 Freedom Debit Card isn't mentioned anywhere in your  
 22 affidavits, but the DCBank card and products are.  
 23 Are they the same thing?  
 24 A. I'm not sure. I believe we  
 25 mentioned the freedom card in my affidavit, but in

Page 209

1 any event it would be the same thing, yes.  
 2 984 Q. All right. The real point, Mr.  
 3 Pinos, is are they the same thing?  
 4 A. They are.  
 5 985 Q. Okay. Let's go to -  
 6 MR. PINOS: That's what DCBank calls  
 7 its debit cards and MasterCards.  
 8 BY MR. BALA:  
 9 986 Q. Let's go to your first affidavit,  
 10 paragraph 27.  
 11 Now you say here that Cash Store  
 12 Financial operates as a "cashless" business?  
 13 A. That's correct.  
 14 987 Q. And let's go to paragraph 71 now.  
 15 And you state here that:  
 16 "Section 22 of the New  
 17 Regulations effectively requires  
 18 Cash Store Financial to operate as a  
 19 cash-based business."  
 20 A. That's correct.  
 21 988 Q. And what is a cash-based business,  
 22 as you refer to it?  
 23 A. That would be a business whereby  
 24 we use cash as our primary medium of exchange, or  
 25 it would be the primary method through which we

1 deliver loans to our customers.  
 2 989 Q. And so it's your position that  
 3 Cash Store and Instaloes do not presently, or ever  
 4 operate as a cash-based business?  
 5 A. That's correct.  
 6 990 Q. And instead Cash Store/Instaloes  
 7 operate as what you describe at least a cashless  
 8 business?  
 9 A. That's correct.  
 10 991 Q. And the amended section 22 has  
 11 been in effect for well over a year now. Has it  
 12 turned your company into a cash-based business?  
 13 A. No.  
 14 992 Q. The previous version of section  
 15 22, did that turn your company into a cash-based  
 16 business?  
 17 A. No.  
 18 993 Q. Let's go back to paragraph 27.  
 19 And, again, this is the cashless business. You say  
 20 that Cash Store Financial operates the cashless  
 21 business model. Now isn't it the case that each  
 22 one of your branches carries a float of cash?  
 23 A. It would be a very small float.  
 24 994 Q. \$150.00 sound about accurate to  
 25 you?

1 1001 Q. From the second sentence, if you  
 2 look at it, you say:  
 3 "Eliminating large sums of cash  
 4 from the premises allows Cash Store  
 5 Financial to dispense with the need  
 6 to conduct loan transactions in high  
 7 security premises through  
 8 bullet-proof glass, as Cash Store  
 9 Financial's major competitors do."  
 10 A. That's correct.  
 11 1002 Q. Do any of your competitors in  
 12 Ontario conduct loan transactions without  
 13 bullet-proof glass?  
 14 A. I believe that some of the smaller  
 15 operators would, yes.  
 16 1003 Q. Do you know the names of any  
 17 payday loan companies that are not behind  
 18 bullet-proof glass?  
 19 A. Not off the top of my head, no.  
 20 1004 Q. I'm going to suggest to you that  
 21 there are in fact several of your competitors in  
 22 Ontario that are not behind bullet-proof glass, and  
 23 when you made the statement that you did at  
 24 paragraph 27 you didn't consider the Quick and Easy  
 25 chain, did you?

54

1 A. I can't say for sure, but it's a  
 2 small float, yes.  
 3 995 Q. At Exhibit W, and you can tell me  
 4 if you need me to take you there, the report that  
 5 you have cited by Fred Rayner states that each  
 6 location carries \$150.00 float.  
 7 A. Then I would say that that's a  
 8 correct statement.  
 9 996 Q. And each one of your branches also  
 10 has a safe at each location?  
 11 A. That's correct.  
 12 997 Q. And at least in part this is  
 13 because when people repay their loans you accept  
 14 payments in cash?  
 15 A. We do.  
 16 998 Q. And when people repay their loans  
 17 in cash sometimes you need to provide change to  
 18 them in cash?  
 19 A. That would be correct, yes.  
 20 999 Q. And when people repay their loans  
 21 in cash you would need then the float to provide  
 22 them with the change?  
 23 A. That's correct.  
 24 1000 Q. And at paragraph 27 again?  
 25 A. Yes.

1 A. I did not.  
 2 1005 Q. You didn't consider Stop 'N' Cash?  
 3 Mr. Thompson?  
 4 A. I'm just reading my statement  
 5 again. Sorry.  
 6 1006 Q. No, no problem.  
 7 A. I did not.  
 8 1007 Q. You didn't consider the Hock Shop?  
 9 A. No.  
 10 1008 Q. Liberty Cash?  
 11 A. No.  
 12 1009 Q. Cash Inn?  
 13 A. No.  
 14 1010 Q. Loans Till Payday?  
 15 A. I did not.  
 16 1011 Q. Direct North Financial?  
 17 A. I did not.  
 18 1012 Q. Mogo?  
 19 A. Mogo is an on-line provider  
 20 primarily.  
 21 1013 Q. Does Mogo in your knowledge have  
 22 physical locations?  
 23 A. Only one that I'm aware of.  
 24 1014 Q. Does that physical location have  
 25 bullet-proof glass?



1 A. I believe so, yes. And it's  
 2 located in Alberta.  
 3 1015 Q. Mogo does not have any hranches in  
 4 Ontario?  
 5 A. I don't know.  
 6 1016 Q. What about Cash Now? When making  
 7 that statement at paragraph 27 did you consider  
 8 Cash Now?  
 9 A. I made that statement in relation  
 10 to my main competitors which are Money Mart and  
 11 Cash Money.  
 12 1017 Q. So you made it with respect to two  
 13 competitors?  
 14 A. The two other largest providers in  
 15 the market, yes.  
 16 1018 Q. So in making those statements to  
 17 bullet-proof glass in your affidavit you didn't  
 18 conduct any kind of study as to the number of  
 19 payday loan companies in Ontario that have  
 20 bullet-proof glass?  
 21 A. I did not.  
 22 1019 Q. Mr. Thompson, have you entered any  
 23 of the Ontario hranches of Canada's big chartered  
 24 banks?  
 25 A. Yes, I have.

1 1020 Q. Is it your understanding that  
 2 these hanks carry cash on site?  
 3 A. I assume so, yes.  
 4 1021 Q. How many of these Ontario hranches  
 5 have hullet-proof glass?  
 6 A. I couldn't tell you.  
 7 1022 Q. How many have you seen that have  
 8 hullet-proof glass?  
 9 A. None that I can recall.  
 10 1023 Q. Let's go to your reply affidavit.  
 11 Paragraph 27.  
 12 A. Yes.  
 13 1024 Q. Now you say here that:  
 14 "The legislative summary to  
 15 Bill C-26, appended at tab B(2) to  
 16 Mr. Pitkin's affidavit, expressly  
 17 notes that a purpose of the  
 18 legislative scheme is to protect  
 19 industry against the threat of  
 20 hankruptcies that could result from  
 21 class actions lawsuits."  
 22 A. That's what I said, yes.  
 23 1025 Q. Now can you show me at Exhibit  
 24 B(2) to Mr. Pitkin's affidavit where it expressly  
 25 notes that a purpose of the legislative scheme is

1 to protect the industry?  
 2 A. Page 88, third paragraph: **55**  
 3 "If the payday loan industry is  
 4 not regulated, its future may  
 5 ultimately be determined by a number  
 6 of class action lawsuits currently  
 7 proceeding through Canadian courts.  
 8 These lawsuits claim that consumers  
 9 were charged fees in excess of the  
 10 rate allowable under the Criminal  
 11 Code, and seek to recover hundreds  
 12 of millions of dollars' worth of  
 13 interest. Should these class action  
 14 lawsuits succeed, they could  
 15 potentially hankrupt the payday loan  
 16 industry."  
 17 1026 Q. Now at paragraph 27 of your reply  
 18 affidavit you use the phrase expressly note that a  
 19 purpose of the legislative scheme is to protect the  
 20 industry?  
 21 A. That's correct.  
 22 1027 Q. In the passage that you just read  
 23 to me does the word "purpose" expressly appear  
 24 anywhere in that paragraph?  
 25 A. It does not.

1 1028 Q. Does a synonym for the word  
 2 "purpose" expressly appear in that paragraph?  
 3 A. I have to read the paragraph  
 4 again.  
 5 No.  
 6 1029 Q. Does the word "protect" expressly  
 7 appear in that paragraph?  
 8 A. No.  
 9 1030 Q. Does a synonym for the word  
 10 "protect" expressly appear in that paragraph?  
 11 A. No.  
 12 1031 Q. Does it in that paragraph  
 13 expressly state, expressly that protecting the  
 14 industry from hankruptcies is a purpose of Bill  
 15 C-26, or is that an inference that you are making  
 16 from that paragraph when you make that statement at  
 17 paragraph 27 of your affidavit?  
 18 A. I would say that's an inference  
 19 that I've made, yes.  
 20 1032 Q. So it's not expressly as your  
 21 affidavit says?  
 22 A. Sure.  
 23 1033 Q. And the last sentence at paragraph  
 24 27 of your reply affidavit states:  
 25 "In other words, Bill C-26 has

Page 218

1 as part of its purpose protecting  
 2 the payday lending industry."  
 3 A. That's correct.  
 4 1034 Q. That is a conclusion based on your  
 5 inference?  
 6 A. That's a conclusion based on seven  
 7 years of being a leading participant in the  
 8 regulatory process for payday loans, yes.  
 9 1035 Q. So when you write here "in other  
 10 words" you're referring to seven years of being a  
 11 regulatory participant in payday loans?  
 12 A. You asked me what that was based  
 13 on.  
 14 1036 Q. When you said, "In other words --  
 15 A. Yes.  
 16 1037 Q. -- Bill C-26 has as part of its  
 17 purpose protecting the payday lending industry."  
 18 A. That's correct.  
 19 1038 Q. That is a conclusion based on an  
 20 inference of what this paragraph means?  
 21 A. Sure.  
 22 1039 Q. Does it say anywhere in the  
 23 paragraph that you just took me to, anywhere near  
 24 that paragraph that provincial governments may fear  
 25 that the lack of a payday loan company alternative

Page 219

1 would result in consumers using illegal  
 2 alternatives such as loan sharks?  
 3 A. In that paragraph?  
 4 1040 Q. No. Anywhere near that paragraph.  
 5 A. It says:  
 6 "Provincial governments have  
 7 yet to prosecute a payday lender;  
 8 they may fear that the lack of a  
 9 payday loan company alternative  
 10 would result in consumers using  
 11 illegal alternatives such as loan  
 12 sharks."  
 13 I believe that was your question. So  
 14 the answer is yes.  
 15 1041 Q. Let's go to your reply affidavit  
 16 at paragraph 28.  
 17 A. Yes.  
 18 1042 Q. You write here:  
 19 "Similarly, the Ministry of  
 20 Government Services discussion paper  
 21 at tab C to Mr. Pitkin's affidavit  
 22 notes at page 8 that 'a licensing  
 23 approach must be equitable and  
 24 require a similar burden of  
 25 accountability from the lenders

Page 220

1 regardless of business model."  
 2 A. That's correct.  
 3 1043 Q. You begin with the word  
 4 "similarly"?  
 5 A. That's correct.  
 6 1044 Q. Do you mean by using the word,  
 7 "similarly" that the contents of paragraph 28 are  
 8 similar to the contents of paragraph 27?  
 9 A. Excuse me, I just have to read  
 10 this stuff again if you don't mind.  
 11 The "similarly" refers to the point  
 12 made in paragraph 26 where I state that Mr. Pitkin:  
 13 "...failed to acknowledge the  
 14 fact that industry regulation is  
 15 intended to support a balance  
 16 between industry and consumers."  
 17 So paragraph 27 was intended to  
 18 elaborate on paragraph 26 as was paragraph 28.  
 19 1045 Q. And at paragraph 28 you cite --  
 20 A. To be clear, 28 does not elaborate  
 21 on 27 it elaborates on 26.  
 22 1046 Q. Excellent. You cite at paragraph  
 23 28 tab C of Mr. Pitkin's affidavit, correct?  
 24 A. I do, yes.  
 25 1047 Q. Let's go to tab C of Mr. Pitkin's

Page 221

1 affidavit.  
 2 A. Yes.  
 3 1048 Q. Let's go to the first page the  
 4 page that you're on right now. The page before  
 5 that. Do you see the title of this document?  
 6 A. I do.  
 7 1049 Q. What is it?  
 8 A. Consumer Protection in the Payday  
 9 Lending Sector.  
 10 1050 Q. So the phrase "consumer  
 11 protection" is in the title of the document?  
 12 A. That's correct.  
 13 1051 Q. Is there any phrase such as  
 14 industry protection in the title of this document?  
 15 A. There is not.  
 16 1052 Q. At paragraph 28 of your reply  
 17 affidavit you cite page 8 of this document. So  
 18 let's go to the exact quote that you cite.  
 19 A. Yes.  
 20 1053 Q. The second last paragraph from the  
 21 bottom of page 8.  
 22 A. Yes.  
 23 1054 Q. You cite the first sentence of  
 24 that second last paragraph, correct?  
 25 A. Correct.

56

Page 222

1 1055 Q. And the sentence that you cite is:  
 2 "A licensing approach must be  
 3 equitable and require a similar  
 4 burden of accountability from the  
 5 lender regardless of the business  
 6 model."  
 7 A. That's correct.  
 8 1056 Q. And would you agree with me that  
 9 the sentence I just read is what is quoted at  
 10 paragraph 28 of your reply affidavit?  
 11 A. Yes.  
 12 1057 Q. Is there a sentence that comes  
 13 immediately after the sentence you just quoted at  
 14 page 8, Exhibit C?  
 15 A. Yes, there is.  
 16 1058 Q. And that second sentence is it in  
 17 the same paragraph as the sentence that you just  
 18 quoted?  
 19 A. It is.  
 20 1059 Q. And the sentence that you quote  
 21 comes from a paragraph that only has those two  
 22 sentences?  
 23 A. That's correct.  
 24 1060 Q. And these two sentences in that  
 25 one paragraph, there's the one that you quote, and

Page 223

1 then immediately after it there's the one that you  
 2 didn't quote.  
 3 A. That's correct.  
 4 1061 Q. Now the second sentence what does  
 5 that say?  
 6 A. It says:  
 7 "In the interest of fairness  
 8 and consumer protection, the sole  
 9 proprietor of a single storefront  
 10 and the president of a publicly  
 11 traded corporation should be subject  
 12 to the same standard."  
 13 1062 Q. Now is it fair to say that the  
 14 business model referred to in your quote is  
 15 referring to sole proprietorship in publicly traded  
 16 corporations?  
 17 A. Sorry?  
 18 1063 Q. Is it fair to say that the  
 19 business model referred to in your quote, in the  
 20 part that you quoted, is referring to sole  
 21 proprietorships in publicly traded corporations?  
 22 A. It is.  
 23 1064 Q. And there is mention in that  
 24 second sentence that you didn't quote of consumer  
 25 protection?

Page 224

1 A. That's correct.  
 2 1065 Q. There's mention in that paragraph  
 3 of accountability?  
 4 A. That's correct.  
 5 1066 Q. There is no mention of a cashless  
 6 business model?  
 7 A. That's correct.  
 8 1067 Q. There's no statement in that  
 9 paragraph about industry protection?  
 10 A. I disagree with that.  
 11 1068 Q. Where does it say industry  
 12 protection there?  
 13 A. That statement in my opinion  
 14 refers to the fact that there has to be a balanced  
 15 approach to regulation of the industry. So all  
 16 operators, regardless of business model, whether  
 17 they're a small operator, large operator, whether  
 18 they're competing publicly traded companies or what  
 19 have you, they all have to be equally subject to  
 20 the regulations.  
 21 1069 Q. Okay. You said "a balanced  
 22 approach." Does the word "balanced" appear there  
 23 anywhere?  
 24 A. No.  
 25 1070 Q. Does the word "consumer

Page 225

1 protection" appear anywhere?  
 2 A. It does.  
 3 1071 Q. And it says in the interest of  
 4 fairness and consumer protection the sole  
 5 proprietor and the big company, or the publicly  
 6 traded corporation should be held to the same  
 7 standard?  
 8 A. It says, "in the interest of  
 9 fairness", and in my view fairness applies to  
 10 treatment of the industry, yes.  
 11 1072 Q. So "fairness" means in your  
 12 view -- the word "fairness", that one word right  
 13 there --  
 14 A. That's correct.  
 15 1073 Q. -- that means that there's balance  
 16 for the industry?  
 17 A. That's correct.  
 18 1074 Q. Let's go to paragraph 36 of your  
 19 reply affidavit.  
 20 A. Yes.  
 21 1075 Q. And you cite a quote at the end of  
 22 paragraph 36?  
 23 A. I do.  
 24 1076 Q. And in that quote there is a dot,  
 25 dot, dot? Do you see that?

Page 226

1 A. I do.  
 2 1077 Q. And those three dots signify that  
 3 you omitted text from the original version of this  
 4 quote?  
 5 A. That's correct.  
 6 1078 Q. Now the document from which you  
 7 provide the quote in paragraph 36 is at Exhibit E  
 8 of your reply affidavit. So why don't we go there?  
 9 A. Sure.  
 10 1079 Q. And the quote, the part that you  
 11 cited, appears at page 56 --  
 12 A. Okay.  
 13 1080 Q. -- in the top right-hand corner.  
 14 And there is a page -- in the first column there's  
 15 a 1510? Do you see that in hold? I guess it means  
 16 page 1510.  
 17 A. On the left-hand side? Yes.  
 18 1081 Q. Now the quote that, you know, your  
 19 quote appears right under where it says 1510,  
 20 correct?  
 21 A. I just got to...  
 22 1082 Q. Please.  
 23 A. Yes.  
 24 1083 Q. I want you to compare what you  
 25 quoted and what it states here, and I want you to

Page 227

1 read for us what the text is that you omitted, the  
 2 part that should be replaced or where you put those  
 3 three dots.  
 4 A. Hang on a second here.  
 5 "Most important of all, we  
 6 intend to uphold our commitment to  
 7 protect all Ontario consumers who  
 8 make use of payday loans. Consumers  
 9 should be able to enter a payday  
 10 lending shop and be just that:  
 11 informed consumers, not victims.  
 12 Consumers need to be educated,  
 13 empowered and confident in their use  
 14 of these financial services. This  
 15 proposed legislation would  
 16 undoubtedly strengthen Ontario's  
 17 economy."  
 18 1084 Q. So in your quote at paragraph 36  
 19 you omitted the two sentences dealing with consumer  
 20 protection?  
 21 A. Yes.  
 22 1085 Q. Let's go to paragraph 22 of your  
 23 reply affidavit. Mr. Pinos, I'm doing my best so  
 24 you can get to your afternoon meeting.  
 25 Paragraph 22. Now you state here:

Page 228

1 At multiple pages throughout his  
 2 affidavit -- 58  
 3 MR. PINOS: Stages.  
 4 MR. BALA: Very sorry. Been a long  
 5 day.  
 6 MR. PINOS: It's okay. They probably  
 7 mean the same.  
 8 BY MR. BALA:  
 9 1086 Q. You state:  
 10 "At multiple stages throughout  
 11 his affidavit, Mr. Pitkin expresses  
 12 his personal concern that Cash Store  
 13 Financial provides or facilitates  
 14 loans to social assistance  
 15 recipients. Mr. Pitkin appears to  
 16 have relied on this as a basis for  
 17 amending the regulations."  
 18 A. That's correct.  
 19 1087 Q. Now can you show me the multiple  
 20 stages in Mr. Pitkin's affidavit where he first  
 21 expresses a personal concern; and second, where he  
 22 appears to have relied on that personal concern as  
 23 a basis for amending the regulations?  
 24 It's 3:24 now. Why don't we take a  
 25 minute and go off record and we'll start again at

Page 229

1 3:30.  
 2 MR. PINOS: Sure.  
 3 --- Recess at 3:24 p.m.  
 4 --- On resuming at 3:30 p.m.  
 5 BY MR. BALA:  
 6 1088 Q. Mr. Thompson, so where in Mr.  
 7 Pitkin's affidavit are you referring to?  
 8 A. I'm referring to paragraph 15(d).  
 9 I'm referring to paragraph 50.  
 10 1089 Q. Where in paragraph 50 are you  
 11 referring to?  
 12 A. The first sentence.  
 13 1090 Q. "Vulnerable consumers" you mean  
 14 that to mean social assistance recipients?  
 15 A. That's correct.  
 16 1091 Q. We'll go through them one-hy-one.  
 17 A. No. Sorry.  
 18 1092 Q. So not 50?  
 19 A. Please rephrase your question then  
 20 I'll tell you whether or not I'm including 50 in  
 21 there. I can't remember where it is now.  
 22 1093 Q. I'm taking you to where you say:  
 23 "At multiple stages throughout  
 24 his affidavit, Mr. Pitkin expresses  
 25 his personal concern that Cash Store

Page 230

1 Financial provides or facilitates  
 2 loans to social assistance  
 3 recipients. Mr. Pitkin appears to  
 4 have relied on this as a basis for  
 5 amending the regulations."  
 6 A. Then I would take paragraph 50 out  
 7 then.  
 8 1094 Q. Okay.  
 9 A. I would leave paragraph 61 in.  
 10 1095 Q. 61?  
 11 A. And 64. Now there may be others,  
 12 I don't know. Sorry. And 66.  
 13 1096 Q. Paragraph 61?  
 14 A. Sorry, 61, 64 and 66.  
 15 1097 Q. Let's start with paragraph 15(d).  
 16 A. Sure.  
 17 1098 Q. So we'll start with paragraph 15  
 18 starts on page 7. And Mr. Pitkin writes here:  
 19 "I made a number of  
 20 observations about the payday loan  
 21 industry in Ontario during my tenure  
 22 as Registrar. In particular, during  
 23 the period between the coming into  
 24 force of the PDLA and the 2011  
 25 Amendments, my observations included

Page 231

1 the following:"  
 2 And then we go to (d) which is:  
 3 "Cash Store was the only major  
 4 payday loan company that I was aware  
 5 of to provide or facilitate loans to  
 6 social assistance recipients."  
 7 A. That's correct.  
 8 1099 Q. Now does it say anywhere in  
 9 paragraph 15(d) that Mr. Pitkin has a personal  
 10 concern about providing loans to social assistance  
 11 recipients?  
 12 A. It does not.  
 13 1100 Q. Is there a synonym for the word  
 14 "concern" anywhere in paragraph 15(d)?  
 15 A. No.  
 16 1101 Q. Is there a synonym for the word  
 17 "personal" in paragraph 15(d)?  
 18 A. There is not.  
 19 1102 Q. Does it say anywhere in paragraph  
 20 15(d) that Mr. Pitkin relied on this concern as a  
 21 basis for amending the regulations?  
 22 Paragraph 15(d), we'll just start  
 23 there. Does it say anywhere in paragraph 15(d)  
 24 that Mr. Pitkin relied on this concern as a basis  
 25 for amending the regulation?

Page 232

1 A. It does not.  
 2 1103 Q. Does it say anywhere in paragraph  
 3 15(d) that Mr. Pitkin is providing his observations  
 4 on the payday loan industry during his tenure as  
 5 Registrar?  
 6 A. In sub (d), no, in the  
 7 introduction to the paragraph, yes.  
 8 1104 Q. So now let's go to paragraph 22 of  
 9 Mr. Pitkin's affidavit.  
 10 A. Sure.  
 11 1105 Q. There is a subheading right above  
 12 this paragraph entitled, "Impetus for amendments to  
 13 Regulation 98/09 under PDLA"?  
 14 A. Yes.  
 15 1106 Q. And this section, feel free to  
 16 check, goes all the way to paragraph 39?  
 17 A. Yes.  
 18 1107 Q. And is there any mention of a  
 19 personal concern for social assistance recipients  
 20 in this section?  
 21 A. Do you want me to read the whole  
 22 section?  
 23 1108 Q. I presume you had when you made  
 24 that statement. Why don't we do it this way, can  
 25 you think - well, take your time.

Page 233

1 A. If you want me to comment on these  
 2 paragraphs here and now I'm going to read them.  
 3 Now that I've read all of those  
 4 paragraphs if you could repeat your question,  
 5 please, I'd be grateful.  
 6 1109 Q. Is there mention of social  
 7 assistance recipients between paragraphs 22 and 39  
 8 of Mr. Pitkin's affidavit?  
 9 A. There is not.  
 10 1110 Q. Now let's go to paragraph 40.  
 11 A. Yes.  
 12 1111 Q. Probably just do the same thing  
 13 here. "Proposed Amendments and their Purpose"?  
 14 A. Yes.  
 15 1112 Q. This section goes all the way up  
 16 to paragraph 54?  
 17 A. Yes.  
 18 1113 Q. And is there mention of social  
 19 assistance recipients between paragraph 40 and 54  
 20 under the subheading Proposed Amendments and their  
 21 Purpose?  
 22 A. There is not.  
 23 1114 Q. Now the next place that you  
 24 mentioned is paragraph 61?  
 25 A. That's correct.

1 1115 Q. Now where in paragraph 6I is there  
2 mention of social assistance recipients?  
3 A. I took his reference to persons  
4 who live in low-income neighbourhoods to include  
5 that category of customer I guess would be the way  
6 of putting it.  
7 1116 Q. Let's see what Mr. Pitkin writes.  
8 He writes:  
9 "In my view, the legislation  
10 was enacted to address this growth  
11 and the statement is largely  
12 accurate, with one important caveat  
13 that was identified by the United  
14 Way: the 'public' referred to are  
15 those from low-income  
16 neighbourhoods."  
17 Is that correct?  
18 A. That's correct.  
19 1117 Q. Paragraph 62 he goes on to cite a  
20 United Way report?  
21 A. That's correct.  
22 1118 Q. So low income neighbourhoods in  
23 your view equates to social assistance recipients?  
24 A. No, I said it includes social  
25 assistance.

1 major payday loan company to offer loans to social  
2 assistance recipients.  
3 A. That's what he says, yes.  
4 1123 Q. Does the word "concern" appear  
5 anywhere in paragraph 64?  
6 A. The word "concern" does not appear  
7 in there, no.  
8 1124 Q. Does a synonym for the word  
9 "concern" appear anywhere in that paragraph?  
10 A. No.  
11 1125 Q. The last one you said, did you say  
12 66, or did I mishear you?  
13 A. I said 66, yes.  
14 1126 Q. And what are you referring to?  
15 A. The statement that says:  
16 "At the same time, for nearly  
17 two years after the legislation had  
18 come into effect, the PDLA's  
19 intended protections could not be  
20 effectively enforced, to the  
21 detriment of vulnerable and  
22 disadvantaged Ontarians."  
23 1127 Q. And so you're equating vulnerable  
24 and disadvantaged Ontarians to social assistance  
25 recipients?

1 1119 Q. When you talk about Mr. Pitkin  
2 expressing his personal concern for social  
3 assistance recipients and that as being a basis to  
4 amend the regulations, and I asked you to look  
5 where in his affidavit you find that you point to  
6 paragraph 61. And what you're telling me is  
7 there's a reference to the United Way that talks  
8 about people who live in low-income neighbourhoods  
9 and that to you encompasses what you say at  
10 paragraph 22 of your reply affidavit?  
11 A. I read the affidavit as a whole,  
12 and I would include that in my statement, yes.  
13 1120 Q. Now paragraph 64 is the next one  
14 that you mentioned?  
15 A. I would like to clarify I would  
16 include that as a basis for my conclusion, yes.  
17 Paragraph 64?  
18 1121 Q. Yes. Now here Mr. Pitkin he  
19 responds to paragraph 41 of your first affidavit  
20 where you say essentially that if customers don't  
21 want to pay your fees they can go elsewhere?  
22 A. That's correct.  
23 1122 Q. And Mr. Pitkin states that it is  
24 unlikely that social assistance recipients can take  
25 their business elsewhere because you are the only

1 A. I'm not equating them. I'm saying  
2 that that category of person would in some cases  
3 include persons on social assistance.  
4 1128 Q. Let's go to paragraph 73 of your  
5 first affidavit.  
6 And you state here in the first  
7 sentence that "the forced introduction of cash into  
8 a cashless business environment significantly  
9 elevates the risk of harm."  
10 A. That's correct.  
11 1129 Q. And you cite a report commissioned  
12 by Cash Store Financial?  
13 A. That's correct.  
14 1130 Q. And the report was authored by  
15 Fred Rayner?  
16 A. That's correct.  
17 1131 Q. And Mr. Rayner was appointed as  
18 Edmonton's Chief of Police in 2004?  
19 A. I don't know when he was  
20 appointed.  
21 1132 Q. Can I get an undertaking as to  
22 when Mr. Rayner was appointed as Edmonton's Chief  
23 of Police?  
24 U/A MR. PINOS: Take that under advisement.  
25 BY MR. BALA:

1 1133 Q. And Mr. Rayner was fired from his  
 2 job as chief of police in Edmonton in 2005?  
 3 A. I don't know that.  
 4 1134 Q. Can I get an undertaking --  
 5 U/A MR. PINOS: I'll take that under  
 6 advisement.  
 7 BY MR. BALA:  
 8 1135 Q. I'll finish it -- to determine  
 9 when, what year Mr. Rayner left his role as  
 10 Edmonton's Chief of Police and was he fired?  
 11 U/A MR. PINOS: Same answer.  
 12 BY MR. BALA:  
 13 1136 Q. Now Mr. Rayner's report it wasn't  
 14 specifically prepared for the court's use on this  
 15 application, was it?  
 16 A. No, it was not.  
 17 1137 Q. Let's go to Exhibit W.  
 18 The very first page it says that this  
 19 report was prepared for the Ministry of Consumer  
 20 Affairs in Ontario; is that correct?  
 21 A. That's correct.  
 22 1138 Q. Mr. Thompson, in Ontario when a  
 23 party offers up an expert report to a court the  
 24 expert has to sign an acknowledgment of  
 25 objectivity. Did Mr. Rayner sign an acknowledgment

1 of objectivity?  
 2 R/F MR. PINOS: Don't answer that. Don't  
 3 answer that. That's completely irrelevant.  
 4 BY MR. BALA:  
 5 1139 Q. Does Mr. Rayner in this report  
 6 refer to his expert opinion?  
 7 R/F MR. PINOS: Don't answer that. The  
 8 document speaks for itself.  
 9 BY MR. BALA:  
 10 1140 Q. Let's look into the document.  
 11 Let's go to page 185. And the first paragraph in  
 12 the first sentence it says:  
 13 "The Cash Store Inc. and  
 14 Instalozans Inc. have retained me to  
 15 provide my expert opinion..."  
 16 See that?  
 17 A. That's correct.  
 18 1141 Q. And then at the bottom of that  
 19 page there are two questions that your company  
 20 asked Mr. Rayner?  
 21 A. Yes.  
 22 1142 Q. And did anyone from any of your  
 23 companies have anymore communication with Mr.  
 24 Rayner concerning the scope of his report?  
 25 A. What do you mean?

1 1143 Q. He says:  
 2 "Based on the above provided  
 3 information, I have been asked to  
 4 address the following question?"  
 5 A. Yes.  
 6 1144 Q. Did anybody else ask him or  
 7 discuss with him anything in addition -- in terms  
 8 of the questions he had been asked to address, are  
 9 these it, or was there anymore?  
 10 A. Well we had Mr. Rayner undertake  
 11 this study in respect of both the Ontario and Nova  
 12 Scotia markets with similar questions for both  
 13 markets, I can't remember which the ones were  
 14 specifically for Nova Scotia. But in terms of the  
 15 scope of the project this would generally have been  
 16 the scope, yes.  
 17 1145 Q. Now did anyone -- I presume  
 18 somebody told him why this report was being  
 19 provided to the ministry?  
 20 A. Absolutely.  
 21 1146 Q. And what exactly was Mr. Rayner  
 22 told?  
 23 A. Mr. Rayner was told that we  
 24 operate a cashless platform, and that the  
 25 Government of Ontario had introduced regulations

61

1 that we felt would quite likely require us to  
 2 increase the volume of cash in our branches. And  
 3 that on the basis of our current infrastructure we  
 4 did not feel that we had the ability to accommodate  
 5 those changes. And we were concerned about the  
 6 public safety implications of those changes and our  
 7 inability to accommodate them.  
 8 So we asked Mr. Rayner to examine our  
 9 operation to determine whether or not there would  
 10 be safety implications of converting to a cash  
 11 platform using our existing infrastructure.  
 12 1147 Q. Let's go to page 7 of this report.  
 13 This is page 189 of your application record.  
 14 A. Yes.  
 15 1148 Q. Now here Mr. Rayner identifies  
 16 some of his methodology, and there's a subheading  
 17 that says, "Supporting research and analysis." See  
 18 that?  
 19 A. Yes.  
 20 1149 Q. He says:  
 21 "To test my assumptions and  
 22 verify my hypothesis I employed the  
 23 following standard methods of  
 24 research."  
 25 A. Yes.

Page 242

1 1150 Q. And then he lists several methods  
 2 including a literature review, interviews, correct?  
 3 A. Correct.  
 4 1151 Q. So let's go to page 8, and this is  
 5 the literature review. This is where he starts  
 6 off.  
 7 A. Yes.  
 8 1152 Q. And in the first sentence he says:  
 9 "I conducted a literature  
 10 review of academic research and  
 11 relevant policy materials from  
 12 financial, statistical and  
 13 crime-focused institutions."  
 14 A. Yes.  
 15 1153 Q. And so Mr. Rayner here makes  
 16 reference to an indeterminate number of articles in  
 17 the first sentence, and then he goes on and only  
 18 cites two, one from Dauvergne and one from  
 19 Bressler?  
 20 A. Yes.  
 21 1154 Q. Now can I get an undertaking for a  
 22 list of all the articles consulted by Mr. Rayner  
 23 and copies of them?  
 24 U/A MR. PINOS: I'll take that under  
 25 advisement.

Page 243

1 BY MR. BALA:  
 2 1155 Q. Let's go to page 9, which is the  
 3 next page, your application record, page 191. This  
 4 is entitled, "Interviews with community safety  
 5 experts." And Mr. Rayner writes in the first  
 6 paragraph:  
 7 "To ensure my understanding and  
 8 application of community safety  
 9 principles was fully current, I  
 10 interviewed the following safety  
 11 experts."  
 12 Do you see that?  
 13 A. I do.  
 14 1156 Q. And then he cites seven safety  
 15 experts as he describes them?  
 16 A. Yes.  
 17 1157 Q. And his report does not provide  
 18 the names of any of these experts that he  
 19 interviewed?  
 20 A. I see that.  
 21 1158 Q. And Mr. Rayner's report does not  
 22 provide any information about the organization that  
 23 three of the experts are associated with; there is  
 24 the Alberta banking industry security specialist  
 25 and the two from Ontario?

Page 244

1 A. Yes.  
 2 1159 Q. So can I get an undertaking as to  
 3 the names, organizations, and scope of expertise of  
 4 the seven people cited at page 9 of Mr. Rayner's  
 5 report?  
 6 U/A MR. PINOS: I'll take that under  
 7 advisement.  
 8 BY MR. BALA:  
 9 1160 Q. In the second paragraph Mr. Rayner  
 10 starts off:  
 11 "The consensus from all those  
 12 interviewed..."  
 13 Do you see that?  
 14 A. I do.  
 15 1161 Q. And then in the next paragraph he  
 16 talks about the banking security specialists  
 17 indicated and then states what they indicated.  
 18 A. Mm-hmm.  
 19 1162 Q. Can I get an undertaking as to  
 20 interview notes, or tapes, or anything of this  
 21 nature so we can find out exactly what Mr. Rayner  
 22 asked these seven individuals and what their  
 23 responses were to him?  
 24 U/A MR. PINOS: I'll take that under  
 25 advisement.

Page 245

1 BY MR. BALA:  
 2 1163 Q. Now the 4th paragraph?  
 3 A. Yes.  
 4 1164 Q. It's actually the third from the  
 5 bottom. It begins with:  
 6 "The key variant influencing  
 7 robbery statistics (i.e. a 38%  
 8 downward shift) has been a reduction  
 9 in the prevalence of cash on-site  
 10 within financial organizations."  
 11 And then the 5th paragraph is:  
 12 "All financial companies are  
 13 moving to electronic forms of  
 14 commerce; safety is one of the  
 15 primary factors influencing this  
 16 move."  
 17 See that?  
 18 A. I do.  
 19 1165 Q. Now am I correct that Mr. Rayner  
 20 cites two statistics, these two, without providing  
 21 a source for those statistics?  
 22 A. And you're referring to the --  
 23 1166 Q. So in the 4th paragraph, ignore  
 24 the i.e. part because I think he's referring to  
 25 something else, but:



Page 246

1 "The key variant influencing  
2 robbery statistics has been a  
3 reduction in the prevalence of cash  
4 on-site within financial  
5 organizations."  
6 A. Yes.  
7 1167 Q. And then the next one, the next  
8 sentence?  
9 A. Yes.  
10 1168 Q. Those are two facts that are cited  
11 without any source, correct? There's no footnote  
12 there? There's no end notes?  
13 A. There are no footnotes or no end  
14 notes. I assume those are statements of Mr.  
15 Rayner's opinion.  
16 1169 Q. Does he say "in my opinion"?  
17 A. I take the whole document to be a  
18 statement of his opinion, but, no, he does not.  
19 1170 Q. Can I then get an undertaking from  
20 you as to the source of the two facts that are  
21 cited there, that I just took you through, and if  
22 they're just statements of his opinion like you  
23 say, Mr. Thompson, to confirm that?  
24 U/A MR. PINOS: We'll take that under  
25 advisement.

Page 247

1 BY MR. BALA:  
2 1171 Q. Let's go to the next page, page  
3 10, page 192 of your application record, and this  
4 has a subtitle "Site visits." See that?  
5 A. Yes.  
6 1172 Q. And on this page it says that Mr.  
7 Rayner went to four stores in Edmonton; is that  
8 correct?  
9 A. That's correct.  
10 1173 Q. And at the 6th paragraph here he  
11 states that each branch contains a safe to hold  
12 deposits, correct?  
13 A. That's correct, yes.  
14 1174 Q. And then the paragraph after that  
15 it states:  
16 "Each branch contains security  
17 cameras angled to capture movements  
18 in the main areas of activity,  
19 including the main entrance."  
20 A. That's correct.  
21 1175 Q. And the safe to hold deposits and  
22 the security cameras angled to capture movements in  
23 main areas those exist at your locations in Ontario  
24 as well?  
25 A. That's correct.

Page 248

1 1176 Q. Let's go to the next page, page  
2 11. "Street level analysis." Now, Mr. Rayner **63**  
3 states that he did not visit any Ontario location  
4 but that he looked on Google Street View at six  
5 Ontario locations and he examined them for points  
6 of access and escape; is that correct?  
7 A. Just give me a moment, please.  
8 1177 Q. No problem.  
9 A. He states that he used an analysis  
10 similar to that which he used for the four Edmonton  
11 locations.  
12 1178 Q. He didn't visit any of the Ontario  
13 locations physically, correct?  
14 A. That's correct.  
15 1179 Q. And instead what he did was he  
16 used Google Street View?  
17 A. That's correct.  
18 1180 Q. And in the last sentence he  
19 concludes based on what he saw from Google Street  
20 View that "The risk of penetration by the criminal  
21 element would be extremely high." Correct?  
22 A. That is what he states, yes.  
23 1181 Q. Now can I get an undertaking as to  
24 what exactly were the points of access and escape  
25 at each of the six Ontario locations that Mr.

Page 249

1 Rayner looked at using Google Street View?  
2 U/A MR. PINOS: I'll take that under  
3 advisement.  
4 BY MR. BALA:  
5 1182 Q. And the term "extremely high"  
6 that's used in the last sentence here, do you see  
7 that?  
8 A. Yes.  
9 1183 Q. Now was Mr. Rayner using some kind  
10 of scale from extremely low to extremely high? Do  
11 you know?  
12 A. I don't know.  
13 1184 Q. Can I get an undertaking to find  
14 out whether or not he was using some kind of scale,  
15 and if so, please provide the details of the scale  
16 such as its determinants, who uses it, who invented  
17 it, its range, its descriptors, you know, other  
18 descriptors of this nature?  
19 U/A MR. PINOS: I'll take that under  
20 advisement.  
21 BY MR. BALA:  
22 1185 Q. Now let's go to the next page,  
23 application record page 194. This is an interview  
24 with Cash Store Financial's Vice-President of  
25 Internal Audit, correct?

Page 250

1 A. Correct.  
 2 1186 Q. Now Mr. Rayner does not provide  
 3 the name of vice-president of internal audit that  
 4 he spoke to, correct?  
 5 A. Correct.  
 6 1187 Q. He doesn't tell us what the duties  
 7 of the vice-president of internal audit are,  
 8 correct?  
 9 A. That's correct.  
 10 1188 Q. Now who was the vice-president of  
 11 internal audit that Mr. Rayner spoke to?  
 12 A. Werner Pietrzyk.  
 13 1189 Q. Werner Pietrzyk?  
 14 A. Yes.  
 15 1190 Q. And what are Werner Pietrzyk's  
 16 duties?  
 17 A. Mr. Pietrzyk's duty as the  
 18 internal auditor is to monitor all of our financial  
 19 controls to ensure against fraud, theft, and  
 20 compliance with relevant legislation related to  
 21 accounting procedures and policies. Roughly.  
 22 1191 Q. At paragraph 1 of page 12 of Mr.  
 23 Rayner's report, application record page 194, it  
 24 states that Mr. Rayner was provided with robbery  
 25 and break-in statistics. See that?

Page 251

1 A. Yes.  
 2 1192 Q. Can I get an undertaking to  
 3 provide the robbery and break-in statistics that  
 4 were referred to by Mr. Rayner?  
 5 U/A MR. PINOS: I'll take that under  
 6 advisement.  
 7 BY MR. BALA:  
 8 1193 Q. Now Mr. Rayner at paragraph 1 also  
 9 speaks to Cash Store Financial's policies and  
 10 procedures as they relate to cash management and  
 11 associated risks. See that?  
 12 A. Yes.  
 13 1194 Q. Can I get an undertaking to  
 14 provide the exact policies and procedures that were  
 15 provided to Mr. Rayner that are referred to in  
 16 paragraph 1, page 12 of his report?  
 17 U/A MR. PINOS: I'll take that under  
 18 advisement.  
 19 BY MR. BALA:  
 20 1195 Q. Let's look at paragraph 2. Mr.  
 21 Rayner writes:  
 22 "It was reported to me that in  
 23 its 10 years of operations Cash  
 24 Store Financial has experienced  
 25 comparatively few violent robberies,

Page 252

1 no hostage takings, and only one  
 2 instance in which an employee was 64  
 3 bound by rope during a robbery."  
 4 A. Can I get some water?  
 5 1196 Q. Yeah, yeah, please.  
 6 A. Please continue.  
 7 1197 Q. Again, Mr. Rayner says:  
 8 "It was reported to me that in  
 9 its 10 years of operations Cash  
 10 Store Financial has experienced  
 11 comparatively few violent robberies,  
 12 no hostage takings, and only one  
 13 instance in which an employee was  
 14 bound by rope during a robbery."  
 15 And can I get an undertaking for what  
 16 exactly was reported to Mr. Rayner at paragraph 2,  
 17 page 12 of his report, including any documents and  
 18 correspondence?  
 19 U/A MR. PINOS: I'll take those under  
 20 advisement.  
 21 BY MR. BALA:  
 22 1198 Q. And it says at paragraph 2  
 23 "comparatively few." Do you see that?  
 24 A. I do.  
 25 1199 Q. What exactly was Cash Store

Page 253

1 Financial being compared to?  
 2 MR. PINOS: Do you know?  
 3 THE DEPONENT: I don't know what -- no.  
 4 BY MR. BALA:  
 5 1200 Q. Can I get an undertaking to  
 6 provide that information?  
 7 U/A MR. PINOS: We'll take that under  
 8 advisement, but we'll make inquiries.  
 9 BY MR. BALA:  
 10 1201 Q. Now just for the sake of sort of  
 11 tying a loop together, if you look at the sixth  
 12 paragraph on this?  
 13 A. Yes.  
 14 1202 Q. It states:  
 15 "In the case of Cash Store  
 16 Financial, I was informed that  
 17 Company policy is for branches to  
 18 maintain a cash float of no more  
 19 than \$150."  
 20 A. Yes.  
 21 1203 Q. Where I referred to you earlier --  
 22 A. Yes.  
 23 1204 Q. -- Mr. Rayner's report, that's  
 24 where it's from. But this company policy that Mr.  
 25 Rayner is referring to here?

Page 254

1 A. Yes.

2 1205 Q. Can I could get an undertaking to

3 get a copy of the company policy with respect to

4 how much cash you maintain at each branch?

5 U/T MR. PINOS: If it's written in a

6 document we'll make inquiries and let you know the

7 source of it.

8 MR. BALA: Can we go off record?

9 --- Off-the-record discussion

10 --- Recess at 4:01 p.m.

11 --- On resuming at 4:08 p.m.

12 BY MR. BALA:

13 1206 Q. Let's go to your reply affidavit,

14 Mr. Thompson. Paragraph 17.

15 A. Yes.

16 1207 Q. Here you address the order by the

17 Director of Fair Trading in Alberta?

18 MR. PINOS: The interim order.

19 BY MR. BALA:

20 1208 Q. The interim order, correct?

21 A. That's correct.

22 1209 Q. And you write here that the

23 Director of Fair Trading raised concerns of certain

24 compliance issues in an interim compliance order?

25 A. That's correct.

Page 255

1 1210 Q. Let's go to Mr. Pitkin's

2 affidavit. Exhibit M. Page 208 in the top left

3 corner. Do you recognize this document?

4 A. I do.

5 1211 Q. What is it?

6 A. It's an interim Director's order.

7 1212 Q. Do you know who wrote it?

8 A. I believe it was written by Darren

9 Thomas.

10 1213 Q. And who is Darren Thomas?

11 A. He's the Director of Fair Trading

12 as delegated in Alberta.

13 1214 Q. Is this order directed to your

14 company?

15 A. Yes.

16 1215 Q. Now there's a subheading that says

17 "Issues." Do you see that?

18 A. I do.

19 1216 Q. And it starts off by saying:

20 "Service Alberta is

21 investigating allegations related to

22 payday loan activities engaged in by

23 the Cash Store Financial Services

24 Inc. and has found evidence that:"

25 See that?

Page 256

1 A. Yes, I do.

2 1217 Q. And then there are four bullet **65**

3 points?

4 A. Yes.

5 1218 Q. And then that paragraph concludes

6 by stating:

7 "Based on the evidence, the

8 Director has formed the opinion that

9 The Cash Store Financial Services

10 Inc. has breached the Fair Trading

11 Act and the Payday Loans

12 Regulation."

13 A. Correct.

14 1219 Q. Now let's go back to your reply

15 affidavit at paragraph 17 at the last sentence, top

16 of page 6. And you say:

17 "No actual compliance order was

18 ever issued in Alberta and no fine

19 was levied."

20 A. That's correct.

21 1220 Q. And so you're making a distinction

22 between an interim compliance order and what you

23 describe as an actual compliance order.

24 A. This is a legal point that I'll

25 defer to my counsel on.

Page 257

1 MR. PINOS: The distinction of the

2 Alberta legislation is between interim and final

3 orders, probably actual should be final.

4 BY MR. BALA:

5 1221 Q. So did you appeal this interim

6 order?

7 A. We did.

8 1222 Q. Now looking at this order, let's

9 go to page 212 in the top left corner. There's a

10 section --

11 A. Sorry, what was the exhibit

12 number?

13 1223 Q. Exhibit M. M as in Michael.

14 A. Okay. Carry on.

15 1224 Q. 212 in the top left corner, do you

16 see it?

17 A. I do.

18 1225 Q. There's a section here dealing

19 with non-compliance of the order?

20 A. Yes.

21 1226 Q. And the order itself states that

22 if you fail to comply with it even though it's an

23 interim order there are legal consequences?

24 A. Yes.

25 1227 Q. And so this interim order was made

Page 258

1 after an investigation, it was subject to an  
 2 appeal, your company actually appealed it, and you  
 3 can be prosecuted for failing to comply with it,  
 4 correct?  
 5 A. That's what that says, yes.  
 6 1228 Q. And the date of this interim order  
 7 is May 10, 2011?  
 8 A. That's correct.  
 9 1229 Q. And this order was issued then  
 10 almost seven months after you implemented the  
 11 cheque-for-loans process in all provinces, which  
 12 you said was October 27, 2010?  
 13 A. That's correct.  
 14 1230 Q. So that would be about seven  
 15 months after your corporate-wide communication?  
 16 A. That's correct.  
 17 1231 Q. And let's go back to your reply  
 18 affidavit. At paragraph 17 and 18 here you state  
 19 that you had instituted an on-site cheque printing  
 20 program in Alberta?  
 21 A. That's correct.  
 22 1232 Q. Now did that satisfy the concerns  
 23 of the Director of Fair Trading?  
 24 A. Could you ask your -- sorry, just  
 25 make the reference?

Page 259

1 1233 Q. Did the cheque process that you  
 2 refer to here did that satisfy the Director of Fair  
 3 Trading; the concerns raised in that interim order?  
 4 A. You know what, I'm sorry, I just  
 5 kind of lost track with you. Can you start with  
 6 the paragraph?  
 7 1234 Q. No problem. At paragraph 17 and  
 8 18 of your reply affidavit you state that you had  
 9 instituted an on-site cheque printing program in  
 10 Alberta.  
 11 A. Let me read the paragraph.  
 12 1235 Q. Yeah, yeah, no problem.  
 13 A. So can you ask your question  
 14 again, please?  
 15 1236 Q. So you say -- it's at paragraph  
 16 17 -- that you had...  
 17 "Cash Store Financial improved  
 18 its no-fee cheque option by making  
 19 that option immediately available  
 20 on-site in branch locations (in a  
 21 similar manner to the change made in  
 22 Ontario)."  
 23 A. That's correct.  
 24 1237 Q. Did that change satisfy the  
 25 concerns of the Director of Fair Trading in

Page 260

1 Alberta?  
 2 A. It did. 66  
 3 1238 Q. It did?  
 4 A. Yes.  
 5 1239 Q. Do you have any correspondence  
 6 acknowledging this?  
 7 A. I don't know. We met with them.  
 8 1240 Q. So then there must be notes of  
 9 your meeting of some kind? Follow-up letter?  
 10 MR. PINOS: Do you recall?  
 11 THE DEPONENT: I don't recall what the  
 12 correspondence trail is on that.  
 13 BY MR. BALA:  
 14 1241 Q. Can I get an undertaking for any  
 15 correspondence or documents with respect to the --  
 16 MR. PINOS: The follow-on from the  
 17 interim compliance order?  
 18 MR. BALA: Yes.  
 19 U/A MR. PINOS: I'll take that under  
 20 advisement, but we'll make inquiries.  
 21 BY MR. BALA:  
 22 1242 Q. At paragraph 18 of your reply  
 23 affidavit you state:  
 24 "In respect of British  
 25 Columbia, it is difficult to

Page 261

1 understand how a March 23, 2012  
 2 decision in British Columbia  
 3 provides support for a decision to  
 4 create New Regulations in June 2011  
 5 in Ontario."  
 6 See that?  
 7 A. Yes, I do.  
 8 1243 Q. Now was that March 23, 2012  
 9 decision in British Columbia that you are referring  
 10 to, was that an appeal of an earlier decision, or a  
 11 reconsideration of an earlier decision?  
 12 A. It was a determination on  
 13 reconsideration of an earlier decision, yes.  
 14 1244 Q. And what is the date of the  
 15 earlier decision?  
 16 A. November 2010.  
 17 1245 Q. When you received that earlier  
 18 decision did your company write, or produce a press  
 19 release of any kind?  
 20 A. When the earlier decision was  
 21 issued we issued a press release, yes.  
 22 1246 Q. Does that press release exist at,  
 23 or is that to be found at Exhibit "O" to Mr.  
 24 Pitkin's affidavit?  
 25 A. Yes.

Page 262

1 1247 Q. Now you say at paragraph 18 that  
 2 Cash Store Financial is working cooperatively with  
 3 Consumer Protection B.C., do you see that?  
 4 A. I do.  
 5 1248 Q. Let's go to Exhibit N1 of Mr.  
 6 Pitkin's affidavit.  
 7 This is a press release by Consumer  
 8 Protection B.C. and it's dated May 3, 2012 in the  
 9 top left corner?  
 10 A. Yes.  
 11 1249 Q. And this date is about two months  
 12 after that reconsideration decision?  
 13 A. That's correct.  
 14 1250 Q. And the title of the release  
 15 states:  
 16 "Cash Store Fails to Comply  
 17 With Ruling From Consumer Protection  
 18 BC."  
 19 Correct?  
 20 A. That's correct.  
 21 1251 Q. And the first paragraph states:  
 22 "Consumer Protection BC has  
 23 filed a Notice of Penalty and  
 24 Compliance Order with The Supreme  
 25 Court of British Columbia after Cash

Page 263

1 Store Financial Inc., a Canadian  
 2 payday lender more commonly known as  
 3 The Cash Store or Instalozans, failed  
 4 to meet requirements laid out in  
 5 their March 23, 2012 compliance  
 6 order and notice of administrative  
 7 penalty."  
 8 Do you see that?  
 9 A. I do.  
 10 1252 Q. Do you recall Consumer Protection  
 11 B.C. having filed a notice of penalty and  
 12 compliance order with the Supreme Court in British  
 13 Columbia?  
 14 A. I do.  
 15 1253 Q. Would you agree with me that  
 16 having to be taken to court to comply with an order  
 17 is not very cooperative?  
 18 A. I would not.  
 19 1254 Q. Can we go back to those Nova  
 20 Scotia transcripts? Page 122.  
 21 I'm going to begin at line 3. And just  
 22 for some context, here, both yourself and Mr.  
 23 Reykdal, as you stated earlier, were testifying  
 24 before the Nova Scotia Utility and Review Board.  
 25 And there were questions directed at I guess it

Page 264

1 would be the both of you by a Mr. Cochrane?  
 2 A. Yes. 67  
 3 1255 Q. And the questions were with  
 4 respect to the Advisory Board report at Exhibit C  
 5 of your affidavit.  
 6 A. Okay.  
 7 1256 Q. So I'm going to start at line 3.  
 8 MR. PINOS: Page 122?  
 9 BY MR. BALA:  
 10 1257 Q. Yes. There is a sentence there  
 11 but it seems cut off. It says, "--- truths that  
 12 I'm necessarily adopting." So I'm going to read  
 13 this in:  
 14 "MR. COCHRANE: I'm just trying  
 15 to summarize the report. So they're  
 16 saying there aren't exorbitant  
 17 profits, there's a wide range of  
 18 pricing that occurs and then they're  
 19 saying, as we know, that we think  
 20 the price should go to \$21 -- and,  
 21 again, I'm just putting this forward  
 22 to you as a proposition.  
 23 MR. REYKDAL: Right.  
 24 MR. COCHRANE: They're saying  
 25 that it should go to \$21 not to

Page 265

1 control exorbitant profits because  
 2 they say they don't exist, they say  
 3 it should go to \$21 in order to  
 4 eliminate loans to high risk  
 5 borrowers. That, I would suggest to  
 6 you, is at least a reasonable  
 7 inference a person could draw from  
 8 this report?  
 9 MR. REYKDAL: Correct."  
 10 Mr. Thompson, Mr. Reykdal here agrees  
 11 that the \$21.00 per 100 limit is designed to  
 12 control high-risk loans?  
 13 A. Sorry.  
 14 1258 Q. Here in this --  
 15 MR. PINOS: He agrees that it's a  
 16 reasonable inference a person could draw from that  
 17 report.  
 18 BY MR. BALA:  
 19 1259 Q. That's great. Would you agree  
 20 that it's a reasonable inference that a person  
 21 could draw from that report?  
 22 MR. PINOS: Just so the record is  
 23 complete, because we leapt on this report without  
 24 identifying it. It's the advisory board regarding  
 25 the maximum total cost of borrowing in Ontario,

1 which I take it is the report we referred to at the  
 2 beginning of this examination.  
 3 MR. BALA: Exhibit C is what I said  
 4 when I prefaced this question.  
 5 1260 Q. Do you agree that a reasonable  
 6 inference can be drawn from that report that, just  
 7 as Mr. Reykdal says there, that the \$21.00 per 100  
 8 limit is designed to control high-risk loans? Or  
 9 it says here to eliminate loans to high-risk  
 10 borrowers?  
 11 A. I would agree that that's a  
 12 reasonable inference that can be drawn from that  
 13 report, yes.  
 14 MR. BALA: I know I said last time to  
 15 give me five minutes and I'm going to clean up, if  
 16 you guys don't mind I'll just have a one-minute  
 17 conversation with Ashley, but I believe I'm done.  
 18 --- Recess at 4:24 p.m.  
 19 --- On resuming at 4:25 p.m.  
 20 MR. BALA: Mr. Thompson, subject to any  
 21 undertakings, refusals, any other evidence that may  
 22 arise, or information, those are my questions.  
 23 Thank you. You've been a very patient witness.  
 24 THE DEPONENT: Thank you.  
 25 MR. PINOS: I have one question by way

1 REPORTER'S CERTIFICATE  
 2  
 3 I, CONNIE A. HOLTON, CSR, Certified **68**  
 4 Shorthand Reporter, certify;  
 5 That the foregoing proceedings were  
 6 taken before me at the time and place therein set  
 7 forth, at which time the witness was put under oath  
 8 by me;  
 9 That the testimony of the witness and  
 10 all objections made at the time of the examination  
 11 were recorded stenographically by me and were  
 12 thereafter transcribed;  
 13 That the foregoing is a true and  
 14 correct transcript of my shorthand notes so taken.  
 15  
 16 Dated this 7th day of December, 2012.  
 17  
 18 -----  
 19 Per: Connie A. Holton, CSR  
 20 Neeson & Associates  
 21 Court Reporting and Captioning Inc.  
 22  
 23  
 24  
 25

1 of re-examination.  
 2 RE-EXAMINATION BY MR. PINOS:  
 3 1261 Q. Mr. Thompson, Mr. Bala asked you  
 4 questions about bullet-proof glass and he put the  
 5 names of a bunch of other payday loan companies  
 6 operating in Ontario to you. Just for the context,  
 7 are you aware roughly of what the percentage market  
 8 shares in Ontario of each of your companies'  
 9 businesses Cash Money and Money Mart are, roughly?  
 10 A. I believe that Money Mart holds 16  
 11 percent, Cash Corp Financial holds 14 percent, and  
 12 Cash Money would hold in the neighbourhood of five  
 13 to six percent.  
 14 1262 Q. Are there any other competitors in  
 15 that size bracket, or are those the three largest?  
 16 A. Those would be the three largest  
 17 that I'm aware of.  
 18 MR. PINOS: Thank you.  
 19 ---Whereupon the proceedings adjourned at 4:27 p.m.  
 20 ---Upon agreement of counsel the following exhibit  
 21 was marked:  
 22 EXHIBIT NO. 10: Pages 30, 32, 85 and  
 23 122 from Transcript of Nova Scotia  
 24 Utility and Review Board heard November  
 25 1, 2010

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ability 69:24 154:23 241:4	additional 52:9,15 83:21 99:17,21 123:7	132:16 133:1 134:22,25 136:10 137:12,24 143:14 151:16,24 157:9 158:4 160:2,11,19 162:13,21 164:3,4 164:22 171:5 172:21 177:24 186:24 187:3 192:14 197:10,14 198:2 199:6 208:12 208:25 209:9 214:17 215:10,16 215:24 216:18 217:17,21,24 219:15,21 220:23 221:1,17 222:10 225:19 226:8 227:23 228:2,11,20 229:7,24 232:9 233:8 235:5,10,11 235:19 237:5 254:13 255:2 256:15 258:18 259:8 260:23 261:24 262:6 264:5	132:16 133:1 134:22,25 136:10 137:12,24 143:14 151:16,24 157:9 158:4 160:2,11,19 162:13,21 164:3,4 164:22 171:5 172:21 177:24 186:24 187:3 192:14 197:10,14 198:2 199:6 208:12 208:25 209:9 214:17 215:10,16 215:24 216:18 217:17,21,24 219:15,21 220:23 221:1,17 222:10 225:19 226:8 227:23 228:2,11,20 229:7,24 232:9 233:8 235:5,10,11 235:19 237:5 254:13 255:2 256:15 258:18 259:8 260:23 261:24 262:6 264:5	agrees 265:10,15 Alberta 4:1 24:21 25:14,18,24 27:5 30:10 31:13 33:1,9 33:14 34:5 77:19 104:20 105:3,14,18 113:18 139:12,21 214:2 243:24 254:17 255:12,20 256:18 257:2 258:20 259:10 260:1 allegations 255:21 allowable 216:10 allowed 43:15 allows 124:13 212:4 alternative 16:10 218:25 219:9 alternatives 219:2,11 amend 235:4 amended 210:10 amending 228:17,23 230:5 231:21,25 amendments 41:8 230:25 232:12 233:13,20 amount 73:7 81:14 82:13,21 83:2 141:5 141:5,11,25 142:8 142:12,24 166:16 166:20 194:3 201:25 202:12,16 202:22,24 amounts 107:17 amt 196:8 analysis 241:17 248:2 248:9 ancillary 166:10 and/or 23:22 anecdotal 20:21 21:17 angled 247:17,22 announced 93:16 annual 30:19,23 31:6 31:16 answer 6:5 12:18 13:19,20 14:2,8 16:23 34:10 43:7,12 43:22 45:25 47:13 47:25 48:2,5,14 49:1,6,17,23 50:3 51:2,6 52:1,6,21 53:1,10,17,23 54:2 54:7 55:13,18 57:19 57:24 58:22 59:2 60:3 61:3,5,11,15 61:22 63:16,22 64:1 64:18 65:1,6,10 66:8,14,18,22 67:3 67:22 68:11,14,18 68:23 69:12,16,22 70:2,7,12,18 73:10 74:12,20 75:2,7	76:10 79:5,11,19 80:2,6,17,22 95:1 97:11 98:17,22 101:11,16,21 102:1 102:5,14,19,25 103:5,10,16,22 104:11,17,21,25 105:6,15,21 106:1,5 106:12,14,16,22 107:3,10 108:14,18 108:22 109:1,5 111:14 112:17 113:4 114:10,18 117:19 119:16,19 120:4,9,19 121:3,13 121:20,25 122:6,13 122:20 124:4 126:12 128:10 129:21,22 130:9,16 130:21 131:2,8,12 131:15,23 132:8 136:5 139:9,13,17 139:22 140:3,15,22 141:19 143:8 146:5 150:24 151:4 153:24 154:3,7,12 154:16,21 155:2,7 155:13,19 156:14 192:19 202:18 203:11 206:6,16,22 207:14 219:14 238:11 239:2,3,7 answered 36:7,8 37:6 112:6 answers 36:11,12 81:23 123:4 anybody 7:16 240:6 anymore 239:23 240:9 Anyway 196:11 apart 194:11 apologies 45:3 188:19 apologize 41:22 76:3 119:7 appeal 257:5 258:2 261:10 appealed 258:2 appear 2:22 3:3,11 69:25 145:5 151:18 154:25 166:10,13 167:16 176:11 184:21 216:23 217:2,7,10 224:22 225:1 236:4,6,9 appeared 199:1 appears 44:23 146:16 152:24 160:20 163:3 165:25 169:3 170:10 173:17 174:22 176:13 178:22 179:23,25 183:15 184:19

187:20 189:15 190:18 196:10 199:5,14,21,23 200:21 226:11,19 228:15,22 230:3 <b>appealed</b> 215:15 <b>Appendix</b> 28:1,2,8 <b>Applicaots</b> 1:10 2:2 <b>application</b> 11:7 13:24 14:16 17:10 20:7 134:16,18 135:8 138:1 140:19 142:17 153:3,8,12 167:24 176:18 238:15 241:13 243:3,8 247:3 249:23 250:23 <b>applied</b> 57:4 168:4 <b>applies</b> 51:23 55:8 57:10,13,15 58:14 58:17 60:22 61:1 111:15 225:9 <b>apply</b> 50:16 51:21 53:21 54:16,20,24 60:7,11,15 62:7,13 127:4 <b>appointed</b> 237:17,20 237:22 <b>approach</b> 219:23 222:2 224:15,22 <b>approval</b> 99:18 100:11 102:13 108:6 112:10 113:19 <b>approve</b> 106:10 113:11 <b>approved</b> 107:15 205:2 <b>approves</b> 112:4 <b>approximately</b> 23:7 37:9 <b>April</b> 180:4 181:15 <b>areas</b> 247:18,23 <b>arguing</b> 114:13 <b>arises</b> 37:15 38:13 <b>arraoged</b> 83:8 <b>articles</b> 242:16,22 <b>Ashley</b> 2:6 266:17 <b>asked</b> 6:6 35:6 44:22 78:17,24 79:9 80:7 96:25 203:6,12 218:12 235:4 239:20 240:3,8 241:8 244:22 267:3 <b>asking</b> 6:10 12:15 39:10 44:16 56:4 67:6 80:7 81:19 123:3 125:13 <b>asks</b> 37:5 131:5 <b>aspect</b> 117:17 <b>assertion</b> 201:12 <b>assessing</b> 19:25	<b>assistance</b> 2:18 140:14 228:14 229:14 230:2 231:6 231:10 232:19 233:7,19 234:2,23 234:25 235:3,24 236:2,24 237:3 <b>associated</b> 81:7 110:22 126:7 127:11 243:23 251:11 <b>Associates</b> 1:21 268:21 <b>association</b> 8:11 9:12 18:14,25 <b>assume</b> 46:18 48:13 48:14 78:4 202:17 205:24 215:3 246:14 <b>assuming</b> 43:15 48:2 <b>assumptions</b> 192:17 241:21 <b>ATM</b> 46:14,17,19 47:19,21 <b>attached</b> 22:2,7 23:16 25:2 34:1 132:19 135:2 158:16 171:4 192:12 <b>attempt</b> 141:19 <b>attended</b> 204:11 <b>attention</b> 91:7 145:14 <b>Attitudes</b> 28:3 <b>attract</b> 23:20 <b>attracted</b> 17:20 18:5 <b>attributable</b> 40:8 <b>audit</b> 249:25 250:3,7 250:11 <b>auditor</b> 250:18 <b>author</b> 27:7,8 <b>authored</b> 23:4,8 130:23 237:14 <b>authorization</b> 108:5 <b>authorized</b> 45:9 57:8 <b>authors</b> 28:25 <b>avail</b> 79:17 125:22 <b>available</b> 86:18,23 88:12,23 98:4 102:24 259:19 <b>Ave</b> 157:24 204:13 <b>Avenue</b> 197:23 200:5 <b>average</b> 17:18 20:19 21:4 30:24 31:17 119:13,24 120:1,2,3 120:8,16,22 121:7 <b>awake</b> 109:12 <b>aware</b> 104:23 105:2 105:12 159:3,11,25 191:18 193:3 205:2 205:23 213:23 231:4 267:7,17 <b>a.m</b> 6:1 65:14,15 92:20,21 119:1	121:15 <hr/> <b>B</b> <b>b</b> 1:6 4:12 10:17,20 11:6 19:9 97:22 102:18 107:20,24 114:23 115:11 177:5,6 201:3,19 <b>back</b> 15:25 16:4 24:15 24:24,25 26:1 35:7 37:25 38:13,23 46:4 88:6 107:9 109:11 134:21 137:22,23 158:10 165:11 190:15 202:25 210:18 256:14 258:17 263:19 <b>background</b> 6:11 <b>bad</b> 200:24 <b>Bala</b> 2:5,13 6:3 8:1,3 8:7,8 9:20,21 12:4 12:14,19 13:7,17,21 13:25 14:5,9,14 15:21,24 16:5 17:8 18:18 19:16,22 24:6 24:13,14 28:2,6 33:17 34:18 39:3,6 41:1,5,6,25 42:1,23 43:8,13,23 44:16,21 45:3,13,23 46:8 47:2 48:1,6,19 49:2 49:7,20,24 50:4,20 50:24 51:3,7 52:2,7 52:18,22 53:2,13,20 53:24 54:3,8 55:14 55:19 56:3,8,13,14 56:21 57:20,25 58:23 59:3,14,17,24 60:6,14,21 61:8,12 61:16 62:1,5,12,19 63:5,11,19,23 64:2 64:20 65:3,7,11,16 66:10,15,19,23 67:4 67:14,18,23 68:12 68:15,19,24 69:13 69:17,23 70:3,8,13 70:19,25 71:6,8 73:11 74:13,16,21 75:3,8,13 76:3,7,15 78:9,15 79:3,13,20 80:3,9,13,18,23 82:4 84:15,17 87:19 87:23 88:5 89:15 90:4 91:19 92:22 93:21 94:21 95:2,22 96:8,11,19 98:16,21 99:4 100:25 101:12 101:17,22 102:2,6 102:10,15,20 103:1 103:6,11,17,23 104:2,12,18,22 105:1,7,8,10,16,22	106:2,6,13,17,23 107:4,8 108:15,19 108:23 109:2,6,10 109:13 110:7,17,21 111:3,8,17,24 112:3 112:8,16,20 113:7 113:15,22 114:4,12 114:19 115:7,10 117:11,23 118:5,16 118:24 119:6,17,21 120:5,10,14,20 121:4,14,21 122:1,7 122:14,21 124:8,11 124:16 125:19 127:7,19 128:11 129:22,25 130:5,10 130:17,22 131:3,9 131:17,18 132:4,9 132:15 136:8 137:14 139:3,10,14 139:18,23 140:4,11 140:16,23 141:20 143:9,13 144:16 150:12,25 151:5 153:25 154:4,8,13 154:17,22 155:3,8 155:14,20 156:1,4 156:19 157:8 161:15,19 170:25 171:24 172:10 173:3 175:22 177:3 177:14 181:8,12 182:9,19 186:4,7,15 187:13 188:13 190:21 191:2,4 192:21 193:16 194:21 195:10,16 195:20,25 196:9,16 197:1,16 201:1,6,8 201:13,17 203:1,9 203:16 204:1 205:20 206:8,12,17 206:23 207:9,15,25 208:11 209:8 228:4 228:8 229:5 237:25 238:7,12 239:4,9 243:1 244:8 245:1 247:1 249:4,21 251:7,19 252:21 253:4,9 254:8,12,19 257:4 260:13,18,21 264:9 265:18 266:3 266:14,20 267:3 <b>balaoce</b> 50:6,11 62:21 63:7,13 220:15 225:15 <b>balanced</b> 224:14,21 224:22 <b>baok</b> 40:4 41:14,15 41:19,24 42:14 43:1 43:4,18,21 44:9,11 44:11 45:1,1,19	46:7 47:14,17 48:18 50:10,11 51:18 54:15,16,20 64:25 70:22 71:4 72:8,15 72:20,22 83:7 122:17,17 124:2,12 125:7,15,15 129:9 129:10,13,18 130:13,14 131:6,20 132:1,1 <b>banking</b> 243:24 244:16 <b>bankrupt</b> 216:15 <b>bankruptcies</b> 215:20 217:14 <b>banks</b> 122:16 123:12 123:14,21 124:19 125:2 214:24 215:2 <b>base</b> 38:6 39:17 <b>based</b> 25:9,12 65:20 218:4,6,12,19 240:2 248:19 256:7 <b>basically</b> 37:23 38:7 40:9 <b>basis</b> 40:10 65:24 80:4 117:2 121:11 228:16,23 230:4 231:21,24 235:3,16 241:3 <b>BC</b> 262:18,22 <b>beginlog</b> 29:10 30:19 85:12 149:3 266:2 <b>begins</b> 51:13 204:7 245:5 <b>behalf</b> 111:1 125:10 <b>Beitchman</b> 2:3 <b>believe</b> 10:3 16:15 50:9 51:23 54:4 55:2 58:6,13 76:24 77:6,15 80:9 84:8 84:23 91:24 92:3 95:12 119:11 142:11 168:1 177:18 182:10 185:6 208:24 212:14 214:1 219:13 255:8 266:17 267:10 <b>belonging</b> 174:19 <b>best</b> 15:16 227:23 <b>better</b> 41:3 <b>beyond</b> 130:4 <b>bickering</b> 80:10 <b>big</b> 150:17 214:23 225:5 <b>bill</b> 67:20 215:15 217:14,25 218:16 <b>bills</b> 32:12,13,23,24 <b>bit</b> 24:24 42:9 126:1 <b>blank</b> 51:10 115:16 121:11,22,23
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------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<p><b>board</b> 5:23 17:7,14 18:4 19:18,18 20:2 20:15 21:3,8,16 35:2,4,9,25 121:6 122:24 263:24 264:4 265:24 267:24</p> <p><b>board's</b> 17:3 20:6 21:22-119:23</p> <p><b>bold</b> 150:17 226:15</p> <p><b>bolded</b> 152:13,19,23</p> <p><b>book</b> 4:8,11,14,17,20 4:23 5:4,7,10,13,16 5:20 22:19 41:4 144:15,16 160:7,11 160:17 172:5,9,12 177:9,13 182:14,18 186:11,14 192:11 192:15 196:20,23 203:24 208:6,10</p> <p><b>borrow</b> 81:14 82:13 83:3 166:24 167:1</p> <p><b>borrowed</b> 83:5 142:24 164:11 165:3 166:9,16 202:16,22</p> <p><b>borrower</b> 72:19 83:22 193:6 201:9 204:23 204:24</p> <p><b>borrowers</b> 17:20 18:5 20:12,19 83:18 143:25 193:2 204:21 265:5 266:10</p> <p><b>borrowing</b> 16:11 17:24 81:12 83:23 83:25 142:7 202:17 202:23 265:25</p> <p><b>bottom</b> 18:23 22:14 24:17 27:2 29:10,19 30:18 31:23 115:22 116:6 117:15 148:20 151:19 152:1,4,6 153:14 164:6 168:12 173:11 175:24 176:19 178:10,12 182:2 183:5 187:10 198:6 202:22 221:21 239:18 245:5</p> <p><b>bought</b> 69:19</p> <p><b>Boulevard</b> 162:10 163:12</p> <p><b>bounce</b> 108:8</p> <p><b>bound</b> 252:3,14</p> <p><b>box</b> 46:9,13 47:21 48:7 49:8 50:5 51:8 52:8 53:4 54:10,21 55:20 58:1 59:6 64:3,11 68:3,10 109:16 199:10</p>	<p><b>boxes</b> 59:22 61:17 64:4,8 65:23 67:25</p> <p><b>bracket</b> 267:15</p> <p><b>branch</b> 69:4 76:23,25 77:10 99:11 100:2 101:19 102:16,21 103:3 105:20 107:20 109:17 114:7 115:15,24 116:21,22 117:12 117:13 118:1 151:8 159:5 163:11 169:7 175:3 179:1 180:6,9 183:19 185:1,4 188:3 189:21,24 200:5 247:11,16 254:4 259:20</p> <p><b>branches</b> 9:24 10:5,10 10:10,11 94:10,11 95:24 97:20 100:19 101:2,5,6 103:8 104:16 117:1 160:4 210:22 211:9 214:3 214:23 215:4 241:2 253:17</p> <p><b>Brandy</b> 198:7 199:14 204:15 205:12</p> <p><b>breached</b> 256:10</p> <p><b>break</b> 42:7 64:6 65:12 127:14 196:15</p> <p><b>breaking</b> 132:12</p> <p><b>break-in</b> 250:25 251:3</p> <p><b>breath</b> 105:11</p> <p><b>Bressler</b> 242:19</p> <p><b>Brick</b> 135:13</p> <p><b>Brief</b> 4:8,11,14,17,20 4:23 5:3,7,10,13,16 5:19 172:5,8 177:8 177:13 182:14,17 186:11,14 196:19 196:23 208:6,10</p> <p><b>bringing</b> 145:13</p> <p><b>brings</b> 83:25</p> <p><b>British</b> 260:24 261:2 261:9 262:25 263:12</p> <p><b>broker</b> 141:5 142:3</p> <p><b>brought</b> 91:6 126:10</p> <p><b>Buckmire</b> 198:7,9 205:12,16,22 207:5</p> <p><b>Buckmire's</b> 199:14</p> <p><b>build</b> 40:6 45:10</p> <p><b>Bukmir</b> 204:15</p> <p><b>bullet</b> 11:9,20,24 12:20 14:23 15:7 16:6 83:15 143:22 256:2</p> <p><b>bullet-proof</b> 212:8,13 212:18,22 213:25 214:17,20 215:5,8 267:4</p>	<p><b>bunch</b> 267:5</p> <p><b>burden</b> 219:24 222:4</p> <p><b>busler</b> 121:10</p> <p><b>busiest</b> 120:24 121:1</p> <p><b>business</b> 4:2 24:20 26:10,22 33:15 39:24 40:8 45:10 105:19 117:18 139:15 173:17 174:10 175:6 177:4 178:6,23 179:16,18 180:10 183:16 184:9 187:19,20 189:8,25 205:1 206:4 209:12,19,21 209:23 210:4,8,12 210:16,19,21 220:1 222:5 223:14,19 224:6,16 235:25 237:8</p> <p><b>businesses</b> 44:20 267:9</p> <p><b>busy</b> 121:10</p> <p><b>buy</b> 79:16 80:16 82:18 122:4 125:5 142:21 151:11</p> <p><b>buying</b> 122:9</p> <p><b>B(2)</b> 215:15,24</p> <p><b>B.C</b> 262:3,8 263:11</p>	<p><b>Cancellation</b> 134:4</p> <p><b>cancellations</b> 134:4</p> <p><b>capacity</b> 76:25 97:14 193:4 205:4</p> <p><b>capital</b> 115:14,23 152:25</p> <p><b>caps</b> 100:14 152:20</p> <p><b>Captioning</b> 1:21 268:22</p> <p><b>capture</b> 247:17,22</p> <p><b>car</b> 72:24</p> <p><b>card</b> 41:10,13 47:17 48:8,12,18 51:13,16 51:19,20,21 52:10 52:16 53:15 54:17 54:22,25 55:8,22 56:11,16 57:9 58:3 58:8 60:8 61:2 64:23,23 80:25 81:8 82:9 83:7,20 85:7 87:2 111:1 112:23 113:8,12,18 126:3,6 127:9,10,11,24,24 128:6,7 131:21,22 131:24,25 132:1,6,7 163:21 165:17 166:3,5 169:16 170:2 173:17 174:11 175:6,11,19 176:10 177:4 178:23 179:16,18 180:10,15 183:16 184:9 185:11,18 187:19,20 189:8,25 190:5 196:7 200:10 200:17 202:7,14 208:16,21,22,25</p> <p><b>cards</b> 41:19 42:18 43:1 57:5,12,14,16 58:18 61:1 62:7 121:24 132:3 209:7</p> <p><b>Card/Account</b> 68:7</p> <p><b>careful</b> 56:19</p> <p><b>carries</b> 210:22 211:6</p> <p><b>carry</b> 215:2 257:14</p> <p><b>case</b> 43:18,19 72:6 130:20 165:25 166:4 168:2 176:11 205:25,25 210:21 253:15</p> <p><b>cases</b> 38:3 159:4,12 237:2</p> <p><b>cash</b> 1:8,9 3:21 6:15 7:20 8:9,13,16,17 8:19,20,22,23 9:1 9:22 10:1 11:12,18 22:3 23:14 24:3 25:3,9,21 35:15,17 37:14 41:14 42:13 42:17,25 43:5,9 46:14,17 47:19,22 47:22 48:3,23 49:4</p>	<p>49:21 50:1,25 51:24 52:4,19,24 53:25 55:11,16 57:17,22 58:20,25 61:9,13 63:2,20,24 65:4,23 66:4 69:3,7 71:3,9 72:18 73:8 74:18,25 75:4,10 76:11,23 80:20,20 95:25 96:15,23 97:10 104:16 105:19 111:15 116:8 122:3 122:18 123:25 124:6,13,15,22 125:2,4,22 126:3,9 126:11,21,25 127:1 127:2,8,22,23 128:15 129:4 131:21,22,24,25 132:1,20 135:3 148:16 151:8,11 152:15,16,17 153:6 153:7,22 155:5,16 155:22 156:13 164:12 165:3 168:19,20,21,22 173:21 175:2 176:19 179:1 180:6 182:3 183:20 185:1 187:21 188:4 189:21 193:11 200:4 204:12 205:13 209:11,18 209:24 210:3,6,20 210:22 211:14,17 211:18,21 212:3,4,8 213:2,10,12 214:6,8 214:11 215:2 228:12 229:25 231:3 237:7,12 239:13 241:2,10 245:9 246:3 249:24 251:9,10,23 252:9 252:25 253:15,18 254:4 255:23 256:9 259:17 262:2,16,25 263:3 267:9,11,12</p> <p><b>cashing</b> 104:5,9,14,19 105:18,24 106:4,9 106:20,25 107:14 108:3 114:6 124:13 125:23,24 126:1,14 127:3,4,21 128:1,3</p> <p><b>cashless</b> 209:12 210:7 210:19,20 224:5 237:8 240:24</p> <p><b>cash-based</b> 209:19,21 210:4,12,15</p> <p><b>category</b> 234:5 237:2</p> <p><b>caveat</b> 234:12</p> <p><b>ccd@csfinancial.ca</b> 100:4</p>
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<p>cell 102:23 centres 101:9 118:20 CEO 7:13,15,19 35:14 38:11,18,20 40:11,19 123:19 124:18 certain 254:23 certainly 18:13 certificate 136:12,16 136:19,23 137:3,11 137:16,18,20 138:13 268:1 Certified 268:3 certify 268:4 chain 212:25 challenge 20:16 challenged 20:2 challenging 66:2 chance 92:18 change 131:15 211:17 211:22 259:21,24 changed 172:24 204:3 changes 241:5,6 Characteristics 29:7 29:18 charge 58:9 82:23 83:1,21 126:19 129:13,15 142:23 154:5 charged 57:10 62:21 63:3,8,10,13 126:10 142:12 216:9 charges 51:18 54:15 58:7 85:6 194:4 196:6 chart 22:3 25:3 30:6 30:12 31:9 34:15 47:1,1,3,7,9 chartered 44:11 122:16 123:12. 214:23 charts 22:11 25:7,17 25:21,23 26:2 30:4 31:6,15 check 15:16 19:13 99:11 232:16 cheque 41:10 72:15 75:16,22 76:13,22 76:22,25 77:23 78:18,19,25 79:10 79:17,21 83:19 85:20 86:1,2,6,16 87:3,6,15 88:11,22 90:9,16,21,23 91:2 91:11,18 92:5 95:4 95:25 96:4,5,22 97:5,10 99:12,17 104:5,5,9,14,19 105:18,24 106:4,9 106:20,21,25 107:14,19,21 108:3 108:5,7 109:18,19</p>	<p>109:22 110:2,22,25 112:11,21 114:6,23 115:17 121:17,19 122:3,10 123:24 124:2,13 125:4,7,11 125:14,23,24 126:1 126:3,11,14,20 127:1,3,3,4,9,21,22 127:23 128:1,3 129:5 163:21 165:17 169:16 175:11 180:15 185:11 190:5 193:11 200:10 205:23 206:3,21 258:19 259:1,9,18 cheques 77:9,10,13,22 87:10 89:3,12,23 90:6,14 96:14 106:10 115:16,25 116:1,12,14,21 117:1,3,13 118:13 118:20 121:12,22 122:17 123:16,22 124:6,7,9,14,15,20 124:22,23 125:2 128:21,25 129:8,12 193:5 205:5 cheque-for-loan 97:23 cheque-for-loans 92:1 93:5,13,17 95:15 103:21 107:2 192:5 258:11 chief 237:18,22 238:2 238:10 children 29:22 30:7 chose 80:25 82:8 cbq 193:2 204:21,25 204:25 205:6 Christmas 120:18 circumstance 47:18 125:20 126:22 129:16 circumstances 106:11 125:3 citation 19:3 25:16 cite 10:17 15:2,4,6,14 16:15 32:6 220:19 220:22 221:17,18 221:23 222:1 225:21 234:19 237:11 cited 15:12,18,18 19:9 28:21 30:9 31:12 32:22 33:23 34:8 211:5 226:11 244:4 246:10,21 cites 18:4 242:18 243:14 245:20 claim 216:8 clarify 235:15</p>	<p>class 215:21 216:6,13 clause 140:17 clean 266:15 clear 45:6,8 72:23 81:13,20 151:21 192:9 220:20 clearing 107:19 113:25 clearly 85:16 click 19:7 closed 10:9,11 105:19 119:9 139:21 Cochrane 264:1,14,24 Code 216:11 Colborne 173:21 175:3 collected 128:2,2,9 143:7,10 156:12 Columbia 260:25 261:2,9 262:25 263:13 column 50:6 53:4 54:10 59:6 226:14 combined 141:4 come 31:24 37:17 46:3 72:14 79:10 147:18 167:19 236:18 comes 38:12 222:12 222:21 coming 168:13 182:3 230:23 commencing 6:1 comment 20:10 233:1 commerce 245:14 commission 43:17,19 48:4 49:4 50:1 51:5 52:4,24 54:6 55:16 57:22 58:25 61:14 63:25 65:9 153:23 154:1 commissioned 10:22 25:14 237:11 commissions 43:5 69:19 154:19 commitment 227:6 committee 17:5 21:12 24:21 26:10,23 commonly 263:2 communicate 91:11 communicates 159:12 communication 84:25 91:17,21 93:16,23 93:23,25 94:3,7,14 94:16,22,24 206:15 206:20 239:23 258:15 communications 7:5 66:25 67:9 79:7 89:10 94:1 118:9 155:10 community 243:4,8</p>	<p>companies 41:9 44:3 44:6,23 45:11,15,19 51:5 54:5 65:9 96:21 121:1 155:4 174:20 212:17 214:19 224:18 239:23 245:12 267:5,8 company 6:20 7:6 23:23 35:21 39:20 43:11,17 46:5 80:15 82:1,11,20,23 89:7 91:10 94:5,12 116:22 117:5 121:1 126:7 129:17 137:20 140:12 142:20 151:18 152:9 154:9 156:21 194:15 204:16,19 205:16 210:12,15 218:25 219:9 225:5 231:4 236:1 239:19 253:17,24 254:3 255:14 258:2 261:18 company's 38:11,18 38:20 40:11,19 73:20 74:23 81:21 123:19 124:18 comparatively 251:25 252:11,23 compare 112:21 226:24 compared 253:1 competing 224:18 competitor 86:13,20 competitors 212:9,11 212:21 214:10,13 267:14 complained 130:12 complaints 88:17 complete 76:11 99:11 107:1 110:5 139:4 196:4 265:23 completely 146:8 239:3 compliance 7:4 83:12 87:9 90:7,15 143:16 144:21 147:19 149:6,13 157:11,21 159:19,23 160:13 160:22 161:4 162:2 162:6,11 163:15 167:20 169:10 207:6 250:20 254:24,24 256:17 256:22,23 260:17 262:24 263:5,12 comply 96:21 257:22 258:3 262:16 263:16 comprehensive 19:24</p>	<p>33:8 conceivable 103:12 105:17 125:18 Conceivably 47:20 concern 228:12,21,22 229:25 231:10,14 231:20,24 232:19 235:2 236:4,6,9 concerned 241:5 concerning 239:24 concerns 182:7 254:23 258:22 259:3,25 conclude 153:15 concludes 248:19 256:5 conclusion 218:4,6,19 235:16 conduct 13:1 212:6,12 214:18 conducted 11:21 12:23 121:16 157:22 242:9 confident 227:13 confirm 15:17 78:11 84:22 93:1 110:12 147:11 170:19,20 246:23 confused 76:19 conjunction 144:2 connected 41:14,24 48:18 196:6 Connie 2:7 268:3,20 consensus 244:11 consequences 70:5 155:6 257:23 consider 92:11 116:22 212:24 213:2,8 214:7 considered 117:14 consistent 18:9,16 constitute 134:20 constitutes 133:11 Consultation 4:2 33:16 consulted 242:22 consumer 1:14 39:18 51:19 123:8 125:11 129:4 193:23 194:4 221:8,10 223:8,24 224:25 225:4 227:19 238:19 262:3,7,17,22 263:10 consumers 17:12 20:22 194:8,17 216:8 219:1,10 220:16 227:7,8,11 227:12 229:13 contact 139:7 contacting 138:16 contained 13:10</p>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>138:22 contains 180:24 247:11,16 contend 17:16 contents 27:20,25 28:7 111:10,19 159:22 194:25- 220:7,8 context 53:8 64:23 76:2 124:10,11 263:22 267:6 continue 96:5 105:8 252:6 continued 96:9 contract 138:22 contrary 145:5 146:16 167:16 control 99:22 265:1 265:12 266:8 controls 108:1 117:7 250:19 controversial 9:16 controversy 203:4,10 convenient 15:9 17:22 18:6 conversation 266:17- conversations 159:22 191:24 195:1,6 convert 96:22 97:9 converted 122:11 converting 241:10 cooperative 263:17 cooperatively 262:2 copled 158:8 copies 57:1 67:8 70:15 79:7 115:5 138:14 158:21 207:4 242:23 copy 75:10 94:16 132:20 133:2 135:3 155:21 160:18 161:14 187:1,20 195:4 197:12 254:3 corner 22:14 27:3,21 31:21 44:2,24 45:12 115:13 133:24 134:15 151:17 160:17 161:8 162:10 167:5 173:5 173:12,16,25 174:14 175:24 178:1,10,20 179:5 179:15,21 181:20 182:25 183:6,13,23 184:12 187:5,10,17 188:15,20 189:5,11 191:11 197:3,17 198:6,16 226:13 255:3 257:9,15 262:9 Corp 267:11 corporate 6:15,22,24</p>	<p>7:11 94:14 corporate-wide 91:21 93:16 94:16 206:15 206:20 258:15 corporation 223:11 225:6 corporations 223:16 223:21 correct 6:9,16 7:14 8:12,15,18,25 9:3 9:25 10:14,18,19 11:15,19 14:18,19 14:21,22 15:1,14,23 18:8 19:1,5,25 20:1 20:4 21:2,7,18 22:6 22:11,12,15,17,18 23:13,18,21,24 24:22 25:6,10,11,15 26:11,12 27:6,17,18 28:15,16,23 29:8 30:5,8,11,15,21 31:11,14,18 34:23 34:24 35:13,16,19 35:22 36:1,4,6,9,17 36:19,23,25 38:15 40:13,14,17 41:10 41:11,22 42:15 43:3 44:1,4,10 50:15 57:2 69:5,9 71:7 74:8,15 75:16,23 76:8,9,14,18 77:4 77:11,20 79:24 81:6 83:13,14 85:25 86:3 86:25 87:7 88:8,9 88:13,25 89:21 90:22,25 92:7 93:14 93:19,20 95:6 97:18 97:21 98:1,5,8 99:14,22 100:6 104:7 109:24,25 116:9,16 119:20 122:12 125:16 126:4,5,8 127:12,24 127:25 128:19,22 128:24 129:11,14 133:4,8,10 134:6,9 134:12,17 135:20 135:25 136:1,13,14 136:18 138:2 143:1 143:17,18,21 144:10,25 146:13 146:20,23 147:17 147:22 148:8,11 149:7,11,14,20,25 150:16,20 151:13 152:2,7,8,10,14,18 152:20 153:4,5,9,17 153:20 156:9,10 157:12,15 158:9,14 158:19,23 159:6,10 160:15 161:1,2,6 162:8,14 163:25</p>	<p>164:20,24,25 165:4 165:9,10,22,24 166:6,19,21 167:12 169:12,18,21 170:3 170:7 171:3,6,9 173:10,23 174:4,8 174:21 175:1,4,7,15 176:4,17,21,24 177:25 178:3,5,8,9 178:15,18,24 179:3 179:9,13 180:3,5,8 180:11,16,19,22,25 181:18,24 182:1,4 183:2,3,4,11,17,21 184:2,6,10 185:3,13 185:16,19 187:9,25 188:2,6,24 189:3,6 189:9,20 190:1,7,10 191:25 192:2,3,7 194:11 197:21,24 198:19,23 199:3,7 199:12,15,16,25 200:6,15 201:10,16 201:23 202:4,10 204:4,5 207:1,2 208:3 209:13,20 210:5,9 211:8,11,19 211:23 212:10 216:21 218:3,18 220:2,5,23 221:12 221:24,25 222:7,23 223:3 224:1,4,7 225:14,17 226:5,20 228:18 229:15 231:7 233:25 234:17,18,21 235:22 237:10,13 237:16 238:20,21 239:17 242:2,3 245:19 246:11 247:8,9,12,13,20,25 248:6,13,14,17,21 249:25 250:1,4,5,8 250:9 254:20,21,25 256:13,20 258:4,8 258:13,16,21 259:23 262:13,19 262:20 265:9 268:14 corrected 17:7 correctly 77:2 94:2 correspondence 91:3 91:8 130:24,24 252:18 260:5,12,15 cost 40:7 81:11 83:23 83:25 142:6 194:1 202:15,17,23 265:25 Costs 134:1 147:14,22 150:15 163:4 164:10,19 COUNCIL 1:15</p>	<p>counsel 2:18 200:24 256:25 267:20 count 133:9 couple 149:8 courler 78:2,3 116:13 118:18 couriers 116:17,18,20 course 36:14,20 court 1:1,4,5,21 238:23 262:25 263:12,16 268:22 courts 216:7 court's 238:14 cover 28:14,17 82:21 135:15 covered 47:19 127:20 145:25 160:12 CPLA 8:11,14,20,23 8:24 9:2,5,11 10:22 10:25 11:2,10,13,25 12:5,10 CPLA's 13:10 20:3 create 261:4 credit 58:3 85:7 113:12,18 114:1 121:23 196:7 202:21 crime-focused 242:13 criminal 216:10 248:20 cross-examination 1:18 2:13 6:3 42:6 149:4 CSR 97:9,16 109:17 268:3,20 CT 176:3 current 7:1,7 46:10 51:8 59:21 65:22 241:3 243:9 currently 216:6 customer 11:16 12:6 37:17,19 38:6,12 39:17 40:1,4,5,12 40:16 53:14 64:12 64:22 66:13,17,21 67:25 72:10 76:21 77:9,14 78:17,24 79:9,15 81:23 82:16 85:17 86:10 88:12 88:23 90:10,17,20 96:22 97:2,11,16 99:9 103:13 106:18 109:19 110:1 111:6 112:13 114:17 115:18 121:18,19 125:21 127:1,8 129:14,16 130:7 131:5,21 132:6 135:24 136:3 139:25 142:13 154:20 163:4,23 164:13,22 165:9</p>	<p>166:9,16,17,23,25 168:6,18 169:19 171:2 175:13 180:17 185:14 187:23 190:8 200:13 234:5 customers 11:10,25 13:8,18 14:2 15:8 16:8 17:17,23 21:4 21:9 37:10,11,14 38:1,21 39:14 40:10 47:4 57:1 58:7 62:21 63:1,2,2,3,8,9 63:10,13 67:2,11,21 68:21 69:2 75:15,21 76:12 77:22 81:11 82:8 106:11 130:25 135:14 138:20 139:20 150:22 151:1,6 164:11 165:2,6,8 169:4 174:23 180:2 184:20,22 189:16 199:24 210:1 235:20 customer's 68:4 72:20 72:22 81:18 100:9 123:15,22 124:6,8 124:19,22 130:13 130:13 176:2 190:12 201:3 cut 176:14 264:11 Cuts 107:12 cycle 37:23 39:19 40:13 C-26 215:15 217:15 217:25 218:16 C.S.R 2:7</p>
<b>D</b>				
<p>d 2:10 5:1 27:25 28:8 186:8 231:2 232:6 Darren 255:8,10 data 37:19 38:5 date 11:14 26:18,20 27:15 28:17,21 34:18 75:25 76:1,21 77:6 191:14 192:1 193:12 199:9,11,11 199:13 258:6 261:14 262:11 dated 4:4 26:19 88:2 163:7 174:25 180:4 184:23 189:18 200:1 262:8 268:16 dates 28:25 207:12 Dauvergne 242:18 day 1:23 10:12 78:5 79:16 80:16,21 81:1 81:5 82:18 86:6,16 86:18 119:14,24 120:12,25 121:7</p>				

192:5 202:19 228:5 268:16	200:1 205:24 268:16	describes 21:16 243:15	discussed 149:4	150:9 151:16,24 152:16 156:9 166:24
days 120:21 130:15 150:10 205:2	decision 192:19 261:2 261:3,9,10,11,13,15 261:18,20 262:12	description 194:6	discussion 127:16 219:20 254:9	160:8 162:18,20,23 165:12,14 167:4
DC 41:14,19,24 42:14 43:1,4,10,18,21 44:8,10 45:1,1,19 46:7 50:10,11 51:18 72:3 74:22 128:6,9	decisions 117:10	descriptors 249:17,18	discussions 159:18 191:20 194:24 206:25 207:5	169:2 171:13,16 179:24 184:18 189:14 192:15 195:4,13 199:22 206:20 208:14 252:17 260:15
DCBank 43:25 54:10 54:22,22,24,25 55:4 58:7 60:7,15 62:13 63:4,10 64:24 65:24 66:4 67:10,20 68:21 69:3,8,10,14,19,24 70:5,11,16 73:9 74:19 75:1,5,11 81:15,16,24 82:10 82:14,19,20,25 83:5 83:6 86:24 111:2 114:25 124:12 127:9,24 129:19 131:25 132:6 208:18,22 209:6	decline 49:9,14,18	designed 265:11 266:8	dispense 212:5	179:24 184:18 189:14 192:15 195:4,13 199:22 206:20 208:14 252:17 260:15
DCBank's 63:1	deducted 72:8	desk 101:19	distinction 124:21 256:21 257:1	doing 43:11 72:3 112:13 171:22 227:23
deactivate 53:7,14	defer 39:4 256:25	despite 166:1 169:25 176:8	distinguish 38:25	dollars 216:12
deactivated 57:4,11 57:14,16 58:18 61:1 61:2	deficiency 158:16,21 159:4,8 172:16,19 174:6 177:20,23 179:11 182:24 184:4 186:20,23 188:8 189:1 192:13 197:7,9 198:5,21 199:1,15 205:11	Detail 166:18 201:22 201:24 202:6	distress 20:12,23 21:9	dormancy 59:25
Deactivation 53:5	definitely 203:16	detailed 206:25	divisional 1:5 94:4	dormant 59:7,20 60:24 61:2
deactive 55:9	definitional 66:8	details 46:11 51:9 59:21 65:22 202:21 249:15	document 4:7,11,14 4:16,19,23 5:3,6,10 5:12,15,19 22:17,24 26:7,8 34:1,4,4,8,8 38:25 39:5,8 45:12 64:7 73:14 84:18 111:22 136:2 139:1 140:17 144:18 146:9 147:24 148:2 148:3,7 151:19 152:20 153:10,15 155:21 156:8 161:14,18 162:16 163:2 164:10 165:2 166:8,11,14,15 168:12,25 169:3,24 170:1,5,8,12 171:4 172:4,8,13 173:8,12 174:15,18,19 175:24 177:8,12,17 178:13 179:22 180:1 181:4 182:13 182:17,21 183:6 184:14,19 186:10 186:13,17,22 187:2 187:11 189:12 190:12 191:15 192:10,18 195:14 196:19,22 197:4,13 198:7 199:18,23 203:23 208:5,9 221:5,11,14,17 226:6 239:8,10 246:17 254:6 255:3	dot 225:24,25,25
deal 7:4 38:21	definitively 45:22	determination 249:16	documentary 206:18	draw 265:7,16,21 drawn 266:6,12
dealing 130:25 227:19 257:18	delay 90:6,14 130:25	determine 50:11 238:8 241:9	documentation 95:14 110:6	drive 179:17
deals 89:22	delegated 255:12	determined 154:2 216:5	documents 22:21,22 26:6 27:4,15 31:20 34:2 66:25 70:15 84:10 92:24 94:23 131:11 132:21 133:2,8,12,16,23 134:14 135:4,22 136:11 137:25 138:23 140:20,25 141:23 142:1,5,10 142:18 146:2,22 147:7,20 148:14 149:10,18,24 150:7	driving 102:17
debit 41:10,13,19 42:18 43:1 48:8,11 48:18 51:21 53:22 54:17,22,25 55:22 56:11,16 60:8 62:7 64:23 72:7,11,13,17 72:25 73:5 80:25 81:8,24 82:3,9 83:20 85:6 87:2 111:1 112:23,24 113:8,12,17 114:1,8 114:16,22 121:23 127:10 134:8,11 145:20 146:7 148:18,19 163:21 165:17 166:2,5 167:7 169:16 170:6 170:17 175:11,19 176:10 180:15,24 181:17 185:11,18 190:5 200:10,17 202:6,14 208:15,21 209:7	delinquent 142:14	determining 12:6,11	duty 106:3 250:17	drive 179:17
December 163:7 191:15 192:1 193:13 194:5,18 198:10 199:11	deliver 210:1	detriment 236:21	E	earlier 67:16 74:14 95:7 119:8 134:10 143:19 156:5 157:13,14 168:1 185:22,25 191:23 192:4 194:23 253:21 261:10,11 261:13,15,17,20 263:23
	delivered 41:9	Deveau 123:3,9	E 1:6,6,6 2:1,1,10 5:8 196:17 226:7	earn 37:21
	delivers 128:16	differ 62:20 63:7,12 200:23	ear 59:5	easier 94:23
	delivery 87:16 89:12 89:23	differing 17:15	easy 14:25 15:19 212:24	economy 227:17
	department 104:6,9 104:15,20 105:18 105:24 106:4,9,20 107:1 108:4 112:11 113:18 114:6 116:7	difficult 260:25		Edmonton 77:18,19 116:11,15 238:2 247:7 248:10
	DEPONENT 12:3 15:17,23 18:15 19:21 24:10 28:5 34:14 39:4 45:7,21 46:25 48:16 50:19 56:18 62:25 65:13 70:24 76:14 78:7 84:16 93:20 96:9 98:14 112:15 116:25 118:3 125:18 131:24 132:14 172:23 181:10 188:12 201:15 253:3 260:11 266:24	difficulty 171:13		Edmonton's 237:18 237:22 238:10
	deposited 107:18 113:25	direct 29:12 41:14 47:10 71:3 213:16		educated 227:12
	deposits 247:12,21	DirectCash 42:18 44:3,11,12,23 45:1 45:9 46:3,6 54:14 70:21,22,22 71:2,3 71:10,22 72:15,20 73:4 74:7,11 126:7		effect 60:12 62:10,17 97:2 108:1 131:11 157:5 210:11 236:18
	describe 19:23 40:15 133:7 135:22 136:10 137:6,10 138:23 140:20,25 142:4,9 146:22 151:15,23 156:8 160:2 162:19 210:7 256:23	directed 131:19 132:5 255:13 263:25		effectively 209:17
	described 133:21 134:14 137:24 147:10	Director 254:17,23 255:11 256:8 258:23 259:2,25		
		Director's 255:6		
		disadvantaged 236:22 236:24		
		disagree 16:17,21 41:16 224:10		
		Disclosure 133:25 147:14,21 150:15 163:4 164:9,18		
		discovered 89:7		
		discrepancy 27:13 194:14 202:12 203:3,5,7		
		discretion 127:14		
		discuss 34:22 240:7		

<p>236:20 EFT 128:18 129:12 129:17 130:6,12 131:1,5,19,20 132:5 EFT/Added 52:10,15 Eglinton 197:23 198:25 200:5 204:13 eight 100:19 101:2,2,4 101:6 either 73:7 132:9 171:16 190:16 elaborate 220:18,20 elaborated 36:10,11 elaborates 220:21 electronic 71:23 72:4 128:17 129:8 245:13 element 248:21 elevates 237:9 eliminate 107:25 265:4 266:9 Eliminating 212:3 emergency 32:8,18 37:15 38:13,22 employed 241:22 employee 110:8 114:15 159:13 206:2 252:2,13 employees 47:3 56:25 66:12,16,20 67:11 68:9 69:6,11,15,18 70:4,10 78:18,23 79:7 98:3,6,10 99:1 101:14 112:25 131:4 139:24 151:11 154:15,18 155:10 159:5,7 194:23 195:5 empowered 227:13 Emitax 2:5 enacted 234:10 enactment 132:22 135:5 encompasses 235:9 ended 73:18 196:2 enforced 236:20 engaged 255:22 ensure 107:18 113:25 207:11 243:7 250:19 ensured 206:13 enter 10:2 75:5 227:9 entered 214:22 entities 168:23 entitled 14:17 29:5 54:10 135:24 140:18 147:21 166:18 167:10 170:5 171:2 199:10 201:22 232:12 243:4</p>	<p>entity 44:13,19 entrance 247:19 environment 237:8 equally 224:19 equates 234:23 equating 236:23 237:1 equitable 219:23 222:3 errors 107:25 escape 248:6,24 Esq 2:2,3,4,5 essentially 6:8 7:12 51:10 134:5 235:20 etcetera 70:16 Etobicoke 163:12 169:7 event 209:1 evidence 20:20 21:17 147:5,8 255:24 256:7 266:21 exact 148:17 160:18 221:18 251:14 exactly 26:13 27:7 28:20 78:18 92:16 141:14 149:22 156:15 200:24 240:21 244:21 248:24 252:16,25 examination 266:2 268:10 examine 241:8 examined 248:5 example 79:16 82:17 120:17,23 131:7 Excellent 220:22 exceptions 138:8 excess 216:9 exchange 122:12 209:24 excluding 207:21 exclusions 137:2,7,11 137:16 138:9,21 139:5 140:1 exclusively 25:9 excuse 63:2 220:9 executed 163:3 executive 7:17 exhaustively 137:16 exhibit 10:17,20 11:6 17:2 19:9 20:7 22:2 22:7,8,10 23:12,16 24:1,3,16 25:2,8 26:1,15,24 27:8,16 27:25 28:21 30:3 31:6 32:17 33:3,4 33:12,14,23 34:9 40:23 43:24 52:16 56:10,22 59:20 61:24 65:20 66:12 67:24 71:14 73:13 83:9 87:25 88:2,7</p>	<p>89:16 97:22 114:23 115:11 132:19 133:5 135:2,8 136:15 137:12 142:1,4 143:15 144:13 146:24 151:14 156:9 157:10 158:3 160:10,19 162:12 162:20 171:5,11,25 172:1,3,6,19,20 173:2 177:1,6,11,23 182:5,11,12,15 185:22 186:6,8,12 186:23 187:2 195:11 196:14,17 196:21 197:9,13 198:1 199:5 207:20 207:24 208:1,4,7,13 211:3 215:23 222:14 226:7 238:17 255:2 257:11,13 261:23 262:5 264:4 266:3 267:20,22 EXHIBITS 3:19 exist 247:23 261:22 265:2 existed 133:3 146:21 206:5 existing 129:9 241:11 exists 23:12 162:6 184:8 exorbitant 264:16 265:1 experience 158:25 experienced 251:24 252:10 expert 19:18 191:2 238:23,24 239:6,15 expertise 244:3 experts 243:5,11,15 243:18,23 explain 56:10 66:13 66:17,21 67:2,11 74:9 76:1 202:11 203:2 explained 134:10 explanation 130:19 Express 78:4 expresses 228:11,21 229:24 expressing 235:2 expressly 215:16,24 216:18,23 217:2,6 217:10,13,13,20 extent 130:2,3 extremely 248:21 249:5,10,10 e-mail 100:3 103:15 111:11,20 e-mailed 100:5</p>	<p>e-mails 101:20  <hr/><b>F</b><hr/> F 5:17 208:7 face 114:11 195:15 faced 126:23 facilitate 73:2 231:5 facilitates 72:21 228:13 230:1 fact 91:1 212:21 220:14 224:14 factors 245:15 facts 246:10,20 fail 257:22 failed 220:13 263:3 failing 258:3 Falls 262:16 fair 114:9 223:13,18 254:17,23 255:11 256:10 258:23 259:2,25 fairness 223:7 225:4,9 225:9,11,12 Family 30:4 fashion 110:19 fear 218:24 219:8 feature 39:23 February 4:4 6:25 26:19 27:16 28:19 87:9 88:2 146:14 150:5 167:14,21 Federal 78:4 federally 44:11 fee 47:19,22,23 48:3 48:24 49:3,11,22,25 51:1,4,14,17,18,25 52:3,20,23 53:5,21 54:1,4,5,10,14 55:4 55:8,12,15,21 56:10 56:15 57:4,9,10,13 57:15,18,21 58:2,6 58:11,17,21,24 59:8 59:20 60:25,25 61:10,18,23 62:21 63:7,13,21 65:5 82:21 127:4 141:5 142:3 154:5 156:12 168:7,9,10,11,16 171:8 176:23 181:22,23 feel 19:19 42:7 133:8 187:3 232:15 241:4 fees 43:20 46:10 47:9 51:8,9 59:21 63:3 65:22 66:13,17,21 67:1,10,10,12,20 81:7,10,23 82:10,14 82:19,20,25 83:5 127:11,21 128:1,9 129:19 193:20 194:4 216:9 235:21 feet 38:1,14,23</p>	<p>felt 241:1 field 158:21 159:4 161:8 172:16,19 174:6 177:21,23 179:11 182:24 184:4 186:21,23 188:8 189:1 192:12 197:7,9 198:5,21 199:2,15 205:12 figures 25:12 File 1:1 filed 262:23 263:11 filling 110:2 final 117:10 257:2,3 finance 107:17 108:5 108:12,17,25 109:4 113:24 115:25 116:6,6,7 117:24,25 118:12 finance's 108:21 financial 1:8 3:21 6:15 7:20 8:10,13 8:17,19,22 9:23 10:1 11:13,18 20:12 20:23 21:9 24:4 25:10 35:15,18 40:3 42:14,17,25 43:5,9 47:23 48:3,24 49:4 49:21 50:1 51:24 52:4,19,24 53:25 55:11,16 57:17,22 58:20,25 61:9,14 63:20,25 65:4,23 69:7 71:10 72:18 73:8,17,20,24 74:24 74:25 75:4 116:8 117:7 124:23 125:3 128:15 153:22 155:16,22 156:13 168:19,20,22 187:21 209:12,18 210:20 212:5 213:16 227:14 228:13 230:1 237:12 242:12 245:10,12 246:4 250:18 251:24 252:10 253:1,16 255:23 256:9 259:17 262:2 263:1 267:11 Financial's 22:4 23:15 25:4,21 74:19 75:10 96:15 125:23 132:20 135:3 212:9 249:24 251:9 find 12:10 13:4 50:21 84:13 113:3 119:3 148:12 170:23 195:21 235:5 244:21 249:13 findings 14:17 21:15</p>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p><b>fine</b> 66:6 92:14 196:15 203:13 256:18 <b>finish</b> 12:15 56:4 59:14 64:8 238:8 <b>fired</b> 238:1,10 <b>first</b> 6:13 7:25 10:2,17 11:5,20 14:20,23 15:7 18:2 21:23 24:1 29:6,18 34:21 42:3 47:21 50:5 51:14,17 54:9 59:6 65:20 67:24 68:4 71:19 75:6,14 83:8 83:10,15 88:6 89:17 91:1,6 109:15 121:16,17 128:13 133:1,13,20 141:22 142:1,4,9 143:14 147:7,13 149:9 150:14 157:9 158:4 158:10,12,17 160:10 161:7,8 162:22 171:15,18 171:19,24 172:20 173:24 177:24 179:4 183:22 186:24 187:2 188:16,18 190:15 197:10,13 198:2,12 199:6 201:18 208:14 209:9 221:3 221:23 226:14 228:20 229:12 235:19 237:5,6 238:18 239:11,12 242:8,17 243:5 262:21 <b>five</b> 92:16 266:15 267:12 <b>flip</b> 24:8 29:1 137:22 137:23 170:11 185:20 <b>float</b> 210:22,23 211:2 211:6,21 253:18 <b>following</b> 2:16,22 3:3 3:11 108:2 164:14 164:23 170:18 181:17 231:1 240:4 241:23 243:10 267:20 <b>follow-on</b> 260:16 <b>Follow-up</b> 260:9 <b>font</b> 137:6,10 140:21 <b>footnote</b> 18:19,20,24 55:3,7 57:3,6 58:14 60:9,22,25 246:11 <b>footnotes</b> 18:12,13 246:13 <b>force</b> 115:1 230:24 <b>forced</b> 237:7 <b>foregoing</b> 268:5,13</p>	<p><b>forget</b> 95:18 <b>form</b> 91:17 110:3 172:22 173:1,1 175:21 177:22 <b>formal</b> 69:25 95:11 95:17 97:9 155:1 <b>formally</b> 92:2 95:4,14 192:6 <b>formed</b> 256:8 <b>forms</b> 158:16 245:13 <b>forth</b> 109:11 268:7 <b>forward</b> 43:16 194:25 264:21 <b>found</b> 21:8 255:24 261:23 <b>four</b> 79:23 172:2 247:7 248:10 256:2 <b>frankly</b> 47:10 <b>fraud</b> 117:8 250:19 <b>Fred</b> 211:5 237:15 <b>free</b> 19:19 43:11 133:8 187:3 193:1 204:20,23 232:15 <b>freedom</b> 166:2,5 176:10 202:6,14 208:15,21,25 <b>frequently</b> 32:10,22 <b>Friday</b> 124:1 125:6 128:8 143:3,10 <b>front</b> 82:20 <b>full</b> 201:7,9 <b>fully</b> 6:6 146:5 243:9 <b>function</b> 9:13 <b>funds</b> 41:9 48:8,12 78:17 83:18 85:6 87:4 107:18 113:25 128:17 129:8 130:15 131:1 132:2 164:12 165:3 <b>future</b> 38:4 216:4</p> <hr/> <p style="text-align: center;"><b>G</b></p> <p><b>g</b> 43:24 52:16 56:10 56:22 59:20 61:24 65:20 66:12 67:24 136:25 <b>general</b> 29:24 30:14 31:2 32:8,19 137:2 137:6,11,15 <b>generally</b> 25:24 122:9 240:15 <b>gentleman</b> 37:5 123:3 <b>gentlemen's</b> 127:14 <b>give</b> 12:12 16:23 47:3 92:17 119:19 125:12 131:14,16 195:21 248:7 266:15 <b>given</b> 106:4 205:3 <b>giving</b> 72:22 109:18 161:15 <b>glass</b> 212:8,13,18,22</p>	<p>213:25 214:17,20 215:5,8 267:4 <b>glasses</b> 71:15 <b>Global</b> 138:17 139:7 139:11,16,21 140:1 153:11,16 155:16 155:23 <b>go</b> 7:22 9:15 10:20 11:5,20 12:5,20 14:15 15:25 16:4 17:2,9 19:19 21:25 22:8,21 23:10 24:15 24:23,24,24 26:1,5 26:7 27:19 28:13 29:2,9 30:2 31:19 37:1 39:7,8 42:2 43:15,24 48:7 50:10 58:1 61:2 64:9 71:13 73:12,23 83:9 84:9 85:2 86:20 89:16 92:8,17 93:2 97:22 99:5,15 104:3 109:7 111:5 113:18 115:11,21 122:22 123:1 127:15 128:12 130:4 132:9 132:10,16 133:5,18 133:20 134:7,21 135:21 136:9,22 143:14 144:12 151:14 156:1 157:9 158:3,10 160:6,10 160:16,21 161:7 162:15 164:3 165:11 167:3 168:5 168:24 170:4 171:1 172:11 173:15,24 174:13 175:23 176:13 177:15 178:19 179:4,20 180:23 181:14,19 182:20 183:12,22 184:11 185:25 187:3 188:14,16 189:10 190:11,15 191:10 195:13 197:2 198:4,12 199:17 201:2 203:18 204:6 208:12 209:5,9,14 210:18 215:10 219:15 220:25 221:3,18 225:18 226:8 227:22 228:25 229:16 231:2 232:8 233:10 235:21 237:4 238:17 239:11 241:12 242:4 243:2 247:2 248:1 249:22 254:8,13 255:1 256:14 257:9</p>	<p>258:17 262:5 263:19 264:20,25 265:3 <b>goes</b> 46:18 50:10 88:12,23 104:5 130:12 232:16 233:15 234:19 242:17 <b>going</b> 6:10 10:15 26:6 26:20 37:7 39:11 43:16 64:6,7 65:21 76:20 78:7 88:14 112:9 119:22 121:5 121:8 122:25 125:1 125:10 126:16 129:22 130:11 131:20 132:13 140:6,8 147:1 148:2 148:13 149:21 185:23 186:2 188:7 205:24 207:10 212:20 233:2 263:21 264:7,12 266:15 <b>good</b> 64:5 <b>goods</b> 42:17,25 74:24 122:9 125:14 <b>Google</b> 46:2 248:4,16 248:19 249:1 <b>Gordon</b> 7:21 35:14 <b>government</b> 4:1 7:9 24:21 25:14,17 27:4 33:2,14 34:5 219:20 240:25 <b>governments</b> 218:24 219:6 <b>GOVERNOR</b> 1:15 <b>grateful</b> 233:5 <b>great</b> 32:7,18 64:10 265:19 <b>green</b> 4:8,11,14,17,20 4:23 5:3,7,10,13,16 5:19 144:15,16 160:7,11,16 172:5,8 172:11 177:8,13 182:14,17 186:11 186:14 196:19,23 203:24 208:6,10 <b>groceries</b> 79:16 80:16 122:4,10 125:6 <b>grocery</b> 120:23 <b>Grosskurth</b> 178:14 178:17 <b>Grosskurth's</b> 178:23 179:15,18 180:10 <b>grounds</b> 74:13 <b>group</b> 39:14 <b>groups</b> 23:23 <b>growth</b> 234:10 <b>guess</b> 68:25 171:12 177:1 226:15 234:5 263:25</p>	<p><b>guide</b> 2:17 97:24 98:2 98:7,12 99:1,5,24 103:15 104:4 107:2 109:7 114:21,23 115:22 117:15 <b>guides</b> 114:21 115:5 <b>guys</b> 71:15 266:16</p> <hr/> <p style="text-align: center;"><b>H</b></p> <p><b>half</b> 132:11 185:24 <b>halfway</b> 203:19 <b>hand</b> 79:22 80:1 <b>handing</b> 114:17 <b>Handwriting</b> 191:2 <b>handy</b> 160:8,11 <b>hang</b> 136:20 227:4 <b>happen</b> 195:25 <b>happened</b> 66:5 <b>happy</b> 171:13,17 <b>hard</b> 175:18 188:11 <b>harm</b> 237:9 <b>head</b> 6:7 77:16,17 159:8 191:24 195:1 205:1 212:19 <b>hear</b> 192:16 <b>heard</b> 5:23 17:15 207:16 267:24 <b>held</b> 6:17 225:6 <b>helps</b> 72:20 <b>hereunder</b> 138:14 <b>hey</b> 97:5 <b>he/she</b> 107:17 <b>hierarchy</b> 7:12 108:25 <b>high</b> 212:6 248:21 249:5,10 265:4 <b>higher</b> 30:13 35:20 <b>highest</b> 120:8 159:13 <b>highlighted</b> 29:15 146:10 <b>high-risk</b> 265:12 266:8,9 <b>historical</b> 137:18 38:5 117:2 <b>hits</b> 112:5 <b>Hock</b> 213:8 <b>hold</b> 15:4 84:11,22 92:9 124:2 125:8,15 164:4 180:25 247:11,21 267:12 <b>holders</b> 54:15 <b>holds</b> 122:17 123:15 123:21 124:14,19 125:2 267:10,11 <b>Holton</b> 2:7 268:3,20 <b>hostage</b> 252:1,12 <b>hour</b> 79:22 132:11 <b>hours</b> 79:23,23,23 101:19 102:16,21 103:4 104:8,14,15 108:21 121:17 139:15</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------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<p>household 17:19 29:22 30:19,23 31:16 hundred 82:13 hundreds 216:11 hypothesis 241:22 hypothetical 125:21 206:7,10</p> <hr/> <p style="text-align: center;"><b>I</b></p> <p>identification 4:9,12 4:21 5:1,8,17 171:20 172:6 177:6 182:15 186:3,8 196:13,17 207:23 208:2,7 identified 171:14 178:25 183:18 205:12 234:13 identifies 241:15 identifying 265:24 ignore 245:23 illegal 219:1,11 illnesses 135:17 immediate 124:13 immediately 86:23 87:5,6 88:11,23 222:13 223:1 259:19 Impetus 232:12 implemented 77:1,7 93:5,8,13,18 96:13 206:14 258:10 implications 241:6,10 important 37:13 227:5 234:12 improved 259:17 inability 241:7 inadvertent 145:8 include 11:17 46:20 234:4 235:12,16 237:3 included 33:3,4 56:22 181:3 230:25 includes 47:11,14 83:4 234:24 including 33:6 85:20 229:20 242:2 247:19 252:17 inclusion 145:3 167:15 income 31:7 46:3 234:22 incomes 17:19 30:19 30:24,25 31:10,16 incomplete 195:15 196:1 incompletely 138:12 incorrect 10:6 145:21 increase 241:2 increases 120:17,23 incur 83:21</p>	<p>independent 19:18 indeterminate 242:16 INDEX 2:20 3:1,9,19 indicate 16:8 indicated 244:17,17 indicating 93:17 indication 92:1 individual 23:22 individuals 106:8 140:13 244:22 industry 17:16 18:4 19:25 20:18 215:19 216:1,3,16,20 217:14 218:2,17 220:14,16 221:14 224:9,11,15 225:10 225:16 230:21 232:4 243:24 industry's 21:3 inference 217:15,18 218:5,20 265:7,16 265:20 266:6,12 influencing 245:6,15 246:1 inform 107:20 informal 69:25 97:12 155:1 information 11:16,18 12:10 13:5,15 25:9 26:14,24 60:19 67:25 78:13 110:10 111:6 140:7 170:23 240:3 243:22 253:6 266:22 informed 227:11 253:16 infrastructure 241:3 241:11 infrequent 38:2,14,24 39:21 initial 98:11,23 157:23 163:24 164:13,23 165:20 165:23 166:1 169:20,22,25 175:14,16,21,25 176:6,9 180:18,20 185:15,18 190:9 200:14,19 initials 176:2 190:13 191:1 200:17 201:3 201:5,10,16 Inn 213:12 input 24:19 26:9,22 110:9 111:5 inquiries 34:12 66:7 78:13 91:16 95:1,20 141:18 170:22 195:8 207:7 253:8 254:6 260:20 inquiry 50:6 62:21 63:7,13 207:10</p>	<p>inspection 157:17,23 158:16,21,25 159:4 159:8,14 160:1 161:1,9,11,21,23 172:16,18 173:5 174:1,6 177:20,23 178:2 179:6,11 182:24 183:1,24 184:4 186:20 187:6 188:8,21 189:1 191:16 192:12 197:6,8,18 198:4,16 198:21 199:1,9,11 199:15 203:20 205:11 inspections 158:12 191:19 inspector 83:12,16 87:9 143:16 145:18 149:13 157:11,21 158:17 159:12 160:23 162:7 inspectors 89:11 159:19,23 191:19 194:24 195:7 205:22 207:1,6 inspector's 144:21 160:13 161:4 162:2 162:12 163:15 169:10 Instaloan 104:16 148:21 168:21 Instaloans 1:9 69:4 71:24 76:23 95:25 121:15 122:4 123:25 125:5 126:10,21,25 127:2 134:16,19 135:7,10 137:25 139:6 140:18 148:16,23 149:17,23 151:8,12 152:9 153:2 155:5 163:11 164:12 165:3 167:11,23 168:13 169:6 170:9 170:13,15 210:3 239:14 263:3 Instaloan's 152:7,12 153:19 instance 252:2,13 instances 142:13 instituted 258:19 259:9 institutions 242:13 instructed 66:16,20 instructs 109:16 insurance 135:12 136:13,17,19,23 137:3,7,12,17 138:13,22 139:7,11 139:16,20,21 140:2 142:16,17,25 143:4</p>	<p>154:10,14,19,25 155:17,23 156:6,12 194:17 intend 227:6 intended 220:15,17 236:19 Interac 55:22 56:11 interact 69:6 151:10 interest 141:5,10 142:8,12 216:13 223:7 225:3,8 interim 254:18,20,24 255:6 256:22 257:2 257:5,23,25 258:6 259:3 260:17 internal 118:8 249:25 250:3,7,11,18 interpret 181:6 interpreted 105:9 interrupted 102:12 interview 244:20 249:23 interviewed 243:10 243:19 244:12 interviews 12:22 13:1 242:2 243:4 intranet 98:5 118:4 introduced 193:22 240:25 introduction 196:5 232:7 237:7 invented 249:16 inventories 118:12 inventory 116:2 117:10 invest 23:23 investigating 255:21 investigation 258:1 investment 23:20 investor 3:22 7:10 23:3,11,15,19,25 24:4 involved 149:6 in-store 128:21 129:1 irrelevant 239:3 issuance 110:24,25 issue 37:24 145:13 issued 94:3 126:20 137:20 193:11 256:18 258:9 261:21,21 issues 7:5 168:18 254:24 255:17 italicized 100:14 item 27:24 65:21 202:5 items 146:7 i.e 245:7,24</p> <hr/> <p style="text-align: center;"><b>J</b></p> <p>J 88:7 January 83:12 84:24</p>	<p>143:17 145:18 174:25 181:2,13</p> <p><b>Jason</b> 2:3</p> <p><b>Jeannie</b> 183:7 <b>job</b> 9:1 135:16 238:2 <b>judicial</b> 66:1 <b>Judy</b> 187:11 188:1 192:24 <b>Judy's</b> 189:8,24 <b>July</b> 88:7 89:1,11,20 <b>June</b> 4:2 26:19 27:16 33:16 73:18 261:4 <b>JUSTICE</b> 1:4</p> <hr/> <p style="text-align: center;"><b>K</b></p> <p><b>K</b> 89:16 190:13,16 191:5 <b>keep</b> 24:7 103:18 106:24 109:12 132:13 160:8,11 <b>Keswick</b> 178:8 179:1 180:7 <b>key</b> 14:17 245:6 246:1 <b>kind</b> 43:17 78:3 127:10 128:6 155:15 214:18 249:9,14 259:5 260:9 261:19 <b>kinds</b> 43:6 <b>Kingston</b> 188:4 189:5 <b>know</b> 11:1 12:8 13:12 13:13 15:5,15,18 16:22 23:7 45:20,21 46:5,24,25 47:6 48:15 49:15 50:18 52:13 53:9,16 55:25 56:17 59:11 60:2,10 60:17 61:4,21 62:8 62:15,24 63:15 64:16,21 66:5 70:23 78:6,14 91:14 96:24 98:13,24 100:21 103:3 112:14,14,15 113:2 116:24 118:2 118:8 119:2,13 124:24 125:17 126:22 136:4 137:5 137:19 140:1 141:16 147:25 148:9 149:16 156:15 157:2 161:17 166:5 170:24 172:1,23 196:1 206:2 212:16 214:5 226:18 230:12 237:19 238:3 249:11,12,17 253:2,3 254:6 255:7 259:4 260:7 264:19 266:14 <b>knowledge</b> 66:4 205:8 213:21</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>known 117:5 263:2 KS 191:8</p> <hr/> <p style="text-align: center;"><b>L</b></p> <p>lack 166:1 169:25 176:9 206:3 218:25 219:8 laid 263:4 Lakeshore 157:24 162:9 163:11,12 169:7 large 212:3 224:17 largely 234:11 larger 101:9 largest 214:14 267:15 267:16 law 90:7,15 147:19 167:20 lawsuits 215:21 216:6 216:8,14 lawyer 83:12 143:16 157:11 158:5 160:14 163:16 lawyer's 198:1 199:5 leading 218:7 leapt 265:23 leave 8:20 93:1 127:14 230:9 left 17:11 20:11 46:13 48:8 50:17 158:16 161:8 162:10 173:25 178:12 179:14 188:20 189:4 198:16 238:9 255:2 257:9,15 262:9 left-hand 59:7 173:12 178:10 179:5 183:5 183:23 187:10 198:6 226:17 legal 256:24 257:23 Leger 28:4,15 legislation 227:15 234:9 236:17 250:20 257:2 legislative 215:14,18 215:25 216:19 Lemoo 173:13,18 Lemon's 174:10 175:6 177:4 lender 202:1,13 219:7 222:5 263:2 lenders 219:25 lending 17:21 18:6 19:25 218:2,17 221:9 227:10 length 90:20 103:13 103:19 106:19,25 lent 167:2 letter 4:4 83:11 84:4,7 84:21,23,24 85:1,3 86:4,14 87:8,13,15</p>	<p>87:17,21,24 88:2,7 89:2,20 90:24 91:4 91:12 143:15,20 144:10,21 145:18 145:24 146:14 147:1 148:15 149:13,16 150:5,8 150:10 157:10,14 157:17,21 158:4,7 158:11,13,20 160:13,18,22 161:5 162:3,6,12 163:16 169:11 181:9 182:10 198:1 199:5 260:9 lettering 71:16 letters 115:14,23 152:25 let's 7:22 10:20 11:5 11:20 12:20 14:15 17:2,9 18:2,19 21:25 22:8,21 23:10 24:15,23 26:1,5,7 27:19 28:13 29:1,2 29:9 30:2 31:5,19 35:7 37:1 39:7,8 42:2 43:24 44:10 48:7 52:8 53:3 55:20 58:1 61:17 64:3 71:13 73:23 76:10 83:9 84:9 85:2 89:16 92:8 93:2 97:22 99:5,15 104:3 109:7 115:11 115:21 121:17 123:1 124:1 128:6 128:12 132:16 133:5,18,20 134:7 135:21 136:9,20,22 137:22 143:14 144:12 150:10 151:14 152:3 157:9 158:3,10 160:6,10 161:7 162:15 165:11 167:3 168:5 168:24 170:4 171:11 173:15,24 174:13 177:15 178:19 179:4,20 180:23 181:14,19 182:20 183:12,22 184:11 185:20 188:14,16 189:10 191:10 192:8,9 193:17 195:10 197:2 198:4,12 199:17 201:2 203:18 204:6 207:19 208:12 209:5,9,14 210:18 215:10 219:15 220:25 221:3,18</p>	<p>225:18 227:22 230:15 232:8 233:10 234:7 237:4 238:17 239:10,11 241:12 242:4 243:2 247:2 248:1 249:22 251:20 254:13 255:1 256:14 257:8 258:17 262:5 level 159:5,13 248:2 levels 117:10 levied 256:19 Liberty 213:10 licensing 219:22 222:2 LIEUTENANT 1:15 life 40:5 life-cycle 40:6 limit 16:25 52:10,15 57:8 265:11 266:8 limitations 138:8 limited 20:24 21:10 42:14 73:9 75:5,10 205:5 line 30:18 37:2 39:8 51:10 93:4 109:15 109:15 123:4 153:7 157:16 160:25 164:7 195:19 201:24 263:21 264:7 lines 29:10,19 link 19:8,13 linked 54:17,21 list 2:16 45:11 47:9 139:4 242:22 listed 65:22 74:22 101:24 126:15 137:16 141:25 142:3 162:2 163:15 169:10 173:20 180:9 187:23 189:24 197:22 198:24 lists 11:10,25 188:3 242:1 literature 242:2,5,9 little 24:24 35:7 42:9 90:2 190:18 live 64:22 234:4 235:8 Live/Telephone 64:12 load 52:10,16 107:21 114:7 127:23 132:2 loaded 41:25 47:12 166:2,4 170:2 176:9 202:6,13 208:15 loan 4:1 13:8,18 14:2 16:8 17:17 18:25 20:18 21:4,8 22:4 24:19 25:4,21,23 26:9,22 29:7,19 32:12,16 33:7,15</p>	<p>37:18 38:21 46:21 47:12,16 50:17 68:13,17,22 72:9,10 72:13,15 75:21 76:12 79:16 80:16 80:21 81:1,5 82:21 82:24 83:2,8,17,24 85:12,16,18 86:10 87:16 90:8,16 99:10 100:9 106:11 110:2 110:4,6,15,20 112:23 115:17 120:25 121:1,19 128:5,7 129:18,23 132:20 133:2,7,12 133:19,23 134:14 134:16,19,20 135:3 135:7,10,15,18,19 135:19,22 136:11 137:25 138:1,23 139:6 140:13,18,20 140:25 141:5,23,25 142:1,5,10,18,20 143:2,24 144:1,3,24 144:25 145:4,4,12 145:19,24,25 146:9 146:18,22 147:2,7 147:15,20 148:16 148:21,23 149:18 149:23,24 150:7,9 150:18,22 151:2,3,7 151:16,24 152:15 153:3,7,11,21 154:24 155:5,11 156:6,9 157:17 160:3 161:1 162:18 162:20 163:20 165:14,17 166:8,18 166:20 167:4,11,15 167:23 169:2,3,15 170:1,9,13,16 174:18,19 175:10 176:15 179:23,25 180:14 181:2,16 184:18,19 185:10 189:14 190:4 193:20,21,23 194:1 194:2,2,7,11 199:21 199:23 200:9 201:22,24 202:6 207:17 208:14 212:6,12,17 214:19 216:3,15 218:25 219:2,9,11 230:20 231:4 232:4 236:1 255:22 267:5 loaned 129:14,15 196:8 loans 8:11 10:16 14:21,24 15:8 16:9 17:12 18:13 19:4 20:3 28:3 32:3,10</p>	<p>32:23 33:8 34:22 72:8 75:16 77:22 111:15 119:14,24 120:8,12,17,23 121:7,16 128:16 146:19 147:16 150:19 159:1 193:11,20 210:1 211:13,16,20 213:14 218:8,11 227:8 228:14 230:2 231:5,10 236:1 256:11 265:4,12 266:8,9 lobbying 9:13 locate 34:13 94:19 located 104:20 108:17 116:10 157:24 204:12 214:2 location 9:23 15:9 121:23,24 173:21 175:5 193:12 205:13 211:6,10 213:24 248:3 locations 17:22 18:7 96:16 213:22 247:23 248:5,11,13 248:25 259:20 log 111:5 long 6:17,21 9:4 78:24 79:9 96:4 118:17,19 130:7 131:5 132:6 202:19 205:16 228:4 longer 35:18 64:7 look 7:24 9:19 18:2,23 29:14 31:5 124:10 166:6,7 168:3 175:20 192:8 193:17 195:18 202:21 212:2 235:4 239:10 251:20 253:11 looked 92:23 148:14 150:7,9 248:4 249:1 looking 6:7 257:8 looks 188:10 loop 253:11 lose 135:16 lost 259:5 lot 107:10,11 126:13 loud 39:1 low 115:24 116:23 117:14 118:1,13 234:22 249:10 low-income 234:4,15 235:8 lumped 44:18 lunch 132:9,10,13</p> <hr/> <p style="text-align: center;"><b>M</b></p> <p>M 255:2 257:13,13</p>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------



<p>machine 47:15,17  machines 96:1  Madam 92:15  mail 77:23 87:11 89:4  main 214:10 247:18  247:19,23  maintain 253:18  254:4  maintained 143:12  MAJESTY 1:13  major 122:5,16 212:9  231:3 236:1  majority 20:22 21:8  21:13 193:19  making 69:7 151:11  214:6,16 217:15  256:21 259:18  managed 9:12,13  management 23:6  44:12 70:21 71:3,11  71:23 72:3,20 73:4  251:10  manager 100:5,8,16  100:17,18 101:3,9  101:13,14,18,23  102:4,8,11,17,22  103:8,14,19 104:4  112:1,4,10 113:1,11  159:13 173:21  178:17 179:1  183:10,19 185:5  198:10 204:15  205:13 206:1,14  managers 100:22  159:17 206:19,24  manner 194:6 259:21  manual 92:5 97:6  110:11  manuals 97:2 114:24  115:7  Manuel 2:4 171:19  172:2 177:5,10  March 261:1,8 263:5  mark 23:25 33:11  40:22 41:4 87:24  171:11,13,15,15,17  171:19 175:19  176:25 182:5  185:21 186:2  195:10 196:13  207:19  marked 144:13 186:6  207:22,24 267:21  market 214:15 267:7  Marketing 28:4,15  marketplace 10:2  markets 240:12,13  Mart 214:10 267:9,10  Master 138:10,15  MasterCard 41:10,13  51:22 53:22 54:17  54:22 55:1 58:2,8</p>	<p>58:12 60:16 81:4,8  81:24 82:3,9,20  83:20 87:2 111:1  112:23,24 113:9  114:8,16 127:10  163:21 165:18  169:17 175:11  180:15 185:12  190:6,20 200:11,20  MasterCards 41:20  42:19 43:2 62:7  114:22 209:7  match 26:23 28:25  matches 26:13 27:7  28:20 179:15  material 79:6 155:9  materials 66:25 67:9  70:10,16,17 79:8  194:15 242:11  matters 7:4 66:3  maximum 84:1  265:25  McKenzie 2:6  mean 7:12 34:10  48:17,22 50:8,13  52:12,16 53:8 54:13  55:24 58:5 59:10  61:20 63:10 64:15  71:12 72:24 89:25  118:25 120:23  131:22 135:19  220:6 228:7 229:13  229:14 239:25  means 50:9 58:6  83:19 165:8 218:20  225:11,15 226:15  meant 2:17 56:10  59:19 61:23 97:16  203:2  Measures 99:17  mechanics 156:15  157:2  mechanism 98:25  medium 122:11  209:24  meet 263:4  meeting 102:12,12  227:24 260:9  member 8:10,14,23  11:13  members 11:10,25  12:10 20:17  memory 9:17  mention 87:14 90:23  208:15 223:23  224:2,5 232:18  233:6,18 234:2  mentinned 32:11 91:2  181:10 193:1  204:20 208:21,25  233:24 235:14  met 260:7</p>	<p>method 209:25  methodology 241:16  methods 83:19,21  87:16 241:23 242:1  Michael 1:18 2:11 6:2  257:13  middle 46:9 74:2  88:16 163:18  169:13 175:8  180:12 185:7 190:2  200:7 201:21  millions 216:12  mind 88:14 220:10  266:16  mine 29:14  MINISTER 1:14  ministry 83:11 87:9  143:16 149:12  157:11 159:12,18  159:23 160:13,22  161:4 162:2,6,11  163:15 169:10  194:24 195:6 207:5  219:19 238:19  240:19  ministry's 158:25  minority 17:23  minute 228:25  minutes 92:16,17  132:10 149:8  266:15  mishear 236:12  misnomer 126:2  Mm-hmm 11:8 93:7  134:2 135:23  173:19 198:8  244:18  model 45:10 206:4  210:21 220:1 222:6  223:14,19 224:6,16  Mogo 213:18,19,21  214:3  moment 26:3 41:2  195:21 248:7  Monday 128:7 143:3  money 46:19,21 47:14  47:18 72:19,21 74:6  74:10,17 79:25  81:14,15 82:13,17  82:19,21 83:4 86:5  86:15,18 108:6  124:1 125:9 130:8  131:1 132:7 142:16  142:19,20 166:9,16  202:16 205:6  214:10,11 267:9,9  267:10,12  monies 48:17  monitor 250:18  month 58:9 67:21  161:16  monthly 37:21 54:10</p>	<p>55:4,21 56:10,15  57:9 58:2 59:7,19  60:24 72:25  months 9:6 37:20,22  39:15 73:18 258:10  258:15 262:11  Montreal 122:17  Motivations 32:3  move 10:15 52:8 53:3  55:20 61:17 64:3  171:10 176:8  245:16  moved 203:12  movements 247:17,22  moving 245:13  mths 192:25  multiple 228:1,10,19  229:23</p> <p style="text-align: center;">N</p> <p>N 1:6 2:1,10 213:2  name 8:17 37:5 44:22  151:18 187:11  188:1 199:14 201:9  250:3  named 123:3  names 44:5 45:14  46:2 212:16 243:18  244:3 267:5  nationally 36:22  nature 7:8 67:1  244:21 249:18  near 218:23 219:4  nearly 236:16  near-median 17:18  necessarily 159:15  264:12  need 9:16 16:4 24:11  32:7,18 37:16 42:7  42:8 64:5 71:15  127:13 172:24  211:4,17,21 212:5  227:12  needed 79:15 82:17  86:5,15,17 105:10  123:25 125:5  needing 32:9,11  needs 106:20  Neeson 1:21 268:21  neighbourhood  267:12  neighbourhods  234:4,16,22 235:8  Neither 204:22  never 42:5 70:4 89:2  90:23 91:20,25 92:4  117:16 148:3 155:4  161:14 192:10,11  193:1,5 195:13  203:23 204:19  nevertheless 125:22  148:6 176:15</p>	<p>new 39:14 40:9 41:8  41:12 116:1 117:7  128:14 132:22  135:5 196:11  209:16 261:4  Newmarket 183:19  185:2  nine 73:18  nnds 6:7  non-compliance  257:19  noon 121:18 128:8,8  143:3,3,11  North 213:16  nntable 123:13  note 66:11 133:25  147:13,21 150:15  163:4 164:9,18  195:14 196:11  203:22 216:18  noted 2:21 3:3,10  notes 159:18 191:16  191:23 194:25  195:4 203:20  206:25 207:4,12  215:17,25 219:22  244:20 246:12,14  260:8 268:14  notice 172:17,19  174:7 177:21,23  179:12 182:24  184:5 186:21,23  188:8 189:2 192:13  197:7,9 198:5,22  199:2,15 205:12  208:20 262:23  263:6,11  noticed 148:22  notices 134:4 158:22  159:4,8 172:20  notification 118:7  notified 95:11 115:25  117:25,25 118:3  notifies 118:6  Notify 107:16  Nova 5:22 35:1,4,8,24  122:24 240:11,14  263:19,24 267:23  November 1:23 5:23  8:21 9:9 35:2,9,25  75:19,25 76:4,16,20  76:21 91:4,12,18  92:2 95:5,12,16  96:12 103:2 114:20  261:16 267:24  no-fee 259:18  number 10:9 34:16,19  65:19 71:20 117:1  119:14 120:8,16,22  135:16 139:7 161:3  161:11,21,23 162:1  162:5 172:1 173:5,8</p>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>174:1,3,5 178:2,4 179:6,8,10 183:1,3 183:24 184:1,3 187:6,8 188:21,23 188:25 197:18,20 198:16,18,20 214:18 216:5 230:19 242:16 257:12 numbered 31:24 182:11 numbers 13:9 14:7,12 202:24 NUMBER/DESCR... 3:20 NI 262:5</p> <hr/> <p style="text-align: center;">O</p> <p>O 158:3 172:19,20 177:24 186:23 187:2 197:9,13 198:1 199:5 261:23 oath 268:7 objections 268:10 objectivity 238:25 239:1 observations 230:20 230:25 232:3 obtain 37:18 obtained 138:16 obviously 120:1 occupied 205:17 occur 135:17 occurs 264:18 October 1:20 77:1,3,5 77:8,12,21 78:16,21 78:22 79:14,21 80:14,21,24 81:3 82:17 87:6 91:22 93:10,12,17 95:8,10 95:24 96:12,20 100:20 104:10 105:24 106:7 108:12 109:23 113:10,16,23 114:5 114:14 115:1 119:12 120:6 192:4 206:15 258:12 offer 125:24 129:4 140:12 236:1 offered 109:22 123:11 139:20 143:25 144:2 193:19 194:7 204:23 205:7 offering 128:21,25 144:24 offers 15:9 238:23 office 77:16,17 159:9 161:16 191:24 195:1 205:1 officer 35:20 offices 1:20</p>	<p>offsite 87:11 89:3 Off-the-record 127:16 254:9 Oh 41:21 45:3 48:23 56:6 101:6 132:12 okay 15:23 17:4 22:23 28:10 33:13 37:12 42:8 48:23 64:9 71:25 76:6 84:16 93:2 99:7 107:5 111:15 124:8 181:21 195:23 209:5 224:21 226:12 228:6 230:8 257:14 264:6 omitted 226:3 227:1 227:19 once 8:13 37:15 38:13 107:14 110:8 111:9 205:2 ones 240:13 one-by-one 229:16 one-minute 266:16 ongoing 40:10 onsite 90:23 91:2,11 96:1,5 109:22 Ontarians 236:22,24 Ontario 1:3,13,15,23 10:2,5 36:16 75:17 76:6,8,12 77:14,23 95:5,24 96:7,8,14 96:16 98:3 100:22 103:4 104:16,23 105:5,13,20 109:23 119:15,25 120:7 121:2 128:23 129:1 139:19 154:10 178:8 179:1 180:7 183:19 185:2 189:5 189:22 192:6 193:12 212:12,22 214:4,19,23 215:4 227:7 230:21 238:20,22 240:11 240:25 243:25 247:23 248:3,5,12 248:25 259:22 261:5 265:25 267:6 267:8 Ontario's 227:16 on-line 213:19 on-site 205:23 206:3 245:9 246:4 258:19 259:9,20 open 24:7,11 103:9 105:20 opened 121:15 operate 93:12 209:18 210:4,7 240:24 operated 8:17 operates 209:12 210:20</p>	<p>operating 120:2,3 121:9 267:6 operation 104:9,14,15 108:21 117:3 149:2 241:9 operational 7:5 117:17 operations 36:15,22 251:23 252:9 operator 224:17,17 operators 212:15 224:16 opinion 224:13 239:6 239:15 246:15,16 246:18,22 256:8 opinions 17:15 option 79:17 80:25 81:4 82:9,9 85:18 86:2,6,10,16 87:15 185:18 193:1,6 200:17,20 204:20 204:24,25 259:18 259:19 optional 145:11 147:2 options 17:24 20:24 21:10 85:19,24 86:12,18,19,21,22 86:24 163:20,24 164:2,14,18,23,24 165:16,24 169:15 169:20 175:10,14 180:14,18 185:10 185:15 190:4,9,16 200:9,14,18 201:19 oral 93:22 94:23 order 13:1 66:8 122:8 167:19 193:9 194:13 254:16,18 254:20,24 255:6,13 256:17,22,23 257:6 257:8,19,21,23,25 258:6,9 259:3 260:17 262:24 263:6,12,16 265:3 orders 257:3 organization 243:22 organizational 108:24 organizations 244:3 245:10 246:5 original 109:19 175:20 226:3 outlet 157:24 outset 42:5 overall 20:16 194:3 overdue 32:13,24 overnight 78:5,7 116:19,20 118:18 118:23,25 owing 73:7 74:6,10,18</p> <hr/> <p style="text-align: center;">P</p> <p>P 2:1,1 73:13</p>	<p>packages 41:4 page 2:12 3:20 8:2 11:5,6,7 14:15,16 14:17 17:9,10 18:9 18:24 19:2,8 20:5,7 20:8 22:13,14,16 23:10,11,14 27:19 27:21,25 28:4,13,14 28:14,18 29:1,2 31:19,20,24 37:2 39:8 46:10 71:16 73:23,24 74:2 85:2 99:5,6,15,16,21 101:25 103:15 104:3 107:5 109:7,9 109:16 111:4,4 115:12,12,14,21 116:5 117:15 119:23 123:1 133:13,20,24 134:3 134:3,7,13,14 135:21 136:9,15,16 136:22,23,24,25 137:23 140:19,24 140:25 141:22 142:1,4,9,18 144:23 145:20,24 146:15 146:21 147:7,13 148:18,19,19,20,24 149:18,19,24,25 150:14 151:14,16 151:20,22,23 156:8 158:7,11 160:17,21 161:7 162:15,22,24 163:18 164:21 165:1,12,13,13 167:3,4,7,17,22,24 167:25 168:5,24 169:13 170:4,11,16 170:18 171:1,1 172:12,12 173:15 173:16,24 174:13 174:14 175:8,23 176:13,14,22,22 177:3,15,16 178:19 178:19 179:4,17,20 179:21 180:12 181:3,14,14,17,19 181:20 182:20,22 182:22 183:12,13 183:22 184:11,12 185:7,20,25 186:16 187:3,14,16 188:7 188:14,15,16,18 189:2,10,11 190:2 190:11,15 191:10 191:11,12,13,14 195:14,14 197:2 198:12,14,15 199:8 199:17 200:7 201:2 201:18,21 203:14 203:17,18,19</p>	<p>208:14 216:2 219:22 221:3,4,4 221:21 222:14 226:11,14,16 230:18 238:18 239:1,1,19 241:12 241:13 242:4 243:2 243:3,3 244:4 247:2 247:2,3,6 248:1,1 249:22,23 250:22 250:23 251:16 252:17 255:2 256:16 257:9 263:20 264:8 pages 2:22 3:3,11 4:6 4:9,12,15,18,21 5:1 5:5,8,11,14,17,21 133:6,13 137:22,23 149:9 162:25 171:15,17,18 172:3 172:7 177:5,7,11 180:23 182:9,12,16 186:9,12 196:18,21 207:21,23,25 208:4 208:8 228:1 267:22 paid 37:21 56:15 58:11 67:20 74:18 81:15 156:20,23,24 157:1 202:25 painful 59:4 paint 33:7 painted 20:17 paints 33:20,21 Pais 204:8,11 paper 6:7 107:22 114:7 193:25 194:10 219:20 paragraph 7:23,25 8:5 9:14 15:3,6,20 15:21 16:3 18:21 19:19,20,24 21:6,16 22:1 24:25 29:9 30:16 42:2,10,11 71:20 74:5,23 85:9 88:16 93:3,15 94:17 95:3 123:20 128:12 130:1 132:17 134:21,24 135:22 136:10 137:24 147:9,12 151:15,23 157:20 158:18 164:2,3,6 204:7 209:10,14 210:18 211:24 212:24 214:7 215:11 216:2 216:17,24 217:2,3,7 217:10,12,16,17,23 218:20,23,24 219:3 219:4,16 220:7,8,12 220:17,18,18,19,22 221:16,20,24 222:10,17,21,25</p>
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>224:2,9 225:18,22                  226:7 227:18,22,25                  229:8,9,10 230:6,9                  230:13,15,17 231:9                  231:14,17,19,22,23                  232:2,7,8,12,16                  233:10,16,19,24                  234:1,19 235:6,10                  235:13,17,19 236:5                  236:9 237:4 239:11                  243:6 244:9,15                  245:2,11,23 247:10                  247:14 250:22                  251:8,16,20 252:16                  252:22 253:12                  254:14 256:5,15                  258:18 259:6,7,11                  259:15 260:22                  262:1,21  <b>paragraphs</b> 233:2,4,7  <b>parallel</b> 73:3  <b>part</b> 22:16 42:16,24                  94:8 110:15 117:17                  133:6,12 134:20                  136:11,25 146:10                  146:12,17 159:25                  167:20,22,22                  190:25,25 194:3,10                  207:10 211:12                  218:1,16 223:20                  226:10 227:2                  245:24  <b>partial</b> 135:25 136:3                  168:6,19 171:2  <b>participant</b> 218:7,11  <b>particular</b> 43:21                  65:21 69:3 120:15                  120:21,25 151:8                  166:8 188:3 230:22  <b>particularly</b> 138:9  <b>parties</b> 66:7  <b>parts</b> 34:21 195:12  <b>party</b> 238:23  <b>pass</b> 191:24  <b>passage</b> 37:7 40:19                  85:23 107:23 116:5                  216:22  <b>passages</b> 40:25  <b>patient</b> 266:23  <b>pause</b> 24:24 41:1  <b>paused</b> 56:6 105:9  <b>pay</b> 32:12,23 72:14                  81:11,13,23,25                  82:10,12,14,19,25                  83:5 142:16,19,25                  166:9 235:21  <b>payable</b> 99:10  <b>payday</b> 4:1 8:11                  10:16 13:8,18 14:2                  14:21,24 15:8 16:7                  16:9 17:12,17 18:13                  18:24 19:3,25 20:3</p>	<p>20:18 21:4,8 24:19                  26:9,22 28:3 29:7                  29:19 32:3,9,12                  33:8,15 34:22 38:21                  46:21 47:12,16                  50:17 68:13,17,22                  79:15 81:1,5 83:8                  90:8,15 106:11                  119:14 120:8,12,16                  120:22,25 121:1                  128:5,7,16 129:18                  133:19 134:16,19                  135:7,10,19 138:1                  139:6 140:12,18                  143:25 144:3,24                  145:3,12,19 146:18                  146:19 147:2,14,16                  148:16,21,23                  149:23 150:18,19                  150:22 151:2,3,6                  153:2,7,11,21                  154:24 155:5,11                  156:6 157:17 159:1                  161:1 167:11,15,23                  170:9,13,15 176:15                  181:2,16 194:7                  201:25 202:13,21                  207:17 212:17                  213:14 214:19                  216:3,15 218:2,8,11                  218:17,25 219:7,9                  221:8 227:8,9                  230:20 231:4 232:4                  236:1 255:22                  256:11 263:2 267:5  <b>paying</b> 82:11  <b>payment</b> 43:6 71:3                  72:9,12 73:1,3                  76:22 77:9 134:16                  135:8,11,15 136:12                  136:16 138:1,6                  139:6 140:13,18                  145:19 146:1,5,19                  147:3,15 148:16,21                  149:17,23 150:19                  150:22 151:7,12                  153:3,7,12,22,23                  154:2,24 155:11,17                  155:24 156:6                  167:11,23 168:10                  168:15 170:9,13,16                  171:7 176:16,23                  181:16,23 193:18                  194:7  <b>payments</b> 70:22 74:7                  74:11,22,23 211:14  <b>PDL</b> 205:7 207:17  <b>PDLA</b> 230:24 232:13  <b>PDLA's</b> 236:18  <b>penalty</b> 262:23 263:7                  263:11  <b>penetration</b> 248:20</p>	<p><b>people</b> 10:16 12:25                  14:6,11,24 64:22                  95:10 105:23 106:3                  130:12 211:13,16                  211:20 235:8 244:4  <b>percent</b> 14:24 15:8                  30:6,13 31:10 32:23                  38:7 124:16 126:15                  126:20 141:4                  142:20 143:7 156:7                  156:11,20 267:11                  267:11,13  <b>percentage</b> 37:9                  43:20 68:20 150:21                  151:1 267:7  <b>performance</b> 70:1                  155:1  <b>period</b> 113:10 135:18                  196:2 230:23  <b>person</b> 46:18 50:9                  86:17 91:10 100:1,4                  202:16 237:2 265:7                  265:16,20  <b>personal</b> 228:12,21,22                  229:25 231:9,17                  232:19 235:2  <b>personally</b> 203:12  <b>persons</b> 234:3 237:3  <b>perspective</b> 47:12                  86:8,9 133:11  <b>persuade</b> 23:22  <b>pertinent</b> 138:14  <b>phone</b> 102:23  <b>photocopies</b> 114:16                  160:1  <b>photocopy</b> 109:18                  112:12 173:17                  178:22 183:15                  200:24  <b>phrase</b> 26:21 141:8                  165:5 216:18                  221:10,13  <b>physical</b> 213:22,24  <b>physically</b> 77:13                  248:13  <b>Pickering</b> 188:5 189:5                  189:22 193:12  <b>picture</b> 20:17 33:8,20                  33:21  <b>pie</b> 22:11 25:7,17,21                  25:23 26:2 30:3,6                  30:12 31:5,9,15  <b>piece</b> 175:21 193:25                  194:10  <b>Pietrzyk</b> 250:12,13  <b>Pietrzyk's</b> 250:15,17  <b>Pinos</b> 2:2,14 6:5 7:24                  8:2,4 9:18 12:2,12                  12:18 13:6,16,20,23                  14:4,8,13 15:15,20                  15:22 16:3 17:5,8                  18:11,20 19:13,14</p>	<p>19:20 24:2,11 28:1                  28:8 33:13 34:12                  38:24 40:24 41:3,23                  42:20 43:7,12,15,22                  44:10,18,25 45:4,5                  45:17,20 46:1,24                  47:25 48:5,14 49:1                  49:6,19,23 50:3,18                  50:23 51:2,6 52:1,6                  52:17,21 53:1,12,19                  53:23 54:2,7 55:13                  55:18 56:2,6,12,13                  56:17 57:19,24                  58:22 59:2,5,13,16                  59:18,23 60:5,13,20                  61:7,11,15,25 62:4                  62:6,11,18,24 63:9                  63:18,22 64:1,19                  65:2,6,10,18,25                  66:11,14,18,22 67:3                  67:7,13,15,17,22                  68:11,14,18,23                  69:12,16,22 70:2,7                  70:12,18,23 71:5,7                  73:10 74:12,15,20                  75:2,7,12,24 76:6                  76:10,20 78:6,12                  79:1,11,19 80:2,3,5                  80:11,17,22 82:2                  84:13 87:17,20,21                  88:1 89:13 90:2                  91:16 93:19 94:19                  94:25 95:19 96:7,17                  98:13,19 99:2                  100:23 101:11,16                  101:21 102:1,5,9,14                  102:19,25 103:5,10                  103:16,22 104:1,11                  104:17,21,25 105:6                  105:8,15,21 106:1,5                  106:12,16,22 107:3                  107:6 108:14,18,22                  109:1,5,8,12 110:5                  110:12,13,19,23                  111:7,13,22 112:2,6                  112:14,19 113:5,13                  113:20 114:2,9,18                  115:6,8 116:24                  117:21 118:2,14,22                  119:5,16,20 120:4,9                  120:13,19 121:3,13                  121:20,25 122:6,13                  122:20 124:4,10,17                  125:17 127:5                  128:10 129:21                  130:2,9,16,21 131:2                  131:8,12,14,17,23                  132:8,12 136:7                  137:13 139:1,9,13                  139:17,22 140:3,8                  140:15,22 141:18                  143:8,12 144:15,21</p>	<p>150:11,24 151:4                  153:24 154:3,7,18                  154:16,21 155:2,9                  155:13,19,25                  156:17 157:6                  158:11 160:6 161:5                  161:13,17 162:3                  169:11 170:22                  171:12,21 172:22                  175:18 177:1,2                  181:2,5 182:6,8,22                  185:22,23 186:2,5                  187:12 188:10                  190:19,24 191:3                  192:9 193:14                  194:19 195:8,12,18                  195:23 196:4,10                  197:15 200:23                  201:4,7,11 202:20                  203:5,9,14,22                  205:18 206:6,9,10                  206:16,22 207:7,14                  207:20,21 208:3                  209:3,6 227:23                  228:3,6 229:2                  237:24 238:5,11                  239:2,7 242:24                  244:6,24 246:24                  249:2,19 251:5,17                  252:19 253:2,7                  254:5,18 257:1                  260:10,16,19 264:8                  265:15,22 266:25                  267:2,18  <b>Pitkin</b> 8:5 88:8,10,21                  89:2 90:5,13 91:3                  91:11,20,25 92:4                  158:5 220:12                  228:11,15 229:24                  230:3,18 231:9,20                  231:24 232:3 234:7                  235:1,18,23  <b>Pitkin's</b> 73:12 89:20                  91:7 192:13 215:16                  215:24 219:21                  220:23,25 228:20                  229:7 232:9 233:8                  255:1 261:24 262:6  <b>place</b> 95:11 108:1,3                  114:21 122:17                  125:2 233:23 268:6  <b>places</b> 100:3 111:12                  111:20,25  <b>plan</b> 134:17,19 135:8                  135:11 136:12,16                  138:1,7 139:6                  140:13,19 144:1,25                  145:4,12,19 146:1,6                  146:19 147:3,15                  148:17,21,23                  149:17,23 150:19                  150:23 151:2,7,12</p>
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153:3,8,12,22 154:24 155:6,12,18 155:24 156:7 167:11,15,23 168:11,15 170:9,14 170:16 171:8 176:16,23 181:3,16 181:23-194:7 <b>planning</b> 40:24 <b>plans</b> 154:15 <b>platform</b> 95:9,11 118:9 240:24 241:11 <b>please</b> 20:10 24:13 29:12 42:7,9 54:19 74:9 79:4 82:7 88:16,19 90:12 226:22 229:19 233:5 248:7 249:15 252:5,6 259:14 <b>plus</b> 202:16 <b>point</b> 9:15 37:4,13 63:1 81:18,21 88:10 88:20 89:22 90:1 99:24 101:25 102:18,18 123:2 132:13 139:5 143:22 167:21 192:8,20,22 196:3 205:21 209:2 220:11 235:5 256:24 <b>pointed</b> 18:20 27:13 28:8 145:7 <b>points</b> 18:16 248:5,24 256:3 <b>police</b> 237:18,23 238:2,10 <b>policies</b> 66:25 67:9 79:6 97:1,6 138:10 138:15 155:10 194:15 250:21 251:9,14 <b>policy</b> 97:9,12 242:11 253:17,24 254:3 <b>Pollara</b> 10:18,25 11:3 11:6,17,21 12:7 15:25 18:10,12,17 19:9 <b>population</b> 29:24 30:14 31:2 <b>Port</b> 173:21 175:3 <b>portion</b> 29:15 39:11 47:23 48:24 49:22 51:1,25 52:20 54:1 55:12 57:18 58:21 61:10 63:21 65:5 82:24 147:20 149:18 165:15 176:14 <b>position</b> 6:18 16:13 80:12 88:22 90:19	166:22,25 173:20 178:25 183:18 187:23 210:2 <b>positions</b> 205:17 <b>possible</b> 19:11 102:17 102:22 106:18 139:19 141:21,24 145:10 <b>post</b> 39:22 <b>posted</b> 73:20 <b>potentially</b> 216:15 <b>Power</b> 132:14 <b>PPP</b> 168:6,9,10 181:22 <b>practices</b> 194:16 <b>prefaced</b> 266:4 <b>preference</b> 132:11 <b>premise</b> 125:4 <b>premises</b> 212:4,7 <b>premium</b> 141:2,2,3 143:7 <b>prepaid</b> 55:22 56:11 57:9,12,16 58:3,8 68:7 111:1 <b>prepare</b> 147:1 <b>prepared</b> 238:14,19 <b>preparing</b> 145:10 <b>preponderance</b> 20:20 21:17 <b>PRESENT</b> 2:6 <b>presentation</b> 3:22 23:3,11,15,20 24:1 24:5 <b>presented</b> 193:24 <b>presently</b> 210:3 <b>president</b> 8:24 9:2,5 9:11 11:2 107:16 223:10 <b>press</b> 261:18,21,22 262:7 <b>Presumably</b> 8:3 <b>presume</b> 104:20 177:1 232:23 240:17 <b>prevalence</b> 245:9 246:3 <b>prevent</b> 32:13,24 <b>previous</b> 95:20 210:14 <b>pre-authorized</b> 72:7 72:11,13,16,25 73:5 134:8,11 145:20 146:6 148:18,19 167:7 170:5,17 180:24 181:17 <b>price</b> 264:20 <b>pricing</b> 264:18 <b>primarily</b> 7:3 67:17 213:20 <b>primary</b> 209:24,25 245:15 <b>principal</b> 83:2	<b>principles</b> 243:9 <b>print</b> 76:25 100:2 111:9,14,18,18 112:25 122:10 193:4 205:4 <b>printed</b> 76:23 77:10 77:13,15 87:10 89:3 96:15 109:18,19 122:3 127:1 128:21 129:1 <b>printer</b> 96:2 <b>printing</b> 90:24 91:2 91:12,18 92:5 95:4 95:25 96:5,6 109:22 112:11 205:7,23 206:3,21 258:19 259:9 <b>prior</b> 7:7 9:1 21:22 41:7,12 75:19 76:4 76:4,11,16,21 77:12 77:21 78:16,21 79:14,21 80:14,21 80:24 81:3 82:16 87:6 89:1,11 91:8 91:12,17 132:21 135:4 150:7 154:11 161:15 <b>privy</b> 130:24 <b>probably</b> 6:5 123:13 228:6 233:12 257:3 <b>problem</b> 8:1 9:20 123:1 196:16 213:6 248:8 259:7,12 <b>procedure</b> 129:23 <b>procedures</b> 99:23 110:24 168:4 250:21 251:10,14 <b>proceeding</b> 216:7 <b>proceedings</b> 267:19 268:5 <b>proceeds</b> 76:13 85:18 86:10 99:10 163:20 165:17 169:16 175:10 180:14 185:11 190:5 200:10 <b>process</b> 12:16,17 17:21 18:6 92:1 93:5,13,17 95:15 96:5 103:21 112:22 112:22 115:17 117:4 118:7 129:23 130:6 160:1 192:6 206:21 218:8 258:11 259:1 <b>processes</b> 112:10 <b>processing</b> 97:24 107:2 110:15 114:22 115:22 <b>produce</b> 34:13 261:18 <b>produced</b> 19:23 34:5 203:24	<b>product</b> 23:5 37:16 43:21 69:19 142:17 142:21,25 144:1 154:10 208:18 <b>products</b> 41:24 43:4,5 43:10 68:21 69:3,8 69:11,15,25 70:5,11 86:24 114:25 208:22 <b>profile</b> 22:5 25:5,22 25:23 32:16 33:7 <b>profits</b> 264:17 265:1 <b>program</b> 46:10 51:9 59:21 65:22 95:4 96:13 135:12 258:20 259:9 <b>project</b> 240:15 <b>Promissory</b> 133:25 147:13,21 150:15 163:3 164:9,18 <b>proposed</b> 227:15 233:13,20 <b>proposition</b> 206:8,11 264:22 <b>proprietor</b> 223:9 225:5 <b>proprietorship</b> 223:15 <b>proprietorships</b> 223:21 <b>prosecute</b> 219:7 <b>prosecuted</b> 258:3 <b>protect</b> 215:18 216:1 216:19 217:6,10 227:7 <b>protected</b> 146:18 147:15 150:18 <b>protecting</b> 217:13 218:1,17 <b>protection</b> 134:17,19 135:8,11 136:12,16 138:1 139:6 140:13 140:19 144:1,25 145:4,12,19 146:1,5 146:19 147:3,15 148:17,21,23 149:17,23 150:19 150:23 151:2,7,12 153:3,8,12,22 154:24 155:6,12,17 155:24 156:7 167:11,15,23 168:10,15 170:9,14 170:16 171:7 176:16,23 181:3,16 181:23 193:18,21 194:2,7 221:8,11,14 223:8,25 224:9,12 225:1,4 227:20 262:3,8,17,22 263:10 <b>protections</b> 236:19	<b>proved</b> 171:22 203:25 <b>provide</b> 12:7 34:8 49:17 56:25 60:19 64:18 67:6 70:15 80:15 94:16 115:5 126:2,3 131:11 133:2 135:14 140:10 141:19 195:4 207:4 211:17 211:21 226:7 231:5 239:15 243:17,22 249:15 250:2 251:3 251:14 253:6 <b>provided</b> 11:10,18,25 12:22 19:7 22:19 25:9 70:9 72:9 78:22 86:12 91:20 91:25 92:4 98:2 108:4 117:1,2 122:18 123:8 125:2 129:4 131:20,25 135:13 138:13 139:8 155:10 159:5 164:10 169:23 173:6 174:1,9 175:17 176:6 178:2 179:6 180:21 183:1 183:24 184:7 187:6 188:21 195:5 197:18 198:16 207:12 240:2,19 250:24 251:15 <b>providence</b> 192:18 <b>provider</b> 71:24 72:16 73:2 213:19 <b>providers</b> 214:14 <b>provides</b> 33:2 73:4 228:13 230:1 261:3 <b>providing</b> 72:4 231:10 232:3 245:20 <b>province</b> 87:11 89:4 93:11 <b>provinces</b> 75:18 93:6 93:9,18 258:11 <b>provincial</b> 218:24 219:6 <b>provision</b> 144:3 <b>provisions</b> 138:15 <b>public</b> 129:6 234:14 241:6 <b>publicly</b> 46:4 223:10 223:15,21 224:18 225:5 <b>purchase</b> 68:21 69:2,8 86:19 125:14 135:14 142:15 150:22 151:2,6 <b>purchased</b> 72:24 81:17 82:15 83:6,7 143:4 <b>purchases</b> 51:19
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p><b>purchasing</b> 68:22 151:3 <b>purely</b> 206:7 <b>purpose</b> 2:18 23:19 68:6 215:17,25 216:19,23 217:2,14 218:1,17 233:13,21 <b>purposes</b> 12:7 118:10 122:9 171:20 <b>Pursuant</b> 133:19 <b>put</b> 6:6 34:15 47:16 68:9 71:15 80:11 123:15,21 124:2,19 125:8,15 127:9 148:23 164:4 167:24 170:17 196:2 227:2 267:4 268:7 <b>putting</b> 82:2 190:23 196:2 206:8 234:6 264:21 <b>puzzling</b> 148:12 <b>p.m</b> 127:17,18 156:2 156:3 196:24,25 229:3,4 254:10,11 266:18,19 267:19</p> <hr/> <p style="text-align: center;"><b>O</b></p> <p><b>qualify</b> 33:19 <b>quarrel</b> 195:20 <b>QUEEN</b> 1:13 <b>question</b> 6:6 34:11 36:8,8 37:6 42:21 45:25 47:10,13 48:15 53:11,18 54:18 61:3,6,23 63:6,17 64:18 65:1 65:18 80:7 82:5,6 88:18 90:11 95:20 96:17,25 97:7,8 98:18,22 112:7,18 114:10 117:20 126:12 130:17 136:6 138:24,25 146:5 156:14 170:24 192:16 201:11,14 207:8 219:13 229:19 233:4 240:4 259:13 266:4,25 <b>questions</b> 6:5,11 10:16 13:19 14:3 35:6 39:11 65:19,19 66:8 80:6 92:12 107:11 123:3 129:23 130:4 193:10 239:19 240:8,12 263:25 264:3 266:22 267:4 <b>questions/requests</b> 2:21 3:2,10 <b>quick</b> 14:25 15:19</p>	<p>17:20 18:5 212:24 <b>quite</b> 241:1 <b>quote</b> 86:6,16 91:21 116:23 133:7 138:23 150:7 160:2 221:18 222:20,25 223:2,14,19,24 225:21,24 226:4,7 226:10,18,19 227:18 <b>quoted</b> 222:9,13,18 223:20 226:25</p> <hr/> <p style="text-align: center;"><b>R</b></p> <p><b>R</b> 2:1 201:3,19 <b>raised</b> 254:23 259:3 <b>Ramcharan</b> 4:5 84:22 84:23 88:3 146:25 148:1,7 167:14 181:1,6 <b>RAMCHARANM</b> 204:3 <b>Ramcharan's</b> 85:1 <b>random</b> 12:16 <b>randomization</b> 12:17 <b>range</b> 32:6,17,22 249:17 264:17 <b>ranking</b> 35:20 <b>rate</b> 43:19 142:23 154:1 216:10 <b>Rayner</b> 211:5 237:15 237:17,22 238:1,9 238:25 239:5,20,24 240:10,21,23 241:8 241:15 242:15,22 243:5 244:9,21 245:19 247:7 248:2 249:1,9 250:2,11,24 251:4,8,15,21 252:7 252:16 253:25 <b>Rayner's</b> 238:13 243:21 244:4 246:15 250:23 253:23 <b>RB</b> 201:10 <b>reached</b> 13:9 <b>read</b> 21:21 26:3 37:7 39:1,11 84:4 85:23 88:15 206:14,19 216:22 217:3 220:9 222:9 227:1 232:21 233:2,3 235:11 259:11 264:12 <b>readily</b> 102:23 <b>reading</b> 141:12 213:4 <b>reaffirms</b> 40:11 <b>real</b> 209:2 <b>really</b> 45:8 80:9 <b>reason</b> 32:11,22 34:14 34:16 67:15 195:22 <b>reasonable</b> 265:6,16 265:20 266:5,12</p>	<p><b>reasons</b> 32:9 129:6 <b>recall</b> 34:3,6,25 35:3 35:8 89:5 91:5 150:3 168:2 181:11 181:14 215:9 260:10,11 263:10 <b>receipt</b> 85:6 135:24 136:3 168:6,19 171:2 <b>receive</b> 43:9,17 47:23 48:4,24 49:4,21 50:1,25 51:5,25 52:4,19,24 53:25 54:5 55:11,16 57:17 57:22 58:20,25 61:9 61:14 63:20,25 65:4 65:9 66:24 69:18 75:16,21 76:12 78:19,25 80:20,20 80:25 81:4 83:18 85:18 87:4,5 90:21 98:6 112:23 115:15 121:19 130:15 132:2 139:24 143:2 153:23 154:18 163:20 165:17 169:15 171:17 175:10 180:14 185:10 190:4 200:9 <b>received</b> 10:12 73:8 74:6,10 88:17 90:9 90:17 117:16 123:24 125:4 161:14 192:10 261:17 <b>receives</b> 43:5 <b>receiving</b> 90:6,14 110:3 130:25 <b>Recess</b> 65:14 92:20 127:17 156:2 196:24 229:3 254:10 266:18 <b>recipients</b> 228:15 229:14 230:3 231:6 231:11 232:19 233:7,19 234:2,23 235:3,24 236:2,25 <b>recognize</b> 22:24 44:5 45:14 73:14 84:18 144:17 162:16,17 168:25 169:1 172:13,14 174:15 177:16 179:22 182:21,23 184:14 184:17 186:17 189:12,13 196:3 197:4,6 199:18 255:3 <b>recollection</b> 11:4 92:13 148:25 <b>reconsideration</b> 261:11,13 262:12</p>	<p><b>record</b> 11:7 14:16 17:10 20:7 29:17 71:17 73:25 80:12 92:17 99:6 127:15 133:10 141:1 156:1 192:14 196:12 203:22 228:25 241:13 243:3 247:3 249:23 250:23 254:8 265:22 <b>recorded</b> 268:11 <b>records</b> 12:1,6,21 13:10 <b>recover</b> 216:11 <b>Redhead</b> 187:11 192:24 <b>reduction</b> 245:8 246:3 <b>refer</b> 40:24 46:6 209:22 239:6 259:2 <b>reference</b> 36:15,21 44:3 142:11 158:12 234:3 235:7 242:16 258:25 <b>referenced</b> 138:10 <b>referred</b> 19:3 44:25 91:22 92:5 94:17 97:24 124:22 129:25 130:3 142:9 150:14 198:1 223:14,19 234:14 251:4,15 253:21 266:1 <b>referring</b> 141:15,22 145:23 146:2,11,17 147:9,12 151:20 167:16 195:16 218:10 223:15,20 229:7,8,9,11 236:14 245:22,24 253:25 261:9 <b>refers</b> 26:18 116:6 124:5 220:11 224:14 <b>reflects</b> 30:9 31:12 <b>refresh</b> 9:17 <b>refunds</b> 134:5 <b>refusal</b> 67:16 143:12 <b>refusals</b> 2:17 3:9 65:24 80:4 266:21 <b>refuse</b> 140:5 <b>refused</b> 3:10 13:19 14:2 65:18 67:7 <b>reg</b> 146:17 <b>regarding</b> 117:10 265:24 <b>regardless</b> 55:8 90:19 220:1 222:5 224:16 <b>regards</b> 89:11 <b>regime</b> 158:25 <b>regional</b> 100:5,8,16 100:17,21 101:3,9 101:13,14,18,23</p>	<p>102:4,8,11,17,22 103:7,14,19 104:6 112:1,4,10 113:1,9 <b>registrar</b> 89:10 230:22 232:5 <b>regular</b> 77:23 110:15 <b>regulated</b> 133:17 149:10 216:4 <b>regulation</b> 4:2 24:20 26:10,23 33:15 129:2 144:6 145:6 220:14 224:15 231:25 232:13 256:12 <b>regulations</b> 41:8,13 66:3 128:15 132:22 135:5 209:17 224:20 228:17,23 230:5 231:21 235:4 240:25 261:4 <b>regulatory</b> 133:12,15 149:5 218:8,11 <b>rejected</b> 21:3 <b>relate</b> 149:9 251:10 <b>related</b> 7:4 44:8 206:21 250:20 255:21 <b>relates</b> 166:15 <b>relation</b> 94:23 214:9 <b>relations</b> 7:10 <b>relationship</b> 39:25 40:6 42:17,25 44:13 45:18,18,19 46:6 70:21 71:2,10 <b>relatively</b> 117:3 <b>release</b> 261:19,21,22 262:7,14 <b>relevance</b> 66:1 67:17 <b>relevant</b> 13:23 66:1 86:9 170:23 242:11 250:20 <b>relied</b> 228:16,22 230:4 231:20,24 <b>reluctant</b> 47:13 171:15 <b>rely</b> 33:23 112:5 <b>remainder</b> 208:1 <b>remaining</b> 171:25 207:23 <b>remains</b> 168:2 <b>remember</b> 145:9 <b>remember</b> 35:5 77:1 89:8 91:9 94:2 149:2 168:3 229:21 240:13 <b>remove</b> 148:2,7 <b>removed</b> 83:24 144:4 147:6,19,24 148:3,5 148:10 <b>Rent</b> 8:17,20,22 <b>repaid</b> 201:25 202:12 <b>repay</b> 211:13,16,20</p>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>repeat 37:10 42:20 88:18 90:11 233:4 repetitive 80:5 rephrase 137:19 229:19 replace 129:8 replaced 227:2 replenishment 118:20 reply 7:22 21:25 23:16 24:9,15,25 25:8 26:2,15,25 27:11,14 28:21 30:2 34:9 71:13 84:24 89:19 91:22 92:6,8 93:2 94:17 97:23,24 100:10,13 103:14 114:23 132:16 136:10 137:24 151:24 160:2 162:20 164:2,4 171:5 208:12 215:10 216:17 217:24 219:15 221:16 222:10 225:19 226:8 227:23 235:10 254:13 256:14 258:17 259:8 260:22 report 16:16 17:3,10 19:24 20:6 21:22 24:18 25:13,18 26:9 26:19,21 28:3,9 29:21 33:2 119:23 205:22 211:4 234:20 237:11,14 238:13,19,23 239:5 239:24 240:18 241:12 243:17,21 244:5 250:23 251:16 252:17 253:23 264:4,15 265:8,17,21,23 266:1,6,13 reported 2:7 251:22 252:8,16 Reporter 92:15 268:4 REPORTER'S 268:1 Reporting 1:21 268:22 reports 195:5 207:4 207:13 representative 97:17 187:24 representatives 17:16 18:4 represented 1:14 reproduced 164:19 reproduction 164:1 185:24 request 10:24 11:3 96:22 104:5 106:21</p>	<p>107:15 112:5 113:17 115:17 117:16 177:2 204:24 requested 49:9,13,17 77:22 97:10 requests 99:9 require 129:3 219:24 222:3 241:1 required 66:7 94:4 99:17 103:20 112:22 164:13,22 requirements 263:4 requires 209:17 requisition 99:12 research 241:17,24 242:10 resemble 162:19,24 172:18 186:23 190:22 197:8 resembles 162:22 173:1 177:22 190:24 resembling 176:5 resolve 193:9 194:14 respect 18:17 67:1,10 72:9,16 73:5 74:24 79:8 95:14 106:21 110:22,24,25 145:11 147:2 155:17,23 194:16 205:21 206:19 214:12 240:11 254:3 260:15,24 264:4 respond 84:6,12,12 131:5 140:9 144:9 responded 84:25 143:20 157:14 respondent 16:7 Respondents 1:16 2:5 4:7,10,13,16,19,22 5:2,6,9,12,15,18 172:4,7 177:7,12 182:13,16 186:10 186:13 196:18,22 208:5,9 responding 73:25 responds 235:19 response 63:6 91:8 144:12,20 160:22 responses 244:23 responsibilities 101:24 106:15 109:4 responsibility 6:24 100:18 106:10 responsible 7:3 13:2 101:15 result 73:8 195:5 215:20 219:1,10 results 29:5 159:14</p>	<p>resuming 65:15 92:21 127:18 156:3 196:25 229:4 254:11 266:19 retail 157:23 retailer 122:5 retain 40:5 retained 239:14 revenue 73:7 154:9 revenues 65:23 review 5:23 35:2,4,9 35:25 66:1 92:18 100:9 242:2,5,10 263:24 267:24 reviews 70:1 155:1 Reykdal 7:21 35:12 35:14,23 36:18,24 37:6,12 39:16 123:4 123:6,10 263:23 264:23 265:9,10 266:7 Reykdal's 122:23 re-examination 2:14 267:1,2 right 1:13 7:19 10:4 15:5 22:19 26:5 27:21 30:16 31:21 34:19 44:2 49:8 50:5 52:9 53:3 55:20,21 58:2 61:17 65:11 75:14 80:1 84:9 88:6,20 90:5 107:23,24 111:21 115:11,13 123:9 125:9 126:17 129:7 141:1 147:12,23 151:17 163:2,3 171:10 173:4,4,16 174:14 185:24 187:17 188:15 189:11 199:8 200:19 202:20 209:2 221:4 225:12 226:19 232:11 264:23 rightly 28:8 rights 134:4 right-hand 22:14 24:8 27:2 44:24 45:12 115:13 133:24 134:15 160:17 167:5 175:24 178:1 178:20 179:21 181:20 182:25 183:13 184:12 187:5 191:11 197:3 197:17 226:13 risk 117:8 237:9 248:20 265:4 risks 251:11 Riverglen 179:17 Road 188:4 189:5</p>	<p>robberies 251:25 252:11 robbery 245:7 246:2 250:24 251:3 252:3 252:14 Roberts 37:5,8 39:10 39:13 Robertshaw 183:7,9 185:5 Robertshaw's 183:16 184:8 robust 117:9 role 7:1,7 149:5 238:9 roles 6:19 roll 94:5 rolled 92:2 95:4,10,12 117:4 192:6 rolling 95:15 rope 252:3,14 roughly 250:21 267:7 267:9 row 54:9 59:6 rule 108:2 Ruling 262:17 running 115:24 116:23 117:14 118:1,13 R/F 3:10 12:12,18 13:6,16,20 14:4,8 14:13 43:7,12,22 47:25 48:5 49:1,6 49:19,23 50:3,23 51:2,6 52:1,6,17,21 53:1,12,19,23 54:2 54:7 55:13,18 56:2 56:12 57:19,24 58:22 59:2,13,23 60:5,13,20 61:7,11 61:15 62:4,11,18 63:18,22 64:1,19 65:2,6,10 66:14,18 66:22 67:3,13,22 68:11,14,18,23 69:12,16 70:2,7,12 70:18 71:5 73:10 74:12,20 75:2,7,12 79:19 80:2,17,22 101:11,16,21 102:1 102:5,9,14,19,25 103:5,10,16,22 104:1,11,17,21,25 105:15,21 106:1,5 106:12,16,22 107:3 108:14,18,22 109:1 109:5 112:19 114:9 114:18 119:5,16 120:4,9,13,19 121:3 121:13,20,25 122:6 122:13,20 124:4 128:10 129:21 130:9,21 131:2,8,14 132:8 137:13 139:9</p>	<p>139:13,17,22 140:3 140:8,15,22 143:8 143:12 150:24 151:4 153:24 154:3 154:7,12,16,21 155:2,7,13,19,25 206:6,16,22 239:2,7</p> <p style="text-align: center;">S</p> <p>s 2:1 145:6 190:13,16 safe 211:10 247:11,21 safety 129:6 241:6,10 243:4,8,10,14 245:14 sake 24:7 253:10 sale 114:25 salient 62:25 same-day 116:18 sat 36:2 satisfy 258:22 259:2 259:24 Saturday 120:24 saw 248:19 saying 124:17 150:13 181:8 237:1 255:19 264:16,19,24 says 10:7,23 11:9,11 11:21,23,24 12:2,3 12:21,24 14:21,24 15:7 16:6,12 17:11 18:24 21:19 24:17 27:16,16,25 28:12 29:20 30:4,6,22 31:6,9 32:3,5 38:11 38:16 39:2,5 46:10 46:14 49:8 54:21 55:10 57:6,13,15 58:4,16,19 59:7 60:23,25 67:25 68:2 68:3,6 85:6 93:4 97:3 99:8 100:1,7 100:12 107:13 109:16 110:11 111:23 115:13,22 117:24 121:7 132:18 135:1 137:4 138:5 141:1,3,13 143:23 145:25 147:9,14 152:6,11 153:18 157:17 158:8 161:9,13,23 163:18 166:20 167:7 168:6,6,13,17 169:13 175:8,25 176:19 180:12 181:6 182:2 188:1 190:2 196:5 199:9 200:7 201:25 202:3 202:6,22 208:15 217:21 219:5 223:5 223:6 225:3,8 226:19 236:3,15</p>
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>238:18 239:12  240:1 241:17,20  242:8 247:6 252:7  252:22 255:16  258:5 264:11 266:7  266:9  <b>scale</b> 249:10,14,15  <b>scan</b> 100:2 111:11,19  113:1  <b>scanning</b> 112:11  <b>scenario</b> 126:23  <b>scheme</b> 215:18,25  216:19  <b>scope</b> 239:24 240:15  240:16 244:3  <b>Scotia</b> 5:22 35:1,4,8  35:24 122:24  240:12,14 263:20  263:24 267:23  <b>screen</b> 100:2,9 111:10  111:16,19,19  112:25  <b>scripts</b> 70:9,15 79:6  <b>second</b> 16:6 26:21  27:19 30:18 34:21  48:7 51:13 75:15,20  84:11,22 85:2 92:9  109:15 127:15  134:3 136:20  143:22 144:23  146:15 157:20  158:7 160:9 162:24  164:5 167:10  187:14 203:18  212:1 221:20,24  222:16 223:4,24  227:4 228:21 244:9  <b>Secondly</b> 66:3  <b>section</b> 29:4,5,18  46:14 62:2 127:21  144:5 146:16  166:18 167:10,16  178:7 201:22 202:6  209:16 210:10,14  232:15,20,22  233:15 257:10,18  <b>sections</b> 167:6  <b>Sector</b> 221:9  <b>secure</b> 40:4,9  <b>security</b> 99:16 212:7  243:24 244:16  247:16,22  <b>see</b> 15:10 17:12,25  20:13,25 22:20  27:21 28:4 29:11,25  30:20 31:3 32:4,14  38:9 46:12,14 48:9  48:10 49:10,12 50:7  50:17 51:11,14  52:11 53:6 54:12,21  55:4,23 59:8 61:19  64:12 68:7 72:1</p>	<p>74:4 84:2 85:8,13  91:17 94:19 108:9  109:20 115:19  116:3 123:17  132:24 138:18  141:6,10,11 144:7  150:6 157:18 158:1  161:9,20,22 164:15  165:15 172:25  173:11,25 175:20  175:25 176:5  178:12 179:5 183:5  183:23 187:6  188:20 190:12  191:5,8 193:7 196:9  198:6,15 199:9  200:20 201:2 202:1  202:7 204:8 205:9  205:14 208:16  221:5 225:25  226:15 234:7  239:16 241:17  243:12,20 244:13  245:17 247:4 249:6  250:25 251:11  252:23 255:17,25  257:16 261:6 262:3  263:8  <b>seek</b> 216:11  <b>seeks</b> 38:21  <b>seen</b> 192:11 195:13  203:23 215:7  <b>sell</b> 69:24 70:11,16  154:23  <b>selling</b> 43:4,10 153:21  154:10 155:11  <b>sells</b> 42:17,25  <b>semicolon</b> 195:17,18  <b>send</b> 67:20 102:12  111:11,20 112:1  113:1 116:12,14  118:17 159:8,21  <b>senior</b> 6:14,23 7:17  23:6  <b>sense</b> 67:6 80:10  114:11,12  <b>sent</b> 77:22,25 78:1  87:11 89:4 94:8,9  94:11,13 129:18  192:11,15 195:13  204:25  <b>sentence</b> 30:17,18  71:19 147:6,20  158:12,15,17 196:5  212:1 217:23  221:23 222:1,9,12  222:13,16;17,20  223:4,24 229:12  237:7 239:12 242:8  242:17 246:8  248:18 249:6  256:15 264:10</p>	<p><b>sentences</b> 222:22,24  227:19  <b>separate</b> 44:13,19  81:16 145:10 146:7  147:1 167:25  193:25 194:10  <b>separated</b> 51:10  <b>September</b> 1:19 3:22  23:9 24:5 76:4,11  76:17 96:10,14,21  100:21 103:3  104:10 105:25  106:8 108:12  109:23 113:10,17  113:24 114:6,15,21  115:2 119:13 120:7  128:20 129:24  132:23 133:3 135:6  154:11 189:18  <b>serious</b> 206:3  <b>service</b> 37:17 40:3  43:21 64:12,22  71:24 72:16 73:1,4  97:17 102:23  124:12 125:23,24  126:14 187:24  255:20  <b>services</b> 1:8,14 3:21  24:4 38:23 42:18  43:1 72:5 74:25  81:17 82:14 83:6  122:9 123:7 125:14  127:3 152:7,12,17  153:16,19 166:10  176:20 219:20  227:14 255:23  256:9  <b>set</b> 51:13 59:21 67:25  68:4 108:2 117:6,6  138:9 154:5 167:4  268:6  <b>sets</b> 51:9  <b>seven</b> 10:3 133:6  218:6,10 243:14  244:4,22 258:10,14  <b>shares</b> 267:8  <b>sharks</b> 219:2,12  <b>sheet</b> 175:19  <b>Sheldon</b> 204:7,11  <b>Sherry</b> 173:13,18  174:10 175:6 177:4  <b>shift</b> 245:8  <b>shop</b> 213:8 227:10  <b>short</b> 40:2,16 196:15  <b>shorthand</b> 268:4,14  <b>shortly</b> 84:14  <b>short-term</b> 22:4 25:4  25:21,23 33:7  <b>shot</b> 100:10  <b>sbow</b> 146:9 215:23  228:19  <b>showed</b> 25:13</p>	<p><b>showiog</b> 22:3 25:3  55:3  <b>shown</b> 141:6,9,11,15  141:22  <b>shows</b> 22:11 38:6  <b>shuffled</b> 195:24  <b>side</b> 24:8 59:7 226:17  <b>sign</b> 72:11 98:10,23  138:21 238:24,25  <b>signature</b> 68:4 190:25  200:25 201:7  <b>signatures</b> 163:5  <b>signed</b> 164:11 165:2  169:4 174:23 180:1  184:20,21 189:15  199:24  <b>significant</b> 40:7  <b>significantly</b> 237:8  <b>signify</b> 226:2  <b>similar</b> 114:22 171:4  219:24 220:8 222:3  240:12 248:10  259:21  <b>similarly</b> 219:19  220:4,7,11  <b>simple</b> 17:21 18:6  <b>simplicity</b> 24:7  <b>single</b> 223:9  <b>site</b> 50:11,13 98:5  118:4 215:2 247:4  <b>sitting</b> 101:18  <b>situated</b> 139:12  <b>situations</b> 32:7,8,18  32:18  <b>six</b> 6:20 9:6 99:13,20  248:4,25 267:13  <b>sixth</b> 253:11  <b>sizable</b> 149:1  <b>size</b> 137:5,10 140:21  267:15  <b>skip</b> 109:11  <b>slightly</b> 24:24  <b>slot</b> 175:19  <b>small</b> 17:23 71:16  210:23 211:2  224:17  <b>smaller</b> 212:14  <b>social</b> 140:14 228:14  229:14 230:2 231:6  231:10 232:19  233:6,18 234:2,23  234:24 235:2,24  236:1,24 237:3  <b>sold</b> 69:11,15,20 70:5  74:25 124:12  154:15,19 155:5  194:17  <b>sole</b> 223:8,15,20 225:4  <b>somebody</b> 86:5  190:22 240:18  <b>somewhat</b> 148:12  <b>soon</b> 145:9</p>	<p><b>sorry</b> 27:11 28:2  41:18,21 42:4 48:5  48:20 56:6 59:16  60:10,10,10 75:19  75:24 81:6 105:4,8  138:24 149:2  152:21 168:21  176:18 180:25  213:5 223:17 228:4  229:17 230:12,14  257:11 258:24  259:4 265:13  <b>sort</b> 18:2 101:9  253:10  <b>sound</b> 126:17 149:25  210:24  <b>source</b> 24:18 25:13  26:3,14,24 27:8  28:21 34:8,9 245:21  246:11,20 254:7  <b>sourced</b> 33:25  <b>sources</b> 16:10  <b>space</b> 51:10 163:23  165:20 169:19  175:13 180:17  185:14 190:8  200:13  <b>spaces</b> 169:23 175:17  176:6 180:21  <b>speak</b> 32:17 39:7  70:24 75:6 125:10  204:14  <b>speaking</b> 81:20 94:5  192:24  <b>speaks</b> 38:25 87:17,21  139:1 141:2 239:8  251:9  <b>special</b> 110:9,14  111:16  <b>specialist</b> 243:24  <b>specialists</b> 244:16  <b>specific</b> 90:3 110:9  111:6 137:15  <b>specifically</b> 34:4 35:5  164:8 238:14  240:14  <b>specificity</b> 76:24  <b>specifics</b> 118:7  <b>specify</b> 85:17  <b>spend</b> 64:7 126:13  <b>spoke</b> 34:20 35:5  156:5 250:4,11  <b>spokesperson</b> 45:9  <b>staff</b> 66:24 94:6 97:19  191:20,22 204:22  <b>stages</b> 228:3,10,20  229:23  <b>Stakeholder</b> 24:19  26:9,22  <b>stand</b> 17:7 35:24  <b>standard</b> 223:12  225:7 241:23</p>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------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<p>standing 207:17 standpoint 133:13,15 start 110:2 152:3 177:3 196:10 200:25 228:25 230:15,17 231:22 259:5 264:7 started 117:12 starts 8:4 116:21 123:5 230:18 242:5 244:10 255:19 state 8:9 16:24 146:25 164:7 165:1 209:15 217:13 220:12 227:25 228:9 237:6 258:18 259:8 260:23 stated 18:3 21:12 27:8 59:20 67:16 74:14 103:15 117:14 157:13,14 191:22 194:22 263:23 statement 21:5,19 38:18 61:18,23 124:25 145:24 152:11 194:9,12 211:8 212:23 213:4 214:7,9 217:16 224:8,13 232:24 234:11 235:12 236:15 246:18 statements 73:17,20 73:24 74:24 194:16 214:16 246:14,22 states 20:12 27:4 29:6 50:6 55:7 57:3 58:2 71:20,22 74:3,5 88:21 99:16 107:24 123:23 138:21 144:24 146:18 150:17 156:9 157:21 158:15 164:22 165:16 178:7,16 183:9 185:8 192:23 198:9 203:19 204:2,10 211:5 217:24 226:25 235:23 244:17 247:11,15 248:3,9,22 250:24 253:14 257:21 262:15,21 stating 6:14 92:13 256:6 statistic 15:2,5,12 16:14,18,23 statistical 20:21 21:18 242:12 statistics 29:1 33:2,6 33:22 103:18,25 106:24 118:18 245:7,20,21 246:2</p>	<p>250:25 251:3 stenographically 268:11 steps 99:13,17,20,21 145:9 sticking 66:11 stock 107:21 stop 38:22 75:25 128:25 171:21 213:2 stopped 128:21 store 1:8,9 3:21 6:15 7:20 8:10,13,16,19 8:22 9:2,23 10:1 11:13,18 17:22 18:6 22:3 23:14 24:3 25:3,10,21 35:15,17 37:15 42:13,17,25 43:5,9 47:22 48:3 48:23 49:4,21 50:1 50:25 51:24 52:4,19 52:24 53:25 55:11 55:16 57:17,22 58:20,25 61:9,14 63:3,20,25 65:4,23 66:4 69:4,7 71:9 72:18 73:8 74:18,25 75:4,10 76:11,23 88:12,24 95:25 96:15 102:18 104:16 111:15 116:8 119:14,24 120:7,12 121:11 122:3,11,18 123:25 124:6,13,15,23 125:2,5,22 126:9,21 126:25 127:2,22 128:15 132:20 135:3 148:16 151:8 151:12 152:16,16 153:6,7,22 155:5,16 155:22 156:13 159:13,17 164:12 165:3 166:23 168:19,20,21,22 173:22 175:2 178:17 179:2 180:6 182:3 183:20 185:1 187:21 188:4 189:21 193:2,4,5,11 200:4 204:12,14,21 205:4,13 206:14,24 209:11,18 210:3,20 212:4,8 228:12 229:25 231:3 237:12 239:13 249:24 251:9,24 252:10,25 253:15 255:23 256:9 259:17 262:2,16 263:1,3 storefront 223:9</p>	<p>stores 101:2,10 119:8 120:2,2,24 121:6,8 205:3 247:7 Store's 152:17 176:20 Store/Instaloan 105:19 Store/Instaloans 210:6 street 1:22 86:13 248:2,4,16,19 249:1 strengthen 227:16 stuck 149:19,25 Student-at-law 2:6 study 11:12,15 12:7 13:11 16:1,25 18:10 18:12,17 19:9 26:19 28:14 30:10 31:13 31:17 33:20 34:19 214:18 240:11 stuff 220:10 sub 232:6 subheading 14:20 17:11 20:11 29:6,18 30:4 32:2 74:3 85:5 85:10 109:14 232:11 233:20 241:16 255:16 subject 35:1 138:7 157:16 160:25 223:11 224:19 258:1 266:20 Subsequent 128:14 subsidiary 44:14 45:18 135:13 subtitle 26:13 144:24 247:4 subtitled 26:8 succeed 216:14 suggest 43:16,19 119:22 121:5,8 125:1 126:16 130:11 148:13 149:21 205:24 212:20 265:5 suggests 8:6 170:1 suitable 131:21,21,24 Suite 1:22 summarize 264:15 summarized 138:12 summary 28:3 215:14 sums 212:3 SUPERIOR 1:4 supplemental 4:7,10 4:13,16,19,22 5:3,6 5:9,12,15,19 22:21 22:22 26:6 27:4,15 31:20 34:2 71:17 84:10 99:6 141:1 160:8 165:12 172:4 172:8 177:8,12 182:13,17 186:10 186:13 196:19,22</p>	<p>208:5,9 support 220:15 261:3 Supporting 241:17 suppose 47:16 128:5 Supreme 262:24 263:12 sure 6:12 16:2 22:9 24:2,10 25:25 33:10 34:10 37:25 42:21 45:5 88:1 92:13,19 97:7 110:14 117:9 133:22 134:23 136:7,21 150:11 152:5 208:24 211:1 217:22 218:21 226:9 229:2 230:16 232:10 survey 10:18,21,25 11:6,17,21 13:3 14:16 29:5 survey's 13:19 14:3 swearing 21:22 sworn 1:19 6:2 synonym 217:1,9 231:13,16 236:8 synonymous 68:17 system 111:15 117:6 117:9</p>	<p>110:13 113:5,13,20 114:2 115:6,8 117:21 118:14,15 119:18 124:1 125:7 127:5 130:7 131:6 131:12 132:6 133:8 140:5 145:8 156:17 157:6 159:18 182:6 187:4 191:23 193:14 194:19,25 195:9 205:18 207:8 211:4 228:24 230:6 232:25 235:24 237:24 238:5 242:24 244:6,24 246:17,24 249:2,19 251:5,17 252:19 253:7 260:19 266:1 taken 1:20 3:2 19:7 62:2 103:19 106:25 135:18 160:3 263:16 268:6,14 takes 37:19 46:19 72:10 87:15 205:1 takings 252:1,12 talk 18:19 109:8 235:1 talked 18:16 95:16,17 talking 146:12 149:12 talks 124:6 235:7 244:16 tapes 244:20 TD 122:16 129:9,13 129:18 130:14 131:6 team 23:6 telephone 11:22 12:22 13:9 14:7,11 telephoned 13:1 tell 13:3 18:4 42:7 52:14 78:18 117:18 118:12 129:22 137:21 140:8 147:23 148:5 166:8 175:18 190:17 211:3 215:6 229:20 250:6 telling 89:7 149:15 235:6 tells 37:19 88:11 tenure 230:21 232:4 term 40:2,16 41:25 128:8 208:20 249:5 terms 185:22 240:7 240:14 test 117:9 241:21 testified 35:11 36:5 testifying 34:25 35:3 35:8 36:3 263:23 testimony 36:15,21 122:23,23 268:9 text 152:22 226:3</p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------



<p>227:1  <b>TGI</b> 135:13 156:25  <b>thank</b> 17:8 44:17  56:13 62:6 65:13  97:5 131:17 145:13  152:6,12,16 153:15  153:18 168:13  176:19 179:19  182:2 266:23,24  267:18  <b>thats</b> 107:10  <b>theft</b> 250:19  <b>thereabouts</b> 101:7  <b>They'd</b> 118:3  <b>thing</b> 42:4 133:11  207:16 208:23  209:1,3 233:12  <b>things</b> 18:3,3 64:21  195:25  <b>think</b> 9:18 15:15 17:5  18:11 37:13 41:23  44:12 46:2,4 87:17  92:25 110:15  111:10 202:18,19  202:20 203:3,10,11  232:25 245:24  264:19  <b>third</b> 11:9,24 66:7  85:9 93:4 134:7  167:3 183:12  190:11 201:24  204:6 216:2 245:4  <b>third-party</b> 124:14  <b>Thomas</b> 255:9,10  <b>Thompson</b> 1:19 2:11  4:5 6:2,4 10:21  17:25 19:17 21:21  22:25 28:24 33:1,18  33:22 34:20 38:9  39:23 41:7 42:4  48:11 53:7 59:18  64:4 65:11,17 66:5  66:12 67:19 68:20  69:2 70:20 71:9  73:6 74:17 88:4  92:18 95:23 108:9  112:22 118:22  121:5 122:2 123:17  127:20 130:7  141:21 142:15  149:22 150:21  156:5 177:16 191:6  192:19,23 194:22  197:5 201:13 205:9  208:13 213:3  214:22 229:6  238:22 246:23  254:14 265:10  266:20 267:3  <b>thought</b> 56:7 107:6  109:10 118:22  196:11</p>	<p><b>threat</b> 215:19  <b>three</b> 22:11 25:7,17  25:20,23 26:2 29:10  29:19 30:3 31:5  37:20,22 73:18  79:23 80:7 83:19  86:11 92:17 116:21  117:13 121:11,16  121:17,22 163:24  164:2,17,24 165:21  165:24 169:20,23  171:15,18,20,24  175:14,17 176:6  180:18,21 185:15  190:9,16 200:14  201:19 226:2 227:3  243:23 267:15,16  <b>three-month</b> 39:19  40:12  <b>threw</b> 92:12  <b>thrown</b> 171:23  <b>Thursday</b> 123:25  125:5  <b>tick</b> 190:18  <b>Till</b> 213:14  <b>Tim</b> 34:10 84:25 85:1  <b>time</b> 8:16,23 11:3,12  15:16 34:6 35:11  42:6 51:14,17 65:12  77:7 78:19 86:4,14  87:15 88:21 90:20  91:1,6 92:24 103:8  103:13,19 104:24  105:3,4,4,12,13  106:4,19,25 112:12  117:5 120:18 123:2  126:13 128:3 133:9  139:20 145:17  148:15 168:4  172:24 181:1,9  204:18 206:5  232:25 236:16  266:14 268:6,7,10  <b>times</b> 85:24 105:18  120:15 121:10,10  160:12  <b>Timmins</b> 118:21  <b>Timothy</b> 2:2  <b>title</b> 19:2 26:14,24  152:20 153:2,11  170:12 221:5,11,14  262:14  <b>titled</b> 191:15  <b>titles</b> 28:25  <b>today</b> 10:13  <b>told</b> 6:5 42:5 148:1,6  150:2 240:18,22,23  <b>top</b> 27:21 31:21,25  44:2,23 45:11 46:13  50:5 53:3 99:16  115:12,13 133:24  146:15 148:19</p>	<p>151:16,19 152:1,19  152:22 153:6,10  154:6 160:17 161:8  162:10 164:21  165:1 167:4,7 173:4  173:16,25 174:14  176:15 178:1,20  179:5,14,21 181:20  182:25 183:13,23  184:12 187:5,16  188:15,20 189:4,11  191:11 197:2,17  198:15 199:8 204:7  212:19 226:13  255:2 256:15 257:9  257:15 262:9  <b>Toronto</b> 1:23 78:17  79:15 157:25  198:25 200:5  204:13  <b>total</b> 12:1,25 73:7  83:2 141:4 142:6  201:25 202:12,23  265:25  <b>totally</b> 43:11  <b>touched</b> 127:21  <b>track</b> 69:10,14 154:14  259:5  <b>traded</b> 46:5 223:11,15  223:21 224:18  225:6  <b>Trading</b> 254:17,23  255:11 256:10  258:23 259:3,25  <b>trail</b> 206:18 260:12  <b>train</b> 131:4  <b>trained</b> 98:11 99:1  159:7,17,21 191:23  194:23 206:25  <b>training</b> 66:24 67:9  70:10,16 78:22 79:6  95:12,16 97:1,6  98:7 114:24 115:7  131:11 139:25  155:9 194:15  <b>Trans</b> 138:16 139:7  139:11,16,21 140:1  153:11,16 155:16  155:23  <b>transaction</b> 49:9,13  49:18 71:23 72:4  112:25 113:9,11  114:1,8 129:20  <b>transactions</b> 212:6,12  <b>transcribed</b> 268:12  <b>transcript</b> 5:22 6:8  39:12 267:23  268:14  <b>transcripts</b> 37:1  40:23,25 122:22  263:20  <b>transfer</b> 48:9,12</p>	<p>128:17 129:9 205:6  <b>transferred</b> 48:17  108:7  <b>treatment</b> 225:10  <b>true</b> 268:13  <b>trust</b> 46:4  <b>truths</b> 264:11  <b>trying</b> 81:22 264:14  <b>turn</b> 39:13 210:15  <b>turned</b> 210:12  <b>turns</b> 38:7  <b>two</b> 18:3,3,16 37:22  38:25 44:19 46:2  51:9 61:17 79:22  85:24 86:19,21,22  86:23 87:16 100:3  104:23 105:2,4,12  111:12,20,25  133:13 149:9  158:12 167:6  168:23 180:23  202:24 214:12,14  222:21,24 227:19  236:17 239:19  242:18 243:25  245:20,20 246:10  246:20 262:11  <b>two-day</b> 124:2 125:8  <b>two-minute</b> 127:13  <b>Two-part</b> 65:25  <b>two-year</b> 206:2  <b>tying</b> 253:11  <b>type</b> 40:3 129:19  137:5,10 140:21  <b>types</b> 35:5 64:21  135:17  <b>typical</b> 38:12,21  39:17 40:12,15  <b>typically</b> 37:14 40:1  72:11</p>	<p>52:14 53:10,17 56:1  56:5,9 59:12,15,19  60:3,12,18 61:5,11  62:9,16 63:16 64:17  64:25 67:5,7,8  68:25 70:14 71:1  75:9 78:10 79:5  89:9 91:15 92:25  94:15 95:13 98:17  102:7 103:24  112:17 113:3 115:4  117:19 118:11  119:3,19 120:11  126:24 131:10,15  131:16 136:5 137:9  140:6,9,10 141:17  150:4,8,9 156:16  157:4 168:3 170:21  193:10 194:14  195:3 205:15 207:3  237:21 238:4  242:21 244:2,19  246:19 248:23  249:13 251:2,13  252:15 253:5 254:2  260:14  <b>undertakings</b> 2:16,20  65:20 266:21  <b>undoubtedly</b> 227:16  <b>unfair</b> 203:11  <b>uniqueness</b> 110:22  <b>United</b> 234:13,20  235:7  <b>unquote</b> 86:6,16  116:23 133:7 150:7  160:3  <b>upfront</b> 142:19  <b>uphold</b> 227:6  <b>upstroke</b> 190:25  <b>uptake</b> 117:2  <b>urban</b> 101:9  <b>usability</b> 125:13  <b>Usage</b> 28:3  <b>use</b> 10:16 14:24 16:9  17:12 21:13,14  34:22 76:1,20 77:5  80:15 85:24 116:17  165:5 209:24  216:18 227:8,13  238:14  <b>useful</b> 122:8  <b>user</b> 22:4 25:4,22  32:16 33:7  <b>users</b> 25:23 29:7,19  29:21 30:19,23  31:16 32:6,23 38:2  38:3,14,14 39:21  <b>uses</b> 19:3 20:3 33:8  34:22 141:8 249:16  <b>Utility</b> 5:22 35:1,4,8  35:24 263:24  267:24</p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

utilized 118:10 U/A 3:3 19:14 46:1 79:1,11 89:13 94:19 95:19 96:17 98:19 99:2 100:23 110:13 113:5,13,20 114:2 115:8 117:21 118:14 127:5 156:17 157:6 193:14 194:19 195:8 205:18 207:7 207:14 237:24 238:5,11 242:24 244:6,24 246:24 249:2,19 251:5,17 252:19 253:7 260:19 UT 2:21 34:12 78:12 91:16 136:7 141:18 150:11 170:22 254:5	236:21,23 <hr/> W W 1:6 211:3 238:17 wage 37:21 wait 60:10 103:13 106:19 waiting 101:19 walked 166:23 walks 121:18 Wallet 43:25 want 15:17 42:21 92:11 109:8 112:21 119:18 132:13 147:11 154:6 166:23 171:21 196:13 226:24,25 232:21 233:1 235:21 wanted 45:5 50:16 76:21 77:9 87:4 107:9 127:22 wants 110:1 139:25 wasn't 11:13 13:2 44:16 76:3 128:8 238:13 water 42:9 122:25 252:4 way 16:23 41:9,14,24 47:24 48:25 49:22 51:1,25 54:1 55:12 57:18 58:21 59:4 61:10 63:21 65:5 75:16,21 76:13,22 77:9,23 78:17 80:15 81:19 85:20 98:14 110:2,4 112:23 113:12 117:7 121:16,19 128:16 129:3 131:1 150:6 171:23 203:25 232:16,24 233:15 234:5,14,20 235:7 266:25 ways 80:8,19 86:11 107:12 website 18:14,25 19:6 50:14 73:21 110:9 110:14,16,17 111:5 126:16 week 120:22,25 weeks 37:22 went 9:23 12:11 47:17 129:13 142:13 143:19 247:7 weren't 41:17 149:1 Werner 250:12,13,15 West 1:22 157:25 162:10 163:11,12 169:7 197:23 198:25 200:5 204:13	we'll 19:14 24:6,8,11 34:12,13 40:22 41:1 64:8,9 77:5 78:12 78:14 79:11 84:13 91:16 92:17 94:19 94:25 95:20 127:5 141:18 160:16 164:4 170:22,24 177:3 195:8 207:7 228:25 229:16 230:17 231:22 246:24 253:7,8 254:6 260:20 we're 6:7 64:3 66:6 97:8 129:5,22 147:8 172:1 203:14,16 we've 10:9 111:13 112:2,6 126:23 144:12 160:12 171:14 192:10,10 195:12 203:23 wide 264:17 willlog 129:5 withdrawal 47:11 withdrawing 46:21 47:14 withdrew 47:18 witness 2:11 266:23 268:7,9 word 21:13,14 41:23 85:24 118:23 187:4 216:23 217:1,6,9 220:3,6 224:22,25 225:12,12 231:13 231:16 236:4,6,8 words 217:25 218:10 218:14 worked 105:23 205:16 working 14:7,11 24:20 26:10,23 106:8 262:2 works 92:18 186:7 worth 216:12 wouldn't 16:16,19 79:22,25 117:5 123:11 125:8 129:19 159:15 168:22 write 68:13,16 85:15 160:25 218:9 219:18 254:22 261:18 writes 17:14 20:15 83:16 230:18 234:7 234:8 243:5 251:21 writing 150:18 written 71:16 86:5,15 88:8 89:2 91:7 93:23 94:3,7,22 100:13 148:17 149:16 150:10	152:22 161:4 174:6 179:11 184:4 189:1 198:21 254:5 255:8 wrong 182:21 185:21 wrote 84:21 85:21 87:8 90:5,13 91:3 145:15,18 148:15 150:5 167:13 181:2 181:9 255:7 W.J 2:4 <hr/> X X 2:10 190:23 200:22 <hr/> Y yeah 12:24 144:16 196:16 252:5,5 259:12,12 year 31:1 38:8 120:16 210:11 238:9 years 6:20 10:3 29:23 34:16,19 204:17 218:7,10 236:17 251:23 252:9 <hr/> Z zone 105:4,13 zones 104:24 105:3,5 105:13 <hr/> \$ \$0.50 49:11,22,25 \$1,011.90 170:2 \$1.75 49:3 51:4 62:22 63:8,14 \$10.70 61:13 \$100 129:14,15 \$14.70 168:16 \$150 253:19 \$150.00 210:24 211:6 \$159.00 202:23 \$17.95 52:3 \$2.25 63:24 \$2.50 47:22 48:3 52:23 65:8 \$20,000 30:25 \$21 264:20,25 265:3 \$21.00 81:11,13,25 82:10,12,24 83:1 129:14,15 142:24 265:11 266:7 \$21.51 176:23 \$21/100 84:1 \$3.00 54:5 \$34.22 171:8 \$361.70 166:2,20,24 167:1 \$4.95 57:21 \$49,999 31:1 \$529.51 176:9 \$7.95 58:24 \$757.18 202:9,22	\$8.02 181:25 \$9.95 55:15 \$916.18 202:3,25 <hr/> # #28520 157:17 161:1 <hr/> 0 09:40 204:3 <hr/> 1 1 3:21 4:6,10 5:23 6:4 11:6 24:3 57:7,9 76:11 88:10,20 89:22 90:1 96:10,14 96:21 99:24 100:21 103:3 104:10 105:25 106:8 108:12 109:24 110:10 113:10,17 113:24 114:6,15 115:2 119:13 120:7 128:20 129:24 132:23 133:3 135:6 145:24 146:21 154:11 160:16 161:8 162:15 165:13 171:11 172:3,7 191:15 192:2,8,22 193:13 194:5,18 204:18 205:22 250:22 251:8,16 267:25 1-3 4:9 172:7 1-6 144:5 1:01 156:2 1:51 156:3 10 5:21 7:19 9:14 22:21 101:2,2 247:3 251:23 252:9 258:7 267:22 10:07 6:1 100 3:14 25:12 38:7 81:11,25 82:11,24 83:2 124:16 142:24 265:11 266:7 1000 211:24 1001 212:1 1002 212:11 1003 212:16 1004 212:20 1005 213:2 1006 213:6 1007 213:8 1008 213:10 1009 213:12 101 3:14 25:16 1010 213:14 1011 213:16 1012 213:18 1013 213:21 1014 213:24
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

1015 214:3	1071 225:3	1119 235:1	1173 247:10	1222 257:8
1016 214:6	1072 225:11	112 3:4 27:19 207:22	1174 247:14	1223 257:13
1017 214:12	1073 225:15	1120 235:13	1175 247:21	1224 257:15
1018 214:16	1074 225:18	1121 235:18	1176 248:1	1225 257:18
1019 214:22	1075 225:21	1122 235:23	1177 248:8	1226 257:21
102 3:14 25:20	1076 225:24	1123 236:4	1178 248:12	1227 257:25
1020 215:1	1077 226:2	1124 236:8	1179 248:15	1228 258:6
1021 215:4	1078 226:6	1125 236:11	118 3:15 28:20	1229 258:9
1022 215:7	1079 226:10	1126 236:14	1180 248:18	123 3:15 29:17 197:2
1023 215:10	108 3:15 27:2 187:16	1127 236:23	1181 248:23	207:25
1024 215:13	1080 226:13	1128 237:4	1182 249:5	1230 258:14
1025 215:23	1081 226:18	1129 237:11	1183 249:9	1231 258:17
1026 216:17	1082 226:22	113 3:5,15 27:24	1184 249:13	1232 258:22
1027 216:22	1083 226:24	207:25	1185 249:22	1233 259:1
1028 217:1	1084 227:18	113-123 5:14 208:4	1186 250:2	1234 259:7
1029 217:6	1085 227:22	1130 237:14	1187 250:6	1235 259:12
103 3:14 26:1	1086 228:9	1131 237:17	1188 250:10	1236 259:15
1030 217:9	1087 228:19	1132 237:21	1189 250:13	1237 259:24
1031 217:12	1088 229:6	1133 238:1	119 3:15 28:24	1238 260:3
1032 217:20	1089 229:10	1134 238:4	1190 250:15	1239 260:5
1033 217:23	109 3:4 27:7 186:16	1135 238:8	1191 250:22	124 30:2 207:22
1034 218:4	188:7 196:14	1136 238:13	1192 251:2	124-125 5:18 208:8
1035 218:9	1090 229:13	1137 238:17	1193 251:8	1240 260:8
1036 218:14	1091 229:16	1138 238:22	1194 251:13	1241 260:14
1037 218:16	1092 229:18	1139 239:5	1195 251:20	1242 260:22
1038 218:19	1093 229:22	114 3:5 28:7 201:4	1196 252:5	1243 261:8
1039 218:22	1094 230:8	1140 239:10	1197 252:7	1244 261:14
104 3:14 26:5	1095 230:10	1141 239:18	1198 252:22	1245 261:17
1040 219:4	1096 230:13	1142 239:22	1199 252:25	1246 261:22
1041 219:15	1097 230:15	1143 240:1	12 3:11 8:9 17:9 39:14	1247 262:1
1042 219:18	1098 230:17	1144 240:6	101:5,6 119:1	1248 262:5
1043 220:3	1099 231:8	1145 240:17	168:24 250:22	1249 262:11
1044 220:6	11 3:11 7:22 22:13	1146 240:21	251:16 252:17	125 30:6 207:22
1045 220:19	23:10,14 248:2	1147 241:12	12/23/2010 204:3	1250 262:14
1046 220:22	11th 84:24	1148 241:15	12:25 127:13,17	1251 262:21
1047 220:25	11:06 65:14	1149 241:20	12:31 127:18	1252 263:10
1048 221:3	11:17 65:15	115 28:11 201:2,6,6,7	120 3:15 29:4	1253 263:15
1049 221:7	11:47 92:20	1150 242:1	1200 253:5	1254 263:19
105 3:14 26:13	11:51 92:21	1151 242:4	1201 253:10	1255 264:3
1050 221:10	110 27:11 198:14,15	1152 242:8	1202 253:14	1256 264:7
1051 221:13	207:21	1153 242:15	1203 253:21	1257 264:10
1052 221:16	110-112 5:17 208:8	1154 242:21	1204 253:23	1258 265:14
1053 221:20	1100 231:13	1155 243:2	1205 254:2	1259 265:19
1054 221:23	1101 231:16	1156 243:14	1206 254:13	126 3:5 30:9
1055 222:1	1102 231:19	1157 243:17	1207 254:16	1260 266:5
1056 222:8	1103 232:2	1158 243:21	1208 254:20	1261 267:3
1057 222:12	1104 232:8	1159 244:2	1209 254:22	1262 267:14
1058 222:16	1105 232:11	116 3:5 28:13	121 3:15 29:9	127 3:15 27:21 30:12
1059 222:20	1106 232:15	1160 244:9	1210 255:1	128 3:15 30:16
106 3:14 26:17	1107 232:18	1161 244:15	1211 255:5	129 3:16 30:22
1060 222:24	1108 1:22 232:23	1162 244:19	1212 255:7	13 3:11 8:2,13 20:5,8
1061 223:4	1109 233:6	1163 245:2	1213 255:10	100:19 101:5,6
1062 223:13	111 3:15 27:13 207:22	1164 245:4	1214 255:13	13,000 14:6
1063 223:18	1110 233:10	1165 245:19	1215 255:16	13,233 12:1,21 14:11
1064 223:23	1111 233:12	1166 245:23	1216 255:19	130 3:16 31:5
1065 224:2	1112 233:15	1167 246:7	1217 256:2	131 3:16 31:9
1066 224:5	1113 233:18	1168 246:10	1218 256:5	132 31:12
1067 224:8	1114 233:23	1169 246:16	1219 256:14	133 31:15
1068 224:11	1115 234:1	117 3:5 28:17	122 5:21 29:14 263:20	134 31:19
1069 224:21	1116 234:7	1170 246:19	264:8 267:23	135 2:23 31:23
107 3:14 26:20	1117 234:19	1171 247:2	1220 256:21	136 3:16 32:2
1070 224:25	1118 234:22	1172 247:6	1221 257:5	137 32:5

138 3:16 32:16	18 1:19 3:4 9:4 15:8	96:13,20 100:20	221 51:16	95:24 96:13,20
139 3:16 32:21	19:20,24 29:22	103:2 104:10	222 51:21	100:20 104:10
14 8:16 100:19 170:4	163:7 258:18 259:8	105:24 106:7	223 51:24	105:24 106:7
267:11	260:22 262:1	108:12 109:23	224 52:3	108:12 109:23
140 2:23 33:1	180 42:24	113:10,16,23 114:5	225 52:8	113:10,16,23 114:5
141 1:22 33:11	181 43:4	114:14,20 115:2	226 52:12	114:14 115:2
142 3:16 33:18	182 4:18,21 43:9	119:12 120:6	227 52:14	119:12 120:6 144:5
143 33:22	183 43:14	143:17 145:18	228 52:19	177:5 192:5 206:15
144 33:25	184 43:24	146:15 167:14,21	229 52:23	209:10 210:18
145 34:7	185 44:2 239:11	174:25 180:4 181:2	23 10:1 160:17 180:4	211:24 212:24
146 34:20	186 5:1,5 44:5	181:13,15 184:24	261:1,8 263:5	214:7 215:11
147 34:25	187 44:8	189:19 191:15	23% 31:1	216:17 217:17,24
148 35:7	188 44:22	192:2,5 193:13	230 53:3	220:8,17,21 258:12
149 2:23 3:16 35:11	189 45:14 241:13	194:5,18 198:10	231 53:7	27th 1:23 77:1 91:22
15 8:19 184:23 200:1	19 9:7 133:13,24	199:11 200:2	232 53:10	93:10,17
230:17	190 45:17	205:24 206:15	233 53:14	27(1) 145:6 146:16
15% 16:7	191 45:24 243:3	258:12 261:16	234 53:17	167:16
15(d) 229:8 230:15	192 3:5 46:9 247:3	267:25	235 53:21	27-29 4:12 177:7
231:9,14,17,20,22	193 3:5 46:13	2011 41:8 76:5,11,17	236 3:6 53:25	270 59:18
231:23 232:3	194 3:5 46:17 249:23	96:10,14,21 100:21	237 3:6 54:4	271 59:25
150 3:16 35:14	250:23	103:3 104:10	238 3:17 54:9	272 60:3
151 35:17	195 46:20	105:25 106:8	239 54:13	273 60:7
1510 226:15,16,19	196 5:8,11 47:3	108:13 109:24	24 3:21 10:4	274 60:11
152 3:16 35:20	197 47:6	113:10,17,24 114:6	240 54:16	275 60:15
153 3:17 35:23	198 47:16	114:15,21 115:2	241 3:6 54:20	276 60:18
154 3:17 36:2	199 10:4 47:21 119:8	119:13 120:7	242 54:24	277 60:22
155 3:5 36:5 179:17		128:20 129:24	243 3:6 55:3 73:24	278 60:24
1550 188:4 189:5	2	132:23 133:3 135:6	244 55:7	279 61:5
156 3:5 36:7	2 4:1,13,15 6:10 29:2	154:11 230:24	245 3:6 55:11	28 10:20 219:16 220:7
157 31:21,24 36:10	29:4,5,18 33:14	258:7 261:4	246 55:15	220:18,19,20,23
1575 197:23 198:25	83:21 100:7 101:25	2012 1:19,20,24 3:23	247 55:20	221:16 222:10
204:12	103:15 136:16	23:9,15 24:5 73:18	248 3:6 55:24	280 61:9
158 36:14	141:1,10 172:11	261:1,8 262:8 263:5	249 56:1	281 61:13
159 36:18	174:13 177:7,11	268:16	25 10:7 22:1 24:25	282 61:17
16 8:22 119:24 121:7	192:25 193:17	202 48:11	91:18 136:24,25	283 61:20
171:1 267:10	204:17 251:20	203 48:20	160:21	284 61:22
160 36:20	252:16,22	204 3:6 48:23	250 3:6 56:4	285 62:2
161 36:24	2:99 126:15,19	205 3:17 49:3	251 3:6 56:9	28520 161:12,24
162 37:1	2:39 196:24	206 3:6 49:8	252 3:7 56:15	28574 173:9 174:3
163 37:4	2:49 196:25	207 49:11	253 2:23 56:22	286 62:6
164 38:11	20 9:10 31:10 132:10	208 5:14,17 49:13	254 56:25	287 62:9
165 38:17	133:13 134:3	255:2	255 57:3	28796 178:4 179:8
166 38:20	200 48:2	209 49:16	256 57:13	288 62:13
167 39:7	2000 9:22	21 9:14 71:16	257 57:17	28800 183:3 184:1
168 39:10	2004 237:18	210 49:21	258 57:21	289 62:16
169 2:23 40:15	2005 238:2	211 49:25	259 3:7 58:1	29 10:24 99:6 115:12
17 9:1 19:19 73:23	2006 8:21 9:8,9	212 50:5 257:9,15	26 1:20 10:11 171:17	177:5
198:10 199:11	2007 6:25	213 50:8	220:12,18,21	290 62:20
205:24 254:14	2009 4:3 26:19 27:16	214 50:13	260 58:5	29004 187:8 188:23
256:15 258:18	27:17 28:19 33:16	215 50:16	261 58:9	191:16
259:7,16	34:18 163:8	216 50:21	262 58:11	29006 197:20 198:18
170 40:18 119:10	201 48:7	217 50:25	263 58:14	203:20
171 40:22	2010 4:4 5:23 35:2,9	218 51:4	264 58:17	291 63:6
172 4:6,9 41:7	35:25 75:19,25 76:4	219 51:8	265 58:20	292 63:12
173 41:12	76:20,21 77:3,5,8	22 4:4 9:22 88:3	266 58:24	293 63:16
174 41:17	77:12,21 78:16,21	134:15 140:25	267 2:14 5:21 59:4	294 63:20
175 41:19	78:22 79:14,22	146:14 150:5	268 59:10	295 63:24
176 42:2	80:14,21,24 81:3	151:16,22 209:16	269 59:12	296 64:3
177 4:12,15 42:10	82:17 83:13 87:6,9	210:10,15 227:22	27 10:15 77:3,5,8,12	297 64:8
178 10:10 42:13	88:3,7 89:1,11,20	227:25 232:8 233:7	78:22 79:14,21	298 64:11
119:11	91:4,12,18,22 92:2	235:10	80:14,21,24 81:3	299 64:15
179 42:16	93:12 95:5,8,16,24	220 51:13	82:17 93:12 95:8,10	

90

<u>3</u>	334 71:22	386 83:15	415 89:19	47 3:12 13:22 182:9
3 4:4 6:13 37:2 55:3,7	335 72:1	387 84:4	416 89:22	47-50 4:21 182:16
57:3,6 58:14 60:22	336 72:3	388 84:6	417 89:25	470 100:20
60:25 88:2 99:5,21	337 72:18	389 84:9	418 90:5	471 101:1
111:4 115:12,15	338 73:6	39 12:15 232:16 233:7	419 90:13	472 101:6
149:18,24 163:19	339 73:12	39% 29:23	42 3:11 13:4	473 101:8
164:21 165:1,16	34 11:16 128:12 130:1	390 84:18	420 90:19	474 101:13
169:14 175:9	176:13	391 84:20	421 90:23	475 101:18
180:13 185:9 190:3	340 73:16	392 85:2	422 91:1	476 101:23
200:8 262:8 263:21	341 73:19	393 85:5	423 91:10	477 102:3
264:7	342 73:23	394 85:9	424 91:15	478 102:7
3:77 141:4 142:20	343 74:2	395 85:12	425 91:20	479 102:11
143:6 156:7,11,20	344 74:5	396 85:15	426 91:25	48 3:12 7:23,25 14:1
3:24 228:24 229:3	345 74:9	397 85:23	427 92:4	480 102:16
3:30 229:1,4	346 74:17	398 86:1	428 92:8	481 102:21
30 5:21 11:2 28:4,13	347 74:22	399 86:4	429 92:10	482 103:2
28:14 37:2 73:18	348 75:4		43 11:7 13:8	483 103:7
150:10 173:16	349 75:9	<u>4</u>	430 92:14	484 103:12
177:3,10 189:18	35 11:20 42:2,10,11	4 4:6,18,22 6:17 14:15	431 92:23	485 103:18
267:22	176:22	18:9 99:15 101:25	432 93:2	486 103:24
30B 31:23	350 75:14	103:15 115:21	433 93:8	487 104:3
30-41 4:15 177:11	351 75:19	116:5 117:15 138:3	434 93:11	488 104:8
300 64:17	352 76:8	138:5 139:5 140:17	435 93:15	489 104:13
301 64:21	353 76:16	142:18 149:19,25	436 93:22	49 3:12 14:6
302 64:25	354 76:19	151:14 162:15	437 93:25	490 104:19
303 65:4	355 77:3	165:12 171:17	438 94:7	491 104:23
304 65:8	356 77:5	172:3 177:15	439 94:13	492 105:2
305 65:17	357 77:8	182:12,16 183:23	44 13:12	493 105:12
306 66:11	358 77:12	188:17,18,19	440 94:15	494 105:17
307 66:16	359 77:17	4th 12:20 121:18,18	441 94:22	495 105:23
308 66:20	36 11:24 225:18,22	134:13 137:23	442 95:3	496 106:3
309 66:24	226:7 227:18	140:19,24 151:22	443 95:7	497 106:7
31 11:5 174:14	360 77:19	156:8 173:15	444 95:13	498 106:14
310 67:5	361 77:21	179:20 184:11	445 95:23	499 106:18
311 67:15	362 77:25	199:17 245:2,23	446 96:4	
312 67:19	363 78:3	4-24 4:6 172:3	447 96:12	<u>5</u>
313 67:24	364 78:5	4:01 254:10	448 96:20	5 4:15 5:2,5 6:21
314 68:3	365 78:10	4:08 254:11	449 97:1	104:3 107:5 164:2,3
315 68:6	366 78:16	4:24 266:18	45 3:4 13:14	164:6 177:10,11
316 68:9	367 78:21	4:25 266:19	450 97:5	182:20,22 183:13
317 68:13	368 79:4	4:27 267:19	451 97:12	184:11 186:9,12
318 68:16	369 79:14	40 12:20 32:23 233:10	452 97:14	5th 135:21 174:13
319 68:20	37 12:5 31:9	233:19	453 97:16	191:10 245:11
32 5:21 11:9 39:8	37% 30:24	40% 32:13	454 97:19	50 3:12 14:10 182:10
175:23 267:22	370 79:21	400 86:14	455 97:22	229:9,10,18,20
320 68:25	371 79:25	401 86:21	456 98:2	230:6
321 69:6	372 80:14	402 87:1	457 98:6	50K 31:10
322 69:10	373 80:19	403 87:3	458 98:10	500 106:24
323 69:14	374 80:24	404 87:8	459 98:17	501 107:5
324 69:18	375 81:3	405 87:14	46 3:11 13:18 14:16	502 107:9
325 69:24	376 81:7	406 87:24	30:6,13	503 12:22 13:1 107:12
326 70:4	377 81:10	407 88:6	46% 29:10,21	504 108:11
327 70:9	378 81:18	408 88:10	460 98:22	505 108:16
328 70:14	379 81:22	409 88:16	461 99:5	506 108:20
329 70:20	38 12:9	409/11 1:1	462 99:8	507 108:24
33 2:22 4:1 11:12	38% 245:7	41 12:25 172:12	463 99:15	508 109:3
330 71:1	380 82:5	177:10 235:19	464 99:20	509 109:7
331 71:9	381 82:8	410 88:20	465 99:24	51 3:12 14:15,24
332 71:13	382 82:16	411 89:1	466 100:1	179:21 182:10
3323 157:24 162:9	383 82:23	412 89:6	467 100:7	51-61 4:18 182:12
163:11 169:7	384 83:4	413 89:9	468 100:13	510 109:14
333 71:19	385 83:9	414 89:16	469 100:16	511 109:22

512 110:1	567 124:21	182:10 230:9,10,13	66 3:13 8:5 18:9	705 154:5
513 110:8	568 125:1	230:14 233:24	230:12,14 236:12	706 154:9
514 110:12	569 125:13	234:1 235:6	236:13	707 154:14
515 111:4	57 3:12 15:25	610 135:7	660 145:2	708 154:18
516 111:9	570 125:20	611 135:10	661 145:17	709 154:23
517 111:18	571 126:1	612 135:19	662 145:22	71 19:12 209:14
518 111:25	572 126:6	613 135:21	663 146:3	710 155:4
519 112:4	573 9:23 126:9	614 135:24	664 146:9	711 155:9
52 3:12 14:20	574 126:15	615 136:2	665 146:14	712 155:15
520 112:9	575 126:19	616 136:5	666 146:21	713 155:21
521 112:17	576 126:24	617 136:9	667 146:24	714 156:5
522 112:21	577 127:8	618 136:15	668 147:5	715 156:11
523 113:3	578 127:13	619 136:19	669 147:11	716 156:16
524 113:8	579 127:20	62 3:13 5:1 17:2 186:3	67 3:13 18:19	717 156:20
525 113:16	58 3:12 16:6	186:9 234:19	670 147:18	718 156:23
526 113:23	580 128:1	620 136:22	671 148:1	719 157:1
527 114:5	581 128:5	621 136:25	672 148:6	72 3:13 17:10 19:17
528 114:14	582 128:12	622 137:2	673 148:9	182:20,22 186:5
529 114:20	583 128:20	623 137:5	674 148:12	720 157:4
53 3:12 14:23	584 128:23	624 137:9	675 149:3	721 157:9
530 115:1	585 128:25	625 137:15	676 149:8	722 157:13
531 115:4	586 129:7	626 137:22	677 149:12	723 157:16
532 115:11	587 129:12	627 138:3	678 149:15	724 157:20
533 115:21	588 129:17	628 138:5	679 149:21	725 158:3
534 116:5	589 130:6	629 138:20	68 3:13 18:23	726 158:7
535 116:8	59 3:12 16:13	63 3:13 5:1 17:9 186:3	680 150:4	727 158:10
536 116:10	590 130:11	186:9	681 150:13	728 158:15
537 116:12	591 130:19	630 138:25	682 150:17	729 158:20
538 116:14	592 130:23	631 139:4	683 150:21	73 3:13 5:2 19:23 20:7
539 116:17	593 131:4	632 139:11	684 151:1	186:3,9 237:4
54 3:12 15:2 181:14	594 131:10	633 139:15	685 151:6	730 158:24
233:16,19	595 131:19	634 139:19	686 151:10	731 159:3
540 116:20	596 132:5	635 139:24	687 151:14	732 159:7
541 117:12	597 132:16	636 140:5	688 151:22	733 159:11
542 117:19	598 133:1	637 140:12	689 152:1	734 159:17
543 117:24	599 133:5	638 140:17	69 3:13 19:2	735 159:21
544 118:6		639 140:24	690 152:3	736 159:25
545 118:11		64 3:13 17:14 183:13	691 152:6	737 160:6
546 118:17	6	186:5 230:11,14	692 152:9	738 160:16
547 118:25	6 2:13 4:18 5:9;11 7:1	235:13,17 236:5	693 152:11	739 160:21
548 119:3	39:8 109:9 110:10	64-72 5:5 186:12	694 152:15	74 3:14 5:2 20:2 186:1
549 119:7	132:17 134:21,24	640 141:8	695 152:19	186:3,9
55 3:12 15:7 181:20	135:22 136:10	641 141:14	696 152:22	740 160:25
550 119:12	137:24 151:15,23	642 141:17	697 152:25	741 161:3
551 119:18	167:4 182:12	643 141:21	698 153:2	742 161:7
552 119:22	186:16 187:14	644 141:25	699 153:6	743 161:11
553 120:6	188:14,19 191:10	645 142:3		744 161:20
554 120:11	196:18,21 256:16	646 142:8	7	745 161:23
555 120:15	6th 136:9 188:14	647 142:15	7 5:5,14,18 7:7 109:9	746 162:1
556 120:21	189:10 247:10	648 142:23	119:23 123:4	747 162:5
557 121:5	60 3:13 16:17 178:20	649 143:2	186:12 197:2	748 162:9
558 121:15	179:17	65 3:13 18:2 184:12	198:13 199:17	749 162:15
559 121:22	600 133:14	650 143:6	203:19 208:4,8	75 20:11
56 3:12 15:12 187:3	601 133:18	651 143:10	230:18 241:12	750 162:19
226:11	602 133:20	652 143:14	7th 136:15 268:16	751 162:24
560 122:2	603 133:23	653 143:19	7-10 205:1	752 163:2
561 122:8	604 134:3	654 143:22	70 3:13 19:6	753 163:7
562 122:15	605 134:7	655 144:9	700 153:10	754 163:10
563 122:22	606 134:10	656 144:12	701 153:14	755 163:14
564 123:1	607 134:13	657 144:17	702 153:18	756 163:18
565 123:19	608 134:21	658 144:20	703 153:21	757 163:23
566 123:24	609 134:24	659 144:23	704 154:1	758 164:1
	61 3:13 16:21 177:15			

92

759 164:17	808 174:3	863 183:3	910 190:8	963 202:9
76 20:15	809 174:5	864 183:5	911 190:11	964 202:11
760 164:21	81 21:21	865 183:9	912 190:15	965 202:18
761 165:1	810 174:9	866 183:12	913 190:18	966 203:2
762 165:5	811 174:13	867 183:15	914 190:22	967 203:18
763 165:8	812 174:17	868 183:18	915 191:5	968 204:2
764 165:11	813 174:19	869 183:22	916 191:8	969 204:6
765 165:20	814 174:22	87 22:19	917 191:10	97 3:4 24:15
766 165:23	815 174:25	870 184:1	918 191:14	970 204:10
767 166:1	816 175:2	871 184:3	919 191:18	971 205:11
768 166:7	817 175:5	872 184:7	92 23:10	972 205:15
769 166:13	818 175:8	873 184:11	920 191:22	973 205:21
77 2:22 21:2	819 175:13	874 184:14	921 192:1	974 206:13
770 166:17	82 21:25	875 184:16	922 192:4	975 206:18
771 166:20	820 175:16	876 184:19	923 192:8	976 206:24
772 166:22	821 175:23	877 184:23	924 192:22	977 207:3
773 167:3	822 176:2	878 185:1	925 193:9	978 207:10
774 167:10	823 176:5	879 185:4	926 193:17	979 207:16
775 167:13	824 176:8	88 3:4 4:4 22:24 216:2	927 194:13	98 3:4 24:23
776 167:19	825 176:13	880 185:7	928 194:22	98/09 232:13
777 168:5	826 176:18	881 185:14	929 195:3	980 207:19
778 168:9	827 176:22	882 185:17	93 3:4 23:14 191:11	981 208:12
779 168:12	828 176:25	883 185:20	191:13 195:14,14	982 208:18
78 3:4,14 21:7	829 177:15	884 186:16	196:14	983 208:20
780 168:15	83 22:7	885 186:19	930 197:2	984 209:2
781 168:18	830 177:19	886 186:22	931 197:8	985 209:5
782 168:24	831 177:22	887 187:1	932 197:12	986 209:9
783 169:3	832 178:1	888 187:5	933 197:17	987 209:14
784 169:6	833 178:4	889 187:8	934 197:20	988 209:21
785 169:9	834 178:6	89 23:2 196:14	935 197:22	989 210:2
786 169:13	835 178:10	89-93 5:8 196:18	936 197:25	99 3:4 25:7
787 169:19	836 178:12	890 187:10	937 198:4	990 210:6
788 169:22	837 178:16	891 187:14	938 198:9	991 210:10
789 169:25	838 178:19	892 187:16	939 198:12	992 210:14
79 3:14 21:13	839 178:22	893 187:19	94 3:4 23:19 188:15	993 210:18
790 170:4	84 22:10	894 187:23	189:11 196:14	994 210:24
791 170:8	840 178:25	895 188:1	94-109 5:11 196:21	995 211:3
792 170:11	841 179:4	896 188:3	940 198:15	996 211:9
793 170:15	842 179:8	897 188:7	941 198:18	997 211:12
794 170:20	843 179:10	898 188:14	942 198:20	998 211:16
795 171:1	844 179:14	899 188:19	943 198:24	999 211:20
796 171:4	845 179:20		944 199:4	
797 171:7	846 179:25		945 199:8	
798 171:10	847 180:4		946 199:13	
799 172:11	848 180:6		947 199:17	
	849 180:9		948 199:20	
	85 5:21 22:13 123:1		949 199:23	
	267:22		95 3:4 23:22	
	850 180:12	9 5:14 7:15 15:3,20,21	950 200:1	
	851 180:17	16:3 18:21,24 84:15	951 200:4	
	852 180:20	92:2 95:5,16 103:2	952 200:7	
	853 180:23	119:1 121:15	953 200:13	
	854 181:1	144:14 208:4 243:2	954 200:16	
	855 181:13	244:4	955 200:21	
	856 181:19	9th 95:12	956 201:2	
	857 181:22	90 2:22 23:4	957 201:9	
	858 181:25	900 188:23	958 201:18	
	859 182:2	901 188:25	959 201:21	
	86 22:16	902 189:4	96 23:25	
	860 182:5	903 189:7	960 201:24	
	861 182:20	904 189:10	961 202:3	
	862 182:25	905 189:15	962 202:5	
		906 189:18		
		907 189:21		
		908 189:24		
		909 190:2		
		91 23:7		

93

TIMOTHY YEOMAN

Plaintiff

v. THE CASH STORE FINANCIAL SERVICES INC., et al.  
Defendants

Court File No. 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

PROCEEDINGS COMMENCED AT LONDON

**MOTION RECORD  
(for Certification)  
(VOLUME 2)**

**HARRISON PENZA LLP**  
Barristers & Solicitors  
450 Talbot Street  
London, ON N6A 4K3

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Tel: (519) 679-9660  
Fax: (519) 667-3362

Lawyers for the Plaintiff



**This is EXHIBIT "R" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

  
A Commissioner, etc.

Promissory Note and Disclosure of All Costs

Date of loan: 04/24/2012 to receive \$468.60 in advance for a period of 9 days Assuming the Total Loan Amount was advanced in full, on the above date, plus repaid in full on the due date, the following would apply:

A	B	C
The Total Cost of borrowing	You Will Receive \$468.60 on 04/24/2012	You will Repay The Cash Store Inc. \$547.32 on 05/03/2012 (the due date)

FOR VALUE RECEIVED, THE UNDERSIGNED HEREBY PROMISES TO PAY to The Cash Store Inc., (THE "Payday Lender") on the due date the sum of \$547.32, together with interest on this amount at the rate of fifty-nine percent (59%) compounded annually, after maturity (05/03/2012).

The Cash Store Inc.'s interest rate is calculated at a rate of 59% per annum compounded annually upon default on the total amount owing on the loan. I hereby acknowledge the above costs of borrowing in "A" above have been explained to me and I understand the same. The payday lender may change with notice to the borrower.

I confirm that I have given The Cash Store Inc. certain information regarding my income and assets on which they have relied upon while approving my loan. I understand that if any of this information is incorrect The Cash Store Inc. will continue to act to recover any outstanding debt. I agree to pay a default charge of \$50.00 in the event of a returned item. Dated on April 24, 2012 in STRATHROY, ON

Customer Signature: \_\_\_\_\_

Customer Name: TIMOTHY 469YEOMAN  
City/Province: 545 DEWAN ST. APT. 201, STRATHROY ON, N7G 3C6  
Branch Number: The Cash Store 256  
UNIT A5 70 CARROLL STREET STRATHROY, ON N7G 4G2 (519) 245-1847

Below table is per Ontario Payday Loan Act, 2008  
Details of Payday Credit Agreement

Amount Borrowed	\$468.60
Term of the Agreement in Days	9
Total Cost of Borrowing	\$78.72
Maximum Allowable Cost per \$100 Borrowed	\$21.00
Cost per \$100 Borrowed	\$21.00
Total Amount Due under the Agreement	\$547.32
Payment Due Date	05/03/2012

Borrower's Signature: \_\_\_\_\_

Payment is due 05/03/2012 and can be made by cheque, cash, interac or pre-authorized debit.



For: The Cash Store

**ATTENTION:**

This payday loan is intended to address short-term financial needs. The cost of borrowing for this loan may be significantly higher than credit offered by other lenders.

**YOUR CANCELLATION RIGHTS UNDER THE PAYDAY LOANS ACT, 2008:**

If you are provided with the loan and a copy of this agreement that complies with the Act when you enter into the agreement, you may cancel the agreement within two (2) business days of entering into it. For remote payday loan agreements\*, you may cancel the agreement within two (2) business days of entering into it if you are provided with a copy of this agreement that complies with the Act when you enter into the agreement. You do not have to give a reason for cancelling the agreement.

If you are not provided with the loan or with a copy of this agreement that complies with the Act when you enter into the agreement, you may cancel the agreement at any time. For remote payday loan agreements you may cancel the agreement at any time if you are not provided with the loan within one hour of entering into the agreement or if you are not provided with a copy of this agreement that complies with the Act when you enter into the agreement. You do not have to give a reason for cancelling the agreement.

To cancel the agreement, you must provide your notice of cancellation, together with the amount you borrowed, to the business you dealt with to get your loan. If you have made any payments under the loan, the lender must return those payments to you at the earliest reasonable opportunity.

\* A remote payday loan agreement is one in which the borrower is not present with the lender or the loan broker when the payday loan agreement is made (e.g. a loan made over the internet or by phone).

T.Y.

REFUNDS UNDER THE PAYDAY LOANS ACT, 2008:

Under certain circumstances, you may demand a refund of a payment you made under a payday loan agreement within one year of having made that payment. Either the licensee has received a payment to which it is not entitled or the licensee has engaged in prohibited conduct of such a serious nature that you are entitled to a refund of the cost of borrowing that you paid. To obtain a refund you must give a notice demanding it to the business that you dealt with to get your payday loan. Your notice must set out your demand for the refund and the reason for it, as well as your name and telephone number. Note that the business has two (2) business days within which to provide the refund to you. You may choose to collect your refund in person or have it mailed to you.

Please contact the Consumer Protection Branch of the Ministry of Small Business and Consumer Services for information on when you may be entitled to a refund and how to make your demand for a refund. You may contact the Consumer Protection Branch toll free at 1-800-889-9768.

I understand I have the right to request a copy of this loan agreement at any time before the end of one year from the end of the term of the agreement from the,

- i) lender, if no loan broker assisted the borrower in obtaining the payday loan  
or
- ii) the loan broker who assisted the borrower in obtaining the payday loan.

Further information about payday loans can be found at the Ministry of Consumer Services website.

[www.sse.gov.on.ca/mcs/en/pages/payday\\_lending.aspx](http://www.sse.gov.on.ca/mcs/en/pages/payday_lending.aspx).

The Registrar of payday loans may be contacted at:

Registrar, Payday Loans Act, 2008.  
Consumer Protection Branch  
5775 Yonge Street, Suite 1500  
Toronto, Ontario M7A 2E5  
1 (416) 326-6203  
1 (800) 889-9768 (toll free)  
1 (416) 326-8810 (fax)

T.Y.

Electronic Funds Transfer Slip  
Customer Receipt and Acknowledgement

Total proceeds of the payday loan delivered by way of electronic funds transfer (E.F.T.) to the bank account number provided by TIMOTHY 469YEOMAN.

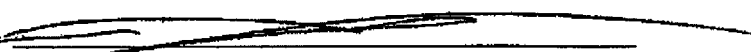
0352  
Institution Number

10009  
Branch Number

6063570012486208  
Account Number

With my signature I acknowledge delivery to and receipt by me of the proceeds of my payday loan to the bank account identified and in the amount of \$468.60.

April 24, 2012 10:28am

  
Borrower's Signature

Pre-Authorized Debit Agreement

Date of Loan: April 24, 2012
Maturity Date: 05/03/12
Regular Payday: MAY 3/12

Loan Number: 114569
Customer Name: TIMOTHY 469YEOMAN
Address: 545 DEWAN ST. APT. 201 STRATHROY
STRATHROY ON, N7G 3C6

In this Pre-Authorized Debit Agreement ("PAD Agreement") "I" and "me" refer to the customer identified above; "Deposit Account" refers to the chequing account identified by the attached VOID cheque or such other deposit account that I may identify to you from time to time; "Loan" refers to the loan identified above and evidenced by a certain promissory note; "PAD" refers to a pre-authorized debit issued against the Deposit Account; and "You" refers to The Cash Store Inc., its successors and assigns. The PADs are for personal purposes.

1. Pre-Authorized Debits (PADs)

I agree to have my deposit account debited at Set Intervals, as the term Set Interval is defined in Section 5 (u) of Part 1 of rule #1 of the Canadian Payments Association rules manual. "Set Interval" means occurring at specified, set or predictable periods or times or upon the occurrence of such criteria and / or events as may be set out in a Payor's PAD agreement. This PAD agreement specifies those events, which should they occur, constitute the Set Interval at which you agree to have your deposit account debited.

- a) In the event, that I do not pay \$547.32 by 05/03/12, in relation to loan, I authorize and direct you to debit the deposit account to pay all amounts that I owe in connection with the loan.
b) In the event that a PAD in clause (a) is returned NSF by my financial institution, I acknowledge that this event will render me in default of the loan agreement and I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing, as specified in the loan agreement pertaining to Loan.
c) i) In the event that a PAD described in clause b) is returned NSF by my financial institution, I agree that this constitutes a new event, and I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing, as specified in the loan agreement pertaining to the Loan.
ii) I agree that subsequent to an event defined in clause c) i) that each instance in which a PAD is returned NSF by my financial institution constitutes a new event. In each instance that a new event occurs, I authorize you to have my deposit account debited as a result of that event in an amount that in total does not exceed the sum of the outstanding amount of the Loan plus any incurred NSF fees and interest owing as specified in the loan agreement pertaining to the Loan.
d) You and I waive the requirement for pre-notification of the PAD authorized in clause (a) and any PADs authorized in clauses (b) and (c).

2. Additional Terms and Conditions

- (a) Changes: I agree to inform you promptly, in writing, of any change in the information provided in this PAD Agreement.
(b) Cancellation: I may cancel an authorization at any time by giving you ten (10) days prior written notice. I understand that I may obtain a sample cancellation form, or more information about my right to cancel this PAD Agreement, from you or my financial institution or at www.cdnpay.ca. This PAD Agreement applies only to the method of payment of my indebtedness pursuant to the Loan and does not otherwise affect my obligations to you or the lender.
(c) Dishonour, disputes and recourse: If any PAD is dishonoured for any reason, I agree that you may resubmit that PAD in accordance with the rules of the Canadian Payments Association. I have certain recourse rights if any debit does not comply with this PAD Agreement. For example, I have the right to receive reimbursement for any debit that is not authorized or is not consistent with this PAD Agreement. To obtain more information on my recourse rights, I may contact my financial institution or visit www.cdnpay.ca.
(d) Consent: I consent to the disclosure of personal information contained in this PAD Agreement, and any debit issued pursuant to this authorization, to financial institutions as necessary in order to give effect to this PAD Agreement, subject to the rules of the Canadian Payments Association and applicable privacy laws.
(e) Contact: I may contact you by calling (519) 245-1847 or by mail at UNIT A5 70 CARROLL STREET STRATHROY ON N7G 4G2, provincial licence 4716765.

I warrant and guarantee that I am the only person whose signature is required to authorize transactions on the Deposit Account. I attach a VOID cheque for the Deposit Account.

AUTHORIZATION BY CUSTOMER
NAME: TIMOTHY 469YEOMAN


SIGNATURE: [Handwritten Signature]

We recognize that you have provided us with personal information such as your name and contact information. The Cash Store and its affiliates use this information to administer our business and to respond to your inquiries. We are committed to protecting the privacy of your personal information. From time to time we may use your information for the purposes of selectively including you in advertising and marketing campaigns designed to increase the awareness of our products and services which we believe will be of interest to you. If you do not wish to receive further marketing information from us, please email us at customerservice@csfinancial.ca or call us at 1-866-506-5035. For more information on our privacy policy, please visit www.cashstore.ca or call us at 1-866-506-5035.

SIGNATURE: [Handwritten Signature]
DATE: April 24, 2012

OPTIONAL ADVANCE CARD LIMIT CREDITOR PROTECTION

7-4 YES Please enroll me in the Plan

~~Customer Signature~~  Witness Signature

April 24, 2012

The Advance Card Limit Credit Insurance Protection - APPLICATION

Group Policy DCB0911P and DCB0911L to DC Bank, DC ATM Processing Partnership and DC ATM Management Partnership (collectively "Direct Cash").

Regarding The Advance Card Limit Credit Insurance Protection ("the Plan"), which protects my card advance limits (overdraft), I understand that and agree that:

- 1) The Plan is underwritten by Trans Global Life Insurance Company and Trans Global Insurance Company (together, Trans Global) who can be contacted at 1-888-226-7876 or at Suite 275, 16930-114 Avenue, Edmonton, AB T5M 3S2
- 2) Participation in the plan is OPTIONAL and coverage will not be provided unless I sign below requesting it and I agree to pay the premium calculated at 3.77% of the combined total of the amounts due on the Agreed Credit Advance Limit. This premium for this coverage is reflected on my bank statement.
- 3) I can cancel my Plan coverage at any time and I will not be charged any extra fees or penalties for canceling; and if I cancel within 10 days of signing this agreement and prior to repaying the loan, the Advance Limit Insurance Fee will be credited back to my account.
- 4) I understand that payment under this Plan is subject to exceptions, limitations and exclusions more particularly set out in the Master Policies referenced above and that they may be incompletely summarized in the Certificate of Insurance provided hereunder. Copies of pertinent provisions of the Master Policies can be obtained by contacting Trans Global.
- 5) Direct Cash will be collecting certain personal information from me and will be providing this information to Trans Global. I further understand and agree that Direct Cash, Trans Global, and the Credit Provider will use my personal information for the purposes of administering the Plan and any necessary related purposes, including collection purposes, and I consent to such collection, use and disclosure.
- 6) I understand that the beneficiary under these policies is the Advance Limit Provider that the Provider will apply any insurance money it receives, but only the money it actually received from Trans Global and the Policies to reduce the sum that I owe to the Credit Provider. I expressly consent to the Credit Provider being named as beneficiary under such policies.

Are you the applicant over the age of 72? YES \_\_\_ NO X

CUSTOMER RECEIPT  
Partial

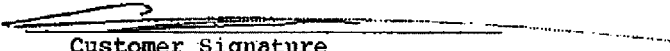
DATE: 04/24/2012

STORE	256	CUSTOMER TIMOTHY	469YEOMAN
	The Cash Store	545 DEWAN ST. APT. 201	
	UNIT A5 70 CARROLL S	STRATHROY	ON N7G 3C6
	STRATHROY	ON N7G 4G2	
	519-245-1847	Phone# 519-319-8630	
	License#	Cust# 101452	Loan# 114569
	Fax: 519-245-2867	Email: c256@csfinancial.ca	

## Payment Detail

NSF Fee  
Collection Fee  
Addl Fee  
Term Fee

Principal

Receipt # 157373  
Employee Initials: TMM /  
Balance owed to Lender: \$547.32  
Customer Signature

Thank you for coming to The Cash Store



**Direct Cash  
PAYMENT PROTECTION PLAN  
CERTIFICATE OF INSURANCE**

The Payment Protection Plan (the "Plan") is available only to customers of DC Bank, DC ATM Processing Partnership and DC ATM Management Partnership (collectively "Direct Cash") who have requested the optional coverage and agreed to pay the required premium referred to herein as the Loan Protector Fee. The Plan is underwritten pursuant to two Group Policies No.'s issued by Trans Global Life Insurance Company and Trans Global Insurance Company (collectively "Trans Global") to Direct Cash.

The applicable Master Group Policy Numbers are also identified on the application. In the event there is a discrepancy between this Certificate of Insurance and the Master Group Policy the Master Group Policy will prevail. Your receipt of this Certificate plus the payment of the Loan Protector Fee shown on the Customer Receipt issued to You are evidence of Your insurance under the Plan.

If You do not want this insurance and Your loan is not due nor repaid, return this Certificate within 10 days of receiving this Certificate and ask Us or Direct Cash in writing to cancel the Plan, and the Loan Protector Fee billed relating to Your loan pursuant to the Group Policies and to this Certificate will be credited to Your account with the Lender. If You have any questions or require claim information, please contact: The Trans Global Insurance Group, Suite 275, 16930-114 Avenue, Edmonton, AB T5M 3S2, Telephone 1-888-226-7876.

**MAXIMUM BENEFIT**

Maximum Benefit under the Payment Protection Plan is the lesser of the outstanding loan balance or \$3500.

**PART A - DEATH WITH DISMEMBERMENT BENEFITS (Provided by Trans Global Life Insurance Company)**

**BENEFIT**

While You are insured under the Plan and during the Loan Period, if You or your Spouse die or suffer a Dismemberment, upon due proof of Your death or Your Spouse's death or Dismemberment, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit.

**DISMEMBERMENT**

means accidental bodily injuries that are sustained directly and independently of all other causes resulting in the total and irrevocable loss of the entire sight of both eyes, or a hand or foot by complete severance through or above the wrist or ankle joint.

**EXCLUSIONS**

The Plan does not cover death resulting directly or indirectly from a Pre-existing Condition (see Part H - Definitions) or any of the exclusions listed under Part G - General Exclusions.

**PART B - ACCIDENT BENEFIT (Provided by Trans Global Life Insurance Company)**

**ACCIDENT BENEFIT**

While You are insured under the Plan and during the Loan Period, if You become disabled as a result of an accidental bodily injury, upon proof or suffer a Specified Injury (defined below) upon proof of same, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit, determined as follows:

1. If You suffer from an Accidentally or Specified Injury and advised by a licensed physician or surgeon that You are disabled and must remain off work as a result of the injury for seven (7) consecutive days We will pay the Lenders 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit. If You remain disabled and unable to work for an additional 14 consecutive days (21 days in total) We will pay the Lenders the remaining 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of

50% of the applicable Maximum Benefit. In both cases, We will require Your attending physician or surgeon to send Us a written statement, on a form provided by Us or acceptable to Us, of your inability to work due to Your total disability as a result of Your Accidental Injury or Specified Injury.

#### **SPECIFIED INJURY**

A Specified Injury is defined to be the accidental fracture of one or more of the following bones that requires fixation, metallic fixation or grafting within 7 days of the Date of Loss: Fibula, Tibia, Patella, Femur, Tarsal, Metatarsal, Radius, Ulna, Humerus, Carpal, Metacarpel, Ilium, Sacrum, Coccyx, Pubis, Ischium, Sternum, Scapula, Clavicle, Spine or Cranial Bones. Fracture of fingers and toes (Phalanges) are EXCLUDED from the list. We will require Your attending physician or surgeon to send Us a written statement, on a form provided by Us or acceptable to Us, verifying that You suffered a Specified Injury.

#### **CONDITIONS**

To be eligible for the Accident Benefit or Specified Injury, You must:

1. be gainfully employed on a full-time basis by one or more employers for at least 20 hours per week immediately prior to Your accidental disability;
2. become disabled and unable to work as a result of accidental bodily injury and remain unable to work for a period of at least seven consecutive days. Additional benefits may be payable if You remain unable to work for a total of 21 consecutive days; and
3. provide Us with a written statement from Your attending physician or surgeon, on a form provided by Us or acceptable to Us, verifying that You were totally disabled and unable to resume employment because of Your accidental injury. You may be required to provide subsequent verification of continued accidental disability. Benefits will end once your doctor allows you to return to work on a full-time, part-time, or modified basis.

#### **EXCLUSIONS**

The Plan does not pay Accident Benefits if the Specified Injury or Accidental bodily injury resulted directly or indirectly from any of the exclusions listed in Part G - General Exclusions.

**PART C - CANCER, HEART ATTACK & STROKE BENEFIT** (Provided by Trans Global Life Insurance Company)

#### **BENEFIT**

While You are insured under the Plan and during the Loan Period, if You or Your Spouse are diagnosed with Cancer, Heart Attack or Stroke for the first time in Your or Your Spouse's life, upon proof of diagnosis, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit.

#### **CONDITIONS**

1. Cancer means leukemia, Hodgkin's disease or any malignant tumor characterized by the uncontrolled growth and spread of malignant cells and invasion of tissue.
2. Heart Attack means the death of a portion of the heart muscle as a result of inadequate blood supply that has resulted in all of the following evidence of acute myocardial infarction - typical chest pain, new characteristic electrocardiographic (ECG) changes, and the characteristic rise of cardiac enzymes, troponins or other biochemical markers. Other acute coronary syndromes, including but not limited to angina, are not covered under this definition.
3. Stroke means any cerebrovascular incident, excluding transient ischemic attack (mini stroke), producing death of a portion of the brain as a result of thrombosis, intracranial or subarachnoid hemorrhage or embolization from an extracranial source and with objective evidence of a new permanent neurological deficit persisting for more than 30 days.
4. Proof of loss satisfactory to Us must be submitted within 90 days of diagnosis. The diagnosis must be made in writing by a licensed physician and be supported by medical evidence that We require, or may require.

#### **EXCLUSIONS**

The Plan does not cover any Cancer, Heart Attack or Stroke that is not the first Cancer, Heart Attack or Stroke that You or Your Spouse have suffered in Your life or that existed or was first diagnosed prior to the advance of Your loan. The Plan does not cover Cancer, Heart Attack or Stroke resulting directly or indirectly from any of the exclusions listed in Part G - General Exclusions.

**PART D - HOSPITALIZATION BENEFIT BENEFIT**

#### **BENEFIT**

While You are insured under the Plan and during the Loan Period, if You become hospitalized, in accordance with the terms and conditions of this section, upon proof of same, We will pay to the Lenders, as principal insured, Your Total Indebtedness outstanding on the Date of Loss of the insured event of the applicable Maximum Benefit.

#### **CONDITIONS**

To be eligible for the Hospitalization Benefit, You must:

1. Become hospitalized as a result of accidental bodily injury or an unforeseen illness; and
2. Be admitted to a Hospital during the Loan Period and remain hospitalized for 48 consecutive hours or more (Hospital means any Canadian institution that has been licensed to treat patients on an in-patient, out-patient or emergency basis, that has an operating room and laboratory, and that is operated under the supervision of a staff of doctors, but excludes mental institutions; nursing, rest or convalescent homes; homes for the aged; extended care facilities; rehabilitation establishments; clinics; hospices or palliative care facilities); and
3. Submit a written statement from the Hospital where you were treated, in a form satisfactory to Us, identifying the date that You were admitted to Hospital, the date that you were released from Hospital and the reasons for your hospitalization.

#### EXCLUSIONS

The Plan does not pay the Hospitalization Benefit if:

1. Your hospitalization results directly or indirectly from any of the exclusions listed in Part G - General Exclusions;
2. Your hospitalization was scheduled or pending at the date of enrolment to this Plan;
3. You were admitted to a Hospital for any reason in the 30 day period preceding the Loan Period;

**PART E - JOB LOSS BENEFIT FOR INVOLUNTARY UNEMPLOYMENT** (Provided by Trans Global Insurance Company)

#### BENEFIT

While You are insured under the Plan and during the Loan Period, if You become involuntarily unemployed, upon proof of same, We will pay to the Lenders, as principal insured, the Job Loss Benefit to a maximum benefit of the applicable Maximum Benefit. The amount of the Job Loss Benefit varies with the length of Your employment immediately prior to your involuntary unemployment and is determined as follows:

1. If You were continuously employed by one or more employers for at least 90 days prior to Your involuntary unemployment then the Job Loss Benefit would be calculated as 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit. If You remain involuntarily unemployed for a period of 30 consecutive days and are receiving Employment Insurance benefits, the Job Loss Benefit will also include a second payment calculated at 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit.
2. If You were continuously employed with one of more employers for between 60 and 89 days prior to Your involuntary unemployment then the Job Loss Benefit would be calculated as 50% of Your Total Indebtedness outstanding on the Date of Loss to a maximum benefit of 50% of the applicable Maximum Benefit.

#### CONDITIONS APPLICABLE JOB LOSS PREMIUM BENEFIT FOR LOANS.

1. To be eligible for the Job Loss benefits, You must:
  - (a) be gainfully employed on a permanent basis for at least 20 hours per week and You must have been working for at least 60 days immediately prior to Your involuntary unemployment; and
  - (b) have been paying Employment Insurance premiums prior to Your involuntary unemployment and You must be eligible to receive Employment Insurance (EI) Benefits and You must have registered with Human Resources Development Canada to receive EI benefits within 14 days of becoming involuntarily unemployed; and
  - (c) submit proof of Your involuntary unemployment and the length of Your employment by submitting to Us a copy, or copies, of Your Record of Employment and a written statement from your employer.

2. If You are eligible for continued Job Loss Benefits You must submit proof that You have remained unemployed for 30 days and are receiving EI benefits.

#### EXCLUSIONS APPLICABLE JOB LOSS PREMIUM BENEFIT FOR LOANS.

The Plan does not pay the Job Loss Benefit if:

1. Your involuntary unemployment results directly or indirectly from any of the exclusions listed in Part G - General Exclusions;
2. Your unemployment was known to You to be impending at the time You made application for this insurance;
3. You were discharged for cause by Your employer;
4. You are seasonally employed and Your unemployment is a regular and anticipated event in Your work schedule;
5. Your unemployment is the direct or indirect result of a strike or lockout, Your resignation, Your retirement, Your death, Your maternity or parental leave, Your voluntary unemployment, or Your loss of self-employment.

**PART F - GENERAL PROVISIONS (Applicable to Parts A, B, C, D and E)****ONLY ONE MAXIMUM BENEFIT**

In the event You are or may be entitled to benefits under more than one of Part A, Part B, Part C, Part D and Part E in respect of the same loan, You are entitled to submit a claim and We will pay only one (1) benefit under only one (1) of Parts A, B, C, D and E (but the greater of them), the maximum amount of which will in no case be in excess of the Maximum Benefit.

**AGE LIMITATION**

Coverage is not available prior to Your 18th birthday and terminates when You reach Your 72nd birthday (the "excluded ages"). If You are charged any premiums during the excluded ages, as a result of clerical error or if You misstate Your age, it is agreed that our liability is limited to refunding any premiums You paid during the said period.

**CERTIFICATE**

This Certificate contains all the insuring terms and conditions between You and Us. In the event of any inconsistencies or ambiguities between this Certificate and the Group Policies, the terms of the Group Policies will prevail. You may review the Group Policies at the Corporate Offices of Direct Cash.

**CLAIMS**

CLAIM FORMS may be obtained from a Cash Store or Instalment store or by calling The Trans Global Insurance Group at 1-888-226-7876.

NOTICE OF LOSS and PROOF OF LOSS in writing must be filed with US at the office address set out at the beginning of this Certificate within 90 days from the date of such loss. Failure to report a loss within the stated period of time will invalidate any claim in respect of such loss, if such delay has prejudiced our ability to confirm the validity of the claim. Costs incurred by You to obtain proof or evidence of Your loss will be at Your own expense. You will provide written authorization for Us to make inquiries of Your past and present employers and of Your medical or other health care practitioners or Hospitals, in which You were a patient, for the settlement of Your claim as We consider necessary. All proper claims covered by this Plan will be paid by US regardless of any other insurance You may have; however, We will pay only one claim benefit under this Plan. You must cooperate with the Lender when making a claim.

**PREMIUM CHARGE -**

Is the premium charge for loans for each month or a portion of a month as shown on the Customer Receipt that You have signed.

**TERM AND TERMINATION -**

This insurance is effective after You have signed to accept it and Your loan has been advanced; and unless an insurable loss hereunder has already become payable, will end the sooner of:

1. the date You repay Your indebtedness to the Lenders, or
2. the date We or Direct Cash receive Your written request to end this insurance coverage, or
3. 11:59 p.m. on the day on which your loan is due, Coverage under this Certificate ends on the due date any required payment is not made by you on or before such due date but will be automatically reinstated upon your Loan being made current and all payments due have been made or
4. 10 days from the date on which We or the Lenders send You written notice to Your last known address, to cancel this insurance.

**BENEFICIARY**

You agree that the Benefits payable under Parts A, B, C, D and E of the Plan shall be paid to the Lender, as irrevocable Beneficiary under the Master Policy. The Lender is obliged to apply the Benefits towards the outstanding amount of Your Total Indebtedness. However, interest continues to run on Your Total Indebtedness until paid in full, notwithstanding any delay in receipt by the Lender of the Benefits hereunder.

**LEGAL PROCEEDINGS**

No legal action may be brought against Us, unless it is brought within 12 months after the Date of Loss or the shortest applicable limitation period established by law, whichever is earlier.

**PART G - GENERAL EXCLUSIONS. (Applicable to Parts A, B, C, D and E)**

What we Exclude: No benefits will be paid under this Plan if the loss was, directly or indirectly, caused by:

1. a suicide or an attempted suicide, while sane or insane;
2. an intentionally self-inflicted injury;
3. the commission, or attempted commission, by You of an illegal act;
4. military service, declared or undeclared war, or any nuclear, chemical, or biological contamination resulting from an act of terrorism;
5. alcohol, substance or solvent abuse, or the taking of drugs except where prescribed by a licensed doctor and taken as directed.

**PART H - DEFINITIONS (Applicable to Parts A, B, C, D and E)**

YOU, YOUR and YOURSELF mean the borrower or customer whose name appears on the Customer Receipt and who is the primary person responsible for the outstanding debt, and excludes any Co-signer. WE, US and OUR mean the Trans Global Insurance Group.

**TOTAL INDEBTEDNESS**

is the total of the Loan Amount, Broker Fee, Interest Fee, and Loan Protector Fee premium along with any applicable provincial sales tax as shown on the Customer Receipt issued to You by a Cash Store or Installoan store.

**LOAN PERIOD**

means the period of time beginning with the advance of Your loan and ending at 11:59p.m. on the required date of repayment as shown on Your Customer Receipt.

**DATE OF LOSS**

means the date of the insured event or occurrence giving rise to a claim under the Plan.

**PRE-EXISTING CONDITION**

means any sickness or injury for which You received medical advice, consultation, diagnosis, investigation, or for which treatment was required or recommended by a doctor during the 6 months prior to the Loan Period.

**Spouse**

means Your Spouse that You are married to, or Your partner in a common-law relationship of the same or opposite sex, who although not legally married to each other, have continuously co-habitated in a marriage like relationship for at least the last 12 months. If You are a single, widowed, divorced or separated individual that is supporting a minor dependent who lives in the same household, for purposes of providing benefits under Part A and C of this Plan, We will consider that minor to be Your Spouse.

Trans Global Life Insurance Company  
Ian Burns Vice President

Trans Global Insurance Company  
Ian Burns Vice President



Toll Free Phone: 1-866-231-0373  
 Toll Free Fax: 1-866-777-5519  
 Web Site: www.directcash.net

## WALLET AGREEMENT

among  
 DirectCash ATM Processing Partnership ("DCP"),  
 DirectCash ATM Management Partnership ("DCM"),  
 (collectively referred to as "DirectCash"),  
 DirectCash Bank ("DCBank"), and  
 the "Customer" noted below

Date:	Merchant:	Merchant Location Name:	Store Number:
2012/04/24	CASH STORE LOANS	Cash Store Financial C256 LN	1829

### CUSTOMER INFORMATION & AGREEMENT

The undersigned Customer acknowledges having read the entire agreement and accepts the terms and conditions set out below. DirectCash's and DCBank's acceptance of this agreement (if fully completed) shall be evidenced by the issuance of a Prepaid Card to Customer and the activation of that Prepaid Card for use by Customer.

Additionally, if the undersigned Customer is opening a bank account with DCBank, then the Customer acknowledges that the Customer has reviewed the DC Bank account agreement terms (either through a written form provided when Customer applied for the account or the online version available at www.dcbank.ca) (the "Account Agreement Terms") and hereby agrees with DCBank that the Account Agreement Terms will govern the arrangements between DCBank and Customer (as supplemented by this Agreement in connection with the issuance and use of a Prepaid Card associated with the Customer's account). Customer acknowledges that the Account Agreement Terms include provisions whereby DCBank may change the terms and that the Account Agreement Terms set out the means by which DCBank may notify Customer of these changes.

Customer First Name:	Customer Middle Name:	Customer Last Name:	Customer Phone Number (Home):	Customer Phone Number (Work or other):
TIMOTHY		YEDMAN	(519)3198830	
Customer Street Address:	City:	Province:	Postal Code:	
545 DEWAN ST.	STRATHROY	ON	N7G3C6	
Customer Occupation:	Customer Birthdate:	Customer Email:		
Production Worker - Factory	1982/04/27			
Customer's Signature:	Purpose For The Prepaid Card/Account:	Are you a "Politically Exposed Foreign Person" or "Politically Exposed Canadian Person" (see definitions below)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
	ATM Access			

### TYPE OF PREPAID CARD

Interac Debit Prepaid Card		MasterCard Credit Prepaid Card	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Standard (1) Debit Card	DCBank Account(2) Debit Card	Standard (1) Mastercard	DCBank Account(2) Mastercard

- (1) "Standard" Debit Cards and Mastercards are cards issued where the Customer does not have an individual bank account (or account agreement) with DCBank that is tied to the Prepaid Card. The "Advance Limits" associated with all of these types of cards are EFT transferred/deposited into pooled/consolidated trust accounts at DCBank (issued in the name of DirectCash as trustee/agent for all of the cardholders).
- (2) Additional monthly fees apply for the optional "DCBank Account Debit Card" and the "DCBank Account MasterCard" (see below). For both of these types of cards, the Customer opens a bank account with DCBank and positive balances on the card are reflected as positive balances in the Customer's DCBank bank account. For these types of cards, Customer is entering into an account agreement with DC Bank (see above) governing matters related to the account issued in the name of the Customer at DC Bank. In both cases, (i.e. Customer has a linked bank account open at DCBank), the Advance Limit will qualify for CDIC deposit insurance (subject to CDIC limits). NONE OF THE OTHER 2 TYPES OF CARDS QUALIFY FOR CDIC INSURANCE OR ANY OTHER BANK ACCOUNT SERVICES OFFERED FROM TIME TO TIME BY DCBANK.

### CURRENT FEES(1) & PROGRAM DETAILS

ATM Cash Advance:	\$2.95	Debit Card Funds Transfer:	\$2.25	Requested Transaction Decline:	\$0.50	Balance Inquiry:	\$1.75
U.S. ATM Cash Advance:	\$2.95	U.S. Debit Card Funds Transfer:	\$2.25	U.S. Requested Transaction Decline:	\$1.80	IVR Balance Inquiry Fee:	\$1.50
Inter. ATM Cash Advance:	\$2.95	Inter. Debit Card Funds Transfer:	\$2.25	Inter. Requested Transaction Decline:	\$4.05	% Fee On All International Trans:	2.5%
Card Activation (first time) Fee:	\$8.00	Additional Advance Limit EFT/Added (Card Load) (2):	\$3.50	Deactivation Fee:	\$3.00		
Monthly Fee for DCBank Account(3):	\$9.95	Monthly Fee Per Interac Debit Prepaid Card(3):	\$28.95	Monthly Fee Per MasterCard Credit Prepaid Card (3):	N/A		
Monthly Dormant Account Fee(3):	\$10.70	Negative Balance (Overdraft) Fee (4):	\$0.00	Statement Fee:	\$0.00		
				Live/Telephone Customer Service (CSR):	\$2.50		

- (1) All fees are quoted on a net basis. GST, HST and PST are either inapplicable or the fees are presented on a "GST, HST and PST included" basis. Therefore, the quoted fees include all GST, HST, PST and other taxes chargeable on the individual fees. DirectCash ATM Processing Partnership's GST/HST Number is 86418 5822. Fees include the standard banking or credit card network transaction fees charged to DirectCash or DCBank in connection with the use of the Prepaid Card. Other additional fees may apply in connection with outlet specific surcharges for use of ATMs and debit card terminals, in which case such fees will be charged to the Customer and will reduce against the remaining Advance Limit left on the Prepaid Card (in addition to the DirectCash Service Charges listed above). Fees (and methods of calculating and collecting any applicable taxes) may be changed by DirectCash from time to time.
- (2) Current limit on the Daily Advance is \$1,000.
- (3) If there is more than 1 Advance Limit authorized for a Prepaid Card, only 1 monthly fee will be charged. This fee applies to both active and deactivated Prepaid Cards.
- (4) Overdrafts (going into a negative balance) on a Prepaid Card is not permitted. However, a negative balance might occur but might occur if the Customer uses the Prepaid Card for Pre-Authorized Transactions (for example). In such cases Customer will be required to pay the overdraft amount plus this fee.

**DCBANK ACCOUNT VERIFICATION CHECKLIST (SIGNED BY AGENT OF DCBANK IF BANK ACCOUNT ALSO OPENED)**

- |                                                             |                                                                           |
|-------------------------------------------------------------|---------------------------------------------------------------------------|
| <input type="checkbox"/> Primary ID reviewed and complies   | <input type="checkbox"/> Copy of DCBank Account Agreement Terms Delivered |
| <input type="checkbox"/> Secondary ID reviewed and complies |                                                                           |

The undersigned representative for an agency/service bureau authorized to carry out bank account opening related services hereby certifies that (a) I have personally met with the Customer identified above (who is applying to open a bank account); (b) I examined 2 original pieces of acceptable (acceptable as per DCBank's policies) identification, one of which includes a picture of the Customer and was issued by a Federal or Provincial government in Canada, (c) the identification documents presented were not substantially damaged and did not appear to be altered and were in the same name as the name of the Customer above.

Name of Agent's Representative (print):	Date:	Signature of Agent's Representative:
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**WALLET AGREEMENT TERMS AND CONDITIONS**

**1. Parties and Definitions.** By executing this Agreement and delivering it to DirectCash or to one of DirectCash's authorized distributors/merchants (a "Merchant") or using the Prepaid Card, the person identified above (the "Customer") is entering into an agreement with DirectCash and DCBank in respect of the matters set out herein. The delivery of a DirectCash branded ATM/Debit card or DirectCash MasterCard® card (each referred to as a "Prepaid Card") to the Customer shall constitute DirectCash's acceptance of this agreement. No alterations to this Agreement may be made without DirectCash's prior written approval (no Merchant has authority to agree to any such alterations on DirectCash's or DCBank's behalf). In this Agreement, the words "You" or "Your" mean the Customer and any other person who gains access to the Prepaid Card and authorizes an advance/funds transfer transaction using the Prepaid Card (with or without the Customer's consent - see "Prepaid Card & PIN Care & Control" and "Authorized, Unauthorized or Fraudulent Use" and "Lost or Stolen Prepaid Card"). The Customer should keep a copy of this Agreement with the Customer's important records. Each Prepaid Card is issued by DCBank under authorization from the applicable banking or credit card network.

In this Agreement a "Politically Exposed Person" ("PEP") means (A) any person who holds or has ever held one of the following offices or positions in or on behalf of a country: (1) a head of state or government, (2) a member of the executive council of government or member of a legislature, (3) a deputy minister (or equivalent), (4) an ambassador or an ambassador's attach or counsellor, (5) a military general (or higher rank), (6) a president of a state owned company of bank, (7) a head of a government agency, (8) a judge, or (9) a leader or president of a political party in a legislature, or (B) any of the following family members of an individual described in (A)(1)-(9): (i) mother, (ii) father, (iii) spouse, (iv) common law partner, (v) spouse's or common law partner's mother or father, (vi) brother, (vii) sister, (viii) half-brother, or (ix) half-sister, (in all cases regardless of citizenship, residence status, or birth place). "Politically Exposed Canadian Person" or "Domestic PEP" means a PEP in/from/related to Canada. A "Politically Exposed Foreign Person" ("PEFP") means a PEP in/from/related to a country outside of Canada.

As indicated above, Customer represents to DirectCash and DCBank that the Customer is not a Politically Exposed Foreign Person or a Politically Exposed Canadian Person.

**2. Registration.** To receive a Prepaid Card the Customer must complete the registration process by providing DirectCash and DCBank (through the Merchant where applicable) with current, complete and accurate information as prompted by the registration form. The Customer agrees that any registration information which the Customer provides to DirectCash and DCBank shall be updated whenever the same is changed so that DirectCash's and DCBank's records are always current.

**3. Instant Issue Card.** In the case of MasterCard® Prepaid Cards only, DCBank (or a Merchant) may provide the Customer with a temporary "Instant Issue" MasterCard® Prepaid Card (an "Instant Issue Card") issued by DCBank. Subsequently DCBank may issue to the Customer by mail (to the address the Customer provides to the Merchant) a permanent MasterCard Prepaid Card with the Customer's name on it ("Permanent Card"). In this Agreement, the term "Prepaid Card" includes both an Instant Issue Card and the Permanent Card. The Instant Issue Card will operate until the earlier of 1 year from the date of issue and the date the Customer activates the Permanent Card. The Customer should sign the back of each MasterCard Prepaid Card immediately upon receipt.

**4. Prepaid Card Transaction Capabilities/Services.** Once the Customer has successfully completed the registration process, the Customer will be given custody of a Prepaid Card and may be provided (depending on the type of Prepaid Card) with a secret personal identification number or password ("PIN") that corresponds to the Prepaid Card. Depending on the type of transaction and the type of Prepaid Card several different types of transactions could be completed with a Prepaid Card. In all cases the transactions that can be authorized with a Prepaid Card are limited by the remaining amount of the advance limit authorized for that Prepaid Card from time to time (the "Advance Limit") less applicable service fees.

Both Interac™ based and MasterCard® based cards can provide access to any automated teller machine (an "ATM") which displays the applicable Interac™ logo or MasterCard® logo or the logo of an international network that routes transaction requests to Interac™ or MasterCard® to obtain cash advances. Completing this kind of transaction requires that the Prepaid Card be swiped and the secret PIN be entered. The minimum cash advance is determined by the dispensing capability of each ATM.

Interac™ based cards allow the Customer to use any direct payment terminal (a "Debit Card Terminal") which displays the Interac™ logo or the logo of an international banking network that routes transaction requests to Interac to facilitate the purchase of goods/services. Completing this kind of transaction requires that the Prepaid Card be swiped and the secret PIN be entered.

MasterCard® based cards allow the Customer to use any credit card terminal (a "Credit Card Terminal") which displays the MasterCard® logo or the logo of an international banking network that routes transaction requests to MasterCard® to facilitate the purchase of goods/services. Completing this kind of transaction requires that the Prepaid Card be swiped and may also require that the Customer provide a signature.

MasterCard® based cards allow the Customer to authorize payments without physically presenting the Prepaid Card ("Electronic Transactions"). Electronic Transactions could take the form of Internet purchases, telephone purchases or fax purchases. Additional requirements may apply for Electronic Transactions (which may vary by transaction size, transaction type, merchant rules or other requirements) which may include provision of a PIN number or the disclosing of an additional security code printed on the Prepaid Card. When Prepaid Card is used to carry out an Electronic Transaction or mail order transaction (i.e. where the Prepaid Card is not physically presented), the legal effect of (and the Customer's liability for) the transaction are the same as if the Prepaid Card was physically presented in person by the Customer.

When a Customer presents a Prepaid Card to some goods/services providers, those goods/services providers may request a transaction authorization in advance and may estimate its final value not knowing what the actual final charge will be or whether there will be a charge at all (a "Pre-Authorized Transaction") (such as restaurants, rental car companies, hotels) ("Pre-Authorizing Retailers"). Not all networks permit Pre-Authorized Transactions (as of September 2011, this was permitted only through MasterCard® Prepaid Cards). DirectCash or DCBank may identify certain types of goods/services providers as being Pre-Authorizing Retailers which frequently authorize higher dollar amounts as compared to the originally estimated amount. Additionally, under applicable network rules it may be possible for a goods/service providers to specifically identify a transaction as being a Pre-Authorized Transaction. When the Customer requests authorization of a transaction which DirectCash or DCBank identifies as a Pre-Authorized Transaction DirectCash might: (a) refuse the transaction if there is not a specified percentage/amount of remaining Advance Limit associated with the Customer's Prepaid Card; and/or (b) put a hold on any further authorizations with the Prepaid Card for a period of time to provide time to determine whether the final actual charges put through for the Pre-Authorized Transaction will exceed the estimated amount. Applicable network rules determine how many days (15 days for MasterCard transactions as of September 2011) after the original estimate Pre-Authorized Transaction is entered the Pre-Authorizing Retailer can enter a follow up transaction with the actual amount (the "Authorization Deadline"). Applicable network rules also determine by what percentage (120% for MasterCard transactions as of September 2011) of the original estimated Pre-Authorized Transaction that the Pre-Authorizing Retailer is limited to when entering the follow up transaction (the "Authorization Limit"). DirectCash will typically put a hold on an amount of funds equal to the Authorization Limit until the Authorization Deadline (unless the Pre-Authorizing Retailer actually enters a cancellation request for the original Pre-Authorized Transaction. DirectCash will set the amounts and duration of holds put on funds in accordance with applicable network rules.

The Customer acknowledges that once a Pre-Authorized Transaction is approved for the Customer's Prepaid Card, the Authorization Limit will be unavailable for the Customer to use until the Authorization Deadline elapses without a follow up transaction being entered. For example, if the Customer allows a restaurant, rental car company, hotel, etc. to process a Pre-Authorized Transaction on the Customer's Prepaid Card, an amount equal to the Authorization Limit (for example 120% of the original amount) will not be useable by the Customer until after the Authorization Deadline (for example 15 days), even if the Customer ultimately never owes the restaurant, rental car company, hotel, etc. any money. If the ultimate amount DirectCash or DCBank is required to pay to a Pre-Authorizing Retailer is greater than the amount set aside by DirectCash or DCBank then the excess must be paid by Customer. If the Prepaid Card goes into negative balance/overdraft (i.e. the amount paid by DCBank/DirectCash exceeds the available Advance Limit at the time) then the Negative Balance/Overdraft Fee shall apply and Customer shall be required to repay the overdrawn amount.

In respect of all types of transactions, DirectCash and DCBank may also set limits for (a) maximum dollar amount of loads per day, (b) maximum number of loads per day, (c) minimum balance to keep card active, (d) maximum dollar amount of Electronic Transactions per day, (e) maximum number of Electronic Transactions per day, (f) maximum dollar amount of ATM withdrawals per day, (g) maximum number of ATM withdrawals per day, and (h) absolute maximum on useable Advance Limit on one card. These limits may be changed by DirectCash or DCBank from time to time.

A requested transaction may be refused by DirectCash or DCBank if the remaining Advance Limit left on the Prepaid Card is not sufficient to cover the amount of transaction and all applicable service fees. If a Prepaid Card transaction is reversed by a goods/services provider for some reason (including, for example, a refund for returned goods), the amount of the reversal shall be added back to the Advance Limit but any Service Fees previously charged are not reversed.

For certain types of cards and transactions DirectCash and DCBank may limit the transactions to those denominated in Canadian Dollars. If non-Canadian currency advances/funds transfers are permitted, cash advances and purchases in non-Canadian currency will be subject to (a) different (usually higher) transaction fees, (b) a percentage surcharge fee based on the dollar value of the transaction; and (c) currency conversion rates set by DirectCash and DCBank from time to time (which may include a profit margin for DirectCash and DCBank).

DirectCash and DCBank may from time to time restrict the use of the Prepaid Card so that it only may be used in certain locations/countries. From time to time, DirectCash and DCBank may enable or disable the ability of the Prepaid Card to work in certain locations/countries.

**5. No Credit Provided.** Prepaid Cards do not include any ability for the Customer to borrow funds from DirectCash or DCBank by going into a negative balance on the Prepaid Card. If Customer receives cash in an ATM withdraw or completes a purchase transaction in excess of the remaining Advance Limit through error or mistake of DirectCash, DCBank or otherwise, DirectCash and DCBank may correct such error when discovered and adjust the balance available on the Prepaid Card. Customer agrees to reimburse DirectCash and DCBank for any excess cash or credit received forthwith upon demand.

**6. No Individual Deposit or Account & No CDIC Insurance.** Generally (i.e. for 2 out of the 4 kinds of Prepaid Cards), the funds (if any) or other consideration provided by (or for) the Customer to cause the Advance Limit associated with the Prepaid Card does not establish a separate individual deposit account held for the Customer by DirectCash, DCBank or any Merchant. Generally, the "Advance Limits" associated with all of these types of Prepaid Cards are EFT transferred/deposited into pooled/consolidated trust accounts at DCBank (issued in the name of DirectCash as trustee/agent for all of the cardholders). For these 3 of the types of Prepaid Cards, the Advance Limit associated with the Prepaid Card is not insured by the Canada Deposit Insurance Corporation.

However, IF (AND ONLY IF) the Customer is a DCBank account holder and the Prepaid Card is a debit card formally attached to the Customer's individual account with DCBank, then the unused Advance Limit deposited in the Customer account shall constitute an individual deposit and will qualify for CDIC insurance.

**7. No Interest On Advance Limit.** The Customer will not receive interest on the Advance Limit for the Prepaid Card.

**8. Web Site Access.** At the time that the Customer receives a Prepaid Card, the Customer may also be given the opportunity to set a password (the "Internet Password") which will entitle the Customer to access certain information concerning the Prepaid Card and activities related to the Prepaid Card using an internet connection to access DirectCash's web site. The Internet Password should not be the same as the PIN and it is not currently anticipated that the web site access will be useable for anything other than access to information (i.e. the web site may not be set up to accept instructions for funds transfers). The Customer shall be responsible for any changes made to the information maintained by DirectCash in reliance upon internet communications received by DirectCash that are sent using the Customer's Internet Password. The Customer should assure that the Customer follows the same security precautions for the Internet Password as required for PINs.

**9. Prepaid Card Status.** The Prepaid Card (pursuant to applicable network regulations) remains the property of DCBank (i.e. the issuer of the Prepaid Card). Although DCBank has engaged DirectCash as a service bureau to carry out various functions on behalf of DCBank, DCBank remains financially responsible for the deposits of the Advance Limits associated with the Prepaid Cards once they are made.



**10. Wallet Additions.** The Customer may take any Prepaid Card to any Merchant authorized by DirectCash, and subject to the requirements of DirectCash and that Merchant, may arrange for additional amounts to be EFT transferred/added to the Advance Limit authorized for the Prepaid Card (a "Wallet Addition"). DCBank and DirectCash may also establish means for certain types of Prepaid Cards to deposit the Wallet Addition directly with DCBank, including by way of Electronic Funds Transfer ("EFT"). If Customer arranges for amounts to be EFT transferred/added to the Advance Limit associated with a Prepaid Card, the Advance Limit is not added to the Prepaid Card unless and until DirectCash or DCBank receives the actual funds (or other security acceptable to DCBank and DirectCash) (from the Merchant where the Customer initially provides the funds to a Merchant or from the Customer where the Customer provides the funds directly to DCBank).

**11. Transaction Records & Errors.** Customer should receive a paper record of each transaction for which Customer uses the Prepaid Card. It is Customer's responsibility to obtain such record and ensure that it is accurate. DirectCash and DCBank are not responsible to provide Customer with any transaction record or periodic statement. If Customer identifies an error in any transaction record, the Customer must address such error with the applicable goods/services provider (i.e. POS device operator) or ATM operator. Furthermore, the Customer must notify DirectCash by calling toll free at the number indicated above or go online at web site indicated above within 30 days after the receipt was issued on which the problem or error appeared, failing which DirectCash and DCBank will have no responsibility to assist the Customer to rectify the situation.

**12. No Liability for Disputes with Vendors/ATM Cash Dispensers.** None of DirectCash, DCBank or the Merchant that delivered Prepaid Card will be liable in any way for any dispute arising out of the purchase of merchandise or services using the Prepaid Card or the failure of any goods/services provider to honour the Prepaid Card or the failure of an ATM machine to dispense cash. None of DirectCash, DCBank or the Merchant will be responsible for any failure, in supply, lack of suitability or quality of any goods or services purchased from goods/services providers through the use of the Prepaid Card. None of DirectCash, DCBank or the Merchant will be liable for any action of failure to act of a goods/services provider or a refusal by a goods/services providers to honour the Prepaid Card whether or not such failure or refusal is as a result of any error or malfunction of equipment used to effect an authorization of the Prepaid Card. DirectCash and DCBank will not be liable for any damage, loss or inconvenience Customer may incur if Customer is unable to use the Prepaid Card as a result of any failure, error, malfunction or technical problem with or at a Merchant's or a goods/services provider's systems or equipment, or with an ATM, Debit Card Terminal or Credit Card Terminal.

**13. Prepaid Card & PIN Care & Control.** The Customer is solely responsible for care and control of the Prepaid Card and any associated PIN and password and is responsible for the full amount of all activity resulting from use of the Prepaid Card by any person (including any use of the Prepaid Card by persons to whom the Customer has made the Prepaid Card, PIN or password available).

Where a PIN number is issued with a Prepaid Card, Customer's Prepaid Card security depends on keeping physical security over the card (including avoiding situations where card information can be skimmed) and keeping the PIN secret. The Customer must never keep a record of the PIN near a Prepaid Card. The Customer must memorize the PIN and not tell anyone the PIN (including family members or friends). The Customer must ensure that no one finds out the PIN, including while the Customer keys in the PIN at an ATM or a Debit Card Terminal or Credit Card Terminal. The Customer should avoid selecting PIN combinations that may be easily determined by others. The Customer is liable for all transactions incurred using the PIN.

MasterCard® Prepaid Cards may facilitate a greater variety of transaction types (as compared to Intropic™ Prepaid Cards). However, purchases with a MasterCard® Prepaid Card do not necessarily require the provision of a PIN number to complete the purchase (presentation of the card and signature may be all that is required).

Therefore, a MasterCard® Prepaid Card and the identifying numbers identified on the card should be treated with the same security as if it were cash. Also, purchases over the telephone, the internet or other electronic means may be possible which would not require the presentation of the MasterCard® Prepaid Card or a signature (i.e. provision of the card number may be all that is required). The Customer is responsible for all purchase transactions carried out using a MasterCard® Prepaid Card or card number of a MasterCard® Prepaid Card. The Advance Limit will be decreased by the amount of all purchase transactions carried out using the MasterCard® Prepaid Card or the card number of the MasterCard® Prepaid Card whether or not the Customer believes that the Customer authorized the purchase transactions or not. Therefore, the Customer should take great care to assure that a MasterCard® Prepaid Card is not lost and that the numbers on the card are not provided to others.

**14. Use of Card, Not For A Third Party.** The Customer represents that the reason that the Customer requires the Prepaid Card (and any associated account) is as set out under "Purpose For The Prepaid Card/Account" above. Customer covenants and agrees that the Prepaid Card will only be used for such specified purpose. The Customer also represents and agrees that Customer is not obtaining the Prepaid Card on behalf of a third party and that Customer will maintain possession and control over the Prepaid Card and will not allow any third parties to possess or use the Prepaid Card.

**15. Authorized, Unauthorized or Fraudulent Use.** The Customer is also responsible for the full amount of authorized and unauthorized activity resulting from the use of the Prepaid Card including due to fraudulent activity or theft of the Prepaid Card which occurs before the Customer provides DirectCash with actual notification that the Prepaid Card has been lost or stolen, provides necessary identification information, and DirectCash has been able to "deactivate" the Prepaid Card on the applicable banking or credit card system.

**16. Prepaid Card Deactivation or Advance Limit Reductions.** DirectCash and DCBank may reduce the Advance Limit authorized for the Prepaid Card if DirectCash is notified by a Merchant that the Customer has violated the agreement pursuant to which such Merchant provided the Prepaid Card to the Customer or authorized a Wallet Addition (including an EFT) for the Prepaid Card. Without limitation, if a cheque endorsed by the Customer in favour of the Merchant is not paid in full to the Merchant upon presentation (for whatever reason), the Merchant may direct DirectCash to reduce the Advance Limit of the Prepaid Card whereupon DirectCash's obligation to cause the authorize ATM Cash advances and Debit Card Terminal or Credit Card Terminal funds/transfers to goods/services providers authorized by Customer shall be reduced accordingly. The Customer hereby irrevocably agrees that DirectCash and DCBank may accept any instructions received from any Merchant to reduce the Advance Limit for the Prepaid Card and that the Customer's sole recourse for such reduction in the Advance Limit, if any, shall lie from such Merchant. Furthermore, DirectCash's obligation to authorize advances is subject to receipt from the Merchant of security (in the form of cash payments or other security acceptable to DirectCash) to cover all advances and service charges deductible hereunder. If the Merchant fails to provide or replenish such security then DirectCash may unilaterally reduce the Advance Limit and in such event the Customer's sole recourse shall be against the Merchant.

DirectCash and DCBank may in DirectCash's and DCBank's discretion refuse a request for authorization of any Prepaid Card transaction or may deactivate the Prepaid Card without notice and may notify third parties of such refusal or deactivation as DirectCash determines is necessary. The Prepaid Card always remains the property of DCBank. If DirectCash or DCBank asks the Customer to return the Prepaid Card, the Customer must do so immediately at the Customer's cost.

**17. DirectCash Record Correction.** If DirectCash or DCBank discovers that DirectCash or DCBank has added to the Prepaid Card's Advance Limit by mistake or made any other errors or omissions in connection with the activity related to the Prepaid Card, DirectCash and DCBank may reduce (or increase) the Advance Limit of the Prepaid Card to correct such error when it is discovered. If the Customer has used the Prepaid Card to facilitate advances/funds transfers using the Advance Limit added to the Prepaid Card in error, then the Customer shall repay the amount of the Advance Limit used to DirectCash on demand.

**18. Lost or Stolen Prepaid Card.** If the Prepaid Card is lost or stolen, the Customer should contact DirectCash or the Merchant from whom the Customer originally received the Prepaid Card. On receiving notice, DirectCash will promptly deactivate the Prepaid Card's ability to be utilized for further transactions. The Customer will be required to provide identification satisfactory to DirectCash before DirectCash can act on the Customer's instructions. Part of the identification process may require the Customer to correctly answer questions based on personal information set out in this Agreement or entered into DirectCash's database as part of the registration process - failure to answer such questions correctly may result in DirectCash refusing the Customer's deactivation instructions. Any transactions authorized using the Prepaid Card before DirectCash receives the necessary notice, verifies the Customer's identity, and enters the necessary deactivation codes into the system will reduce the remaining available Advance Limit of the Prepaid Card and will be solely the Customer's responsibility. Such losses if they occur are not insured.

**19. No Responsibility for Purchased Goods/Services.** None of DirectCash, DCBank or the Merchant is responsible for any failure to supply or lack of suitability or quality of any goods or services purchased from goods/services providers using funds transfers authorized through the Prepaid Card. The Customer will settle directly between the Customer and the goods/services provider any dispute with respect to any such purchase and any such claim or dispute shall have no effect on the reduction to the Advance Limit carried out when the transaction was authorized.

**20. Fees, Service Charges & Program Details.** DirectCash's and DCBank's current service charges for the services that DirectCash arranges through the use of the Prepaid Card will be charged to the Customer and will result in a reduction of the Advance Limit left on the Prepaid Card. The Customer agrees to pay to DirectCash or DCBank all relevant service charges (including all transactions imposed by others in connection with the use of Prepaid Card). Without limitation, fees may be charged for Prepaid Card issuance, Prepaid Card loading and reloading, monthly maintenance, transaction fees, ATM fees, Prepaid Card replacement, de-activation, re-activation, Prepaid Card statements, and any other fees published as described herein. DirectCash and DCBank may establish loyalty programs or rewards apply to the Prepaid Card from time to time. Please see the Current Fees & Program Details Table above for the current amount of DirectCash's and DCBank's common fees, service charges and any applicable loyalty

programs or rewards. Fees, service charges, loyalty programs and rewards may be added, discontinued or changed by DirectCash and DCBank from time to time by posting notice on the DirectCash website (see above) and such additions, discontinuations and changes will become effective 10 days after publication thereon (the "Effective Date"), whether or not the Customer has actually received such notice. By use of the Prepaid Card after the Effective Date, the Customer agrees to the additions, discontinuations and changes to the fees, service charges, loyalty programs and rewards.

**21. Prepaid Card to be Used for Legal Purposes Only.** The Customer will not use the Prepaid Card for illegal, fraudulent or defamatory purposes or take any steps which could undermine the security or integrity of any credit card network, banking network, financial institution or the systems of DirectCash or DCBank.

**22. Dormant Prepaid Card.** The Customer acknowledges and agrees that DirectCash and DCBank may deactivate the Prepaid Card if no advance/funds transfer has been authorized using the Prepaid Card for a 12 month period. Upon deactivation of the Prepaid Card pursuant to this provision, the Customer's ability to carry out transactions using the Prepaid Card will be suspended. Upon receipt of satisfactory identification and payment of applicable service fees, DirectCash will issue to the Customer a replacement Prepaid Card (or may reactivate the old Prepaid Card if the Customer still has it) with an Advance Limit equal to the limit of the old Prepaid Card at the time of its deactivation less any applicable service charges incurred in the interim. The current monthly service charge to be applied against Prepaid Cards is set out in the Fee Table.

**23. DirectCash is Service Bureau For DCBank.** The Prepaid Card (whatever the type) is issued by DCBank. As such DCBank has various statutory obligations to the Customer as the end user of the Prepaid Card including the liability to the Customer for the aggregate value (i.e. the "Advance Limit" as defined in this Agreement) of the Prepaid Card. DCBank has designated DirectCash as DCBank's service bureau for carrying out certain limited functions related to the running of the systems necessary for the Prepaid Card to work.

**24. Liability.** DirectCash and DCBank will not be liable for any damages (including special indirect or consequential damages) resulting from any failure, error, malfunction or inaccessibility of any ATM, Debit Card Terminal or Credit Card Terminal or any failure, error or delay in providing any ATM cash advances or completing other transactions with the Prepaid Card even if DirectCash or DCBank knew that damage was likely or the damage was a result of DirectCash's or DCBank's negligence or the negligence of their employees, agents or representatives.

DirectCash and DCBank shall not in any way be liable for any accident, act of aggression, theft, loss or damage the Customer may suffer while using the Prepaid Card. The Customer is responsible for any errors which result from the Customer having incorrectly selected the dollar amount or other information required for operation of the services related to the Prepaid Card.

The Customer agrees to pay DirectCash and DCBank for any cost to recover amounts that the Customer owes to DirectCash or DCBank. These costs include legal fees on a solicitor and his own client basis as well as those reasonable counsel fees charged by DirectCash's legal and collections department. If the Customer fails to pay DirectCash's and DCBank's costs, DirectCash and DCBank may direct funds available under any Advance Limit to the payment of such costs.

**25. Dispute Resolution.** DirectCash's and DCBank's transaction records shall be conclusive proof of the transactions carried out using the Prepaid Card. Subject to Section 16 (record correction) the Customer will be deemed to have approved all transactions authorized using the Prepaid Card.

There are various methods available to the Customer to report errors or to notify DCBank when the Customer disputes a transaction. There are also various government agencies which oversee chartered banks in Canada and which may be contacted if a Customer is not satisfied with the outcome when a dispute or error is brought to DCBank's attention. These methods (and the expected time frame to address complaints) and the contact information for the applicable government agencies is set out in the "Dispute Resolution Policy" available for download at DCBank's web site (<http://www.dcbank.ca>).

**26. Notice & Communication.** DirectCash or DCBank may effect notice to the Customer specifically by regular mail postage prepaid to the street mailing address or email address last provided by the Customer to the Merchant or DirectCash. Alternatively, DirectCash or DCBank may effect notice to the Customer as part of a class of cardholders by posting notice on the DirectCash (or DCBank) website. Notice will be deemed to be received by the Customer (a) 10 days after mailing to a street mailing address, or (b) the next business day after electronic mail or (c) 10 days after posting on the DirectCash or DCBank web site. The Customer may notify DirectCash and DCBank by regular mail, fax or by delivering notice to DirectCash or and DCBank at the DirectCash website (other than notification of a lost or stolen Prepaid Card, which may only be done by telephone as set out above). Such notice to DirectCash or and DCBank will be deemed to be received (a) on the next business day after electronic mail through the DirectCash website, (b) on the next business day after successful sending of a fax to DirectCash, or (c) on the next business day after actual receipt by DirectCash or DCBank of mail sent to DirectCash's Calgary, Alberta head office street address.

Any Electronic Communication between the Customer and DirectCash or DCBank will take place according to the provisions of this Section. The term "Electronic Communication" means any communication of instructions by telephone, wire or other method of telecommunication or electronic transmission, including a facsimile transmission or personal computer. DirectCash and DCBank will consider any Electronic Communication apparently received from the Customer or in the Customer's name to be duly authorized by the Customer. The Customer authorizes DirectCash and DCBank to rely and act on any such communication. If the communication is by facsimile transmission, DirectCash and DCBank will be entitled to act upon any signature purporting to be Customer's signature. If DirectCash or DCBank tries to verify Customer's signature on a facsimile transmission or the validity of any instructions Electronically Communicated (though DirectCash and DCBank are not obligated to do so) and is unable to do so to DirectCash's or DCBank's satisfaction, DirectCash and DCBank may delay in acting on or refuse to act on such instructions.

DirectCash or DCBank may, at the Customer's request, forward to the Customer copies of any statements, instruments or other documents by facsimile or other electronic transmission to the number or address provided by Customer from time to time.

For mutual protection, DirectCash and DCBank may record all telephone calls that relate to the use of or include instructions relating to the use of the Prepaid Card.

The Customer agrees that DirectCash's and DCBank's records regarding any electronic communication will be admissible in any legal, administrative or other proceedings as if such records were original written documents. DirectCash's and DCBank's records will be conclusive proof of the information contained in such electronic communications.

**27. Amendment to Agreement.** DirectCash and DCBank may change the provisions of this Agreement and the service charges from time to time. DirectCash will notify the Customer of any changes by:

- sending the Customer notice at the last street mailing address or email address notified by the Customer to DirectCash for the purposes of this Agreement; or
- posting a notice on DirectCash's web site.

If DirectCash mails a notice to a street address, it will be considered to have been received by the Customer 10 days after DirectCash deposits it in the mail. If DirectCash emails a notice it will be considered to have been received by the Customer 1 day after the email is sent. If the Customer uses the Prepaid Card after DirectCash (a) sends a notice of a change by regular mail or email, or (b) posts a notice on DirectCash's website (which has been posted for at least 10 days), the Customer is deemed to have accepted the change.

**28. No Assignment.** This Agreement is not assignable by the Customer. The Prepaid Card is provided to the Customer only. The Customer may not sell, assign, transfer or lend the Prepaid Card to others.

**29. Privacy Protection.** DirectCash and DCBank shall have the right to establish files on the Customer based upon information provided by the Customer in this Wallet Agreement and in connection with the Customer's application for a Prepaid Card. Further, DirectCash and DCBank will obtain information regarding when and where the Customer uses the Prepaid Card and when and where additional amounts are added to the Advance Limit of the Prepaid Card. All personal information collected is referred to as "Personal Information". Within DirectCash, DCBank and their affiliate organizations the following categories of personnel shall have the ability to access Personal Information: executive officers, call centre employees, members of the Prepaid Card operations, legal and technology departments ("Prepaid Card Personnel"). Personal Information will also be available to the Merchant, other financial institutions and other outside service providers ("Outside Service Providers") involved in providing

the Customer with the services associated with the Prepaid Card. DirectCash, DCBank and the Service Providers shall use Personal Information for the purpose of providing Prepaid Card Services to the Customer and to meet the requirements of applicable law (including the rules and regulations of any applicable banking network or credit card network accessible with a Prepaid Card). Furthermore, paper file records containing Personal Information may be kept at the Merchant's premises (or DirectCash's or DCBank's head office premises). DirectCash's privacy code "DirectCash Protecting Your Privacy" applies to how DirectCash collects, uses and distributes Customer Personal Information (the

"DirectCash Privacy Code"). DCBank's privacy code "Privacy Code" applies to how DCBank collects, uses and distributes Customer's Personal Information (the

"DCBank Privacy Code"). In the DirectCash Privacy Code and DCBank Privacy Code it is explained why DirectCash and DCBank collect personal information, what

information DirectCash and DCBank collect, how DirectCash and DCBank protect Personal Information, when DirectCash and DCBank release Personal Information and how the Customer can view, check and correct DirectCash's and DCBank's information regarding the Customer if needed. A copy of the DirectCash Privacy Code and DCBank Privacy Codes are available by contacting DirectCash and DCBank or downloading them from DirectCash's or DCBank's web site. By executing this Agreement the Customer consents to the collection, use and disclosure of the Customer's Personal Information as provided for in this Agreement and as outlined in the DirectCash Privacy Code and DCBank Privacy Code.

**30. Discontinuance of Service.** If for any reason DirectCash and DCBank cease to provide Prepaid Card services and as a result the Prepaid Card is deactivated while the Customer still has a positive Advance Limit authorized for the Prepaid Card, then DirectCash will either (a) arrange for a new Prepaid Card issued by a different Prepaid Card supplier to be issued to the Customer (subject to compliance with the supplier's card issuance requirements) or (b) advance a cash (or cheque) payment to the Customer for the remaining amount of the Advance Limit (subject to receipt of identification and return of the old card).

**31. Cancellation of Prepaid Card.** The Customer may at any time surrender the Prepaid Card to the Merchant from whom the Prepaid Card was acquired and the Merchant shall arrange for DCBank to reimburse the Customer in cash any outstanding Advance Limit remaining on the Prepaid Card less any outstanding fees. Alternatively, the Customer may call DirectCash's toll free number and cancel the Prepaid Card and a cheque will be mailed to the Customer within 60 days. DirectCash, DCBank or the Merchant may cancel the Prepaid Card at any time, at which time the Customer will immediately return the Prepaid Card to DirectCash or as DirectCash directs. DCBank or DCBank's agent shall reimburse the Customer any outstanding balance remaining on the Prepaid Card less outstanding fees. If there is not a sufficient balance on the Prepaid Card to pay monthly maintenance fees, DirectCash may deactivate the Prepaid Card without notice. The Customer may be required to pay a re-activation fee thereafter to use the Prepaid Card. This Agreement as a whole will not terminate except upon the written agreement of both DirectCash and the Customer.

**32. Termination of This Agreement.** This Agreement will not terminate except upon the written agreement of both DirectCash and the Customer.

**33. Quebec - Use of English Language.** The parties have required that this document be drawn up in English. Les parties ont demandé que ce contrat soit rédigé uniquement en anglais.

**34. Entire Agreement.** This Agreement constitutes the entire agreement between DirectCash/DCBank and Customer related to the Prepaid Card and there are no other written or verbal agreements or representations. However, if Customer opens an account with DCBank, then the various account, credit and other agreements entered into between DCBank and the Customer (including the Account Agreement Terms referred to above) may also apply in some aspects to the Prepaid Card.

**This is EXHIBIT "S" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*



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annual report **2011**

10th Anniversary Edition 2001-2011

**Financial Convenience.  
Everyday People.**

As one of Canada's leading providers of alternative financial products and services, at September 30, 2011, Cash Store Financial boasted a network of 574 branches in over 200 Canadian communities and twelve branches in the United Kingdom.

The Company operates two of the most recognizable brands in the alternative financial services market – Cash Store Financial and Instaloes – each of which hold dominant positions in all key Canadian markets. By branch count, the Company holds over 36% of Canadian market share. Over 45% of the Company's branch network is less than three years of age.

Cash Store Financial and Instaloes primarily act as brokers that facilitate short-term advances and provide other financial services to income-earning consumers. Our products include bank accounts, small-sum short-term loans, cheque cashing, payment protection, a prepaid MasterCard® and Ria money transfers.

Cash Store Financial has always been committed to the communities that we serve. As part of this commitment, we have partnered with the Alberta Diabetes Foundation and the Alberta Diabetes Institute to raise \$7.5 million for diabetes research. The Company has been recognized for its contribution through a Roll of Honour Award from the Alberta Association of Fund Raising Executives.

Cash Store Financial is the only broker of short-term advances and provider of other financial services in Canada publicly traded on the Toronto Stock Exchange (TSX: CSF). The Company also trades on the New York Stock Exchange (NYSE: CSFS). Founded in 2001 in Edmonton, Alberta under the name Rentcash Inc., 2011 marks our tenth year of operation. The Company is driven by a dynamic workforce, a performance-based culture, and a commitment to strong business fundamentals. Cash Store Financial employs over 2,300 associates.

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MILESTONES

**2001**

**OPENED FIRST BRANCH**

alternative financial  
products and  
services.



## **05** our **footprint**

574 branches and growing.

With 36% Canadian market share Cash Store Financial has a firm platform to grow Internationally. We have commenced in earnest our expansion into the United Kingdom.

## **06** chairman's **report**

Report to Shareholders from the Chairman and Chief Executive Officer

Gordon J. Reykdal, Chairman and Chief Executive Officer provides an earnings update and describes our forward business strategy.

## **10** president's **report**

Report to Shareholders from the President and Chief Operating Officer

Barret J. Reykdal, President and Chief Operating Officer, reports on his annual President's Forum and his forward looking strategies.

## **13** our **associates**

These top performers are an inspiration to their peers.

## **24** long service **awards**

These associates exemplify our values and have made an extended commitment to our Company.

## **26** our commitment **to diabetes**

Three projects directly funded by Cash Store Financial.

**29** Management's Discussion and Analysis

**57** Financial Statements

**64** Notes to The Consolidated Financial Statements

**88** Corporate Governance

**89** Board of Directors

**91** Senior Officers

**92** Company Information

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MILESTONES

# 2002

LISTED ON THE TSX VENTURE EXCHANGE

FIRST PRESIDENT'S FORUM



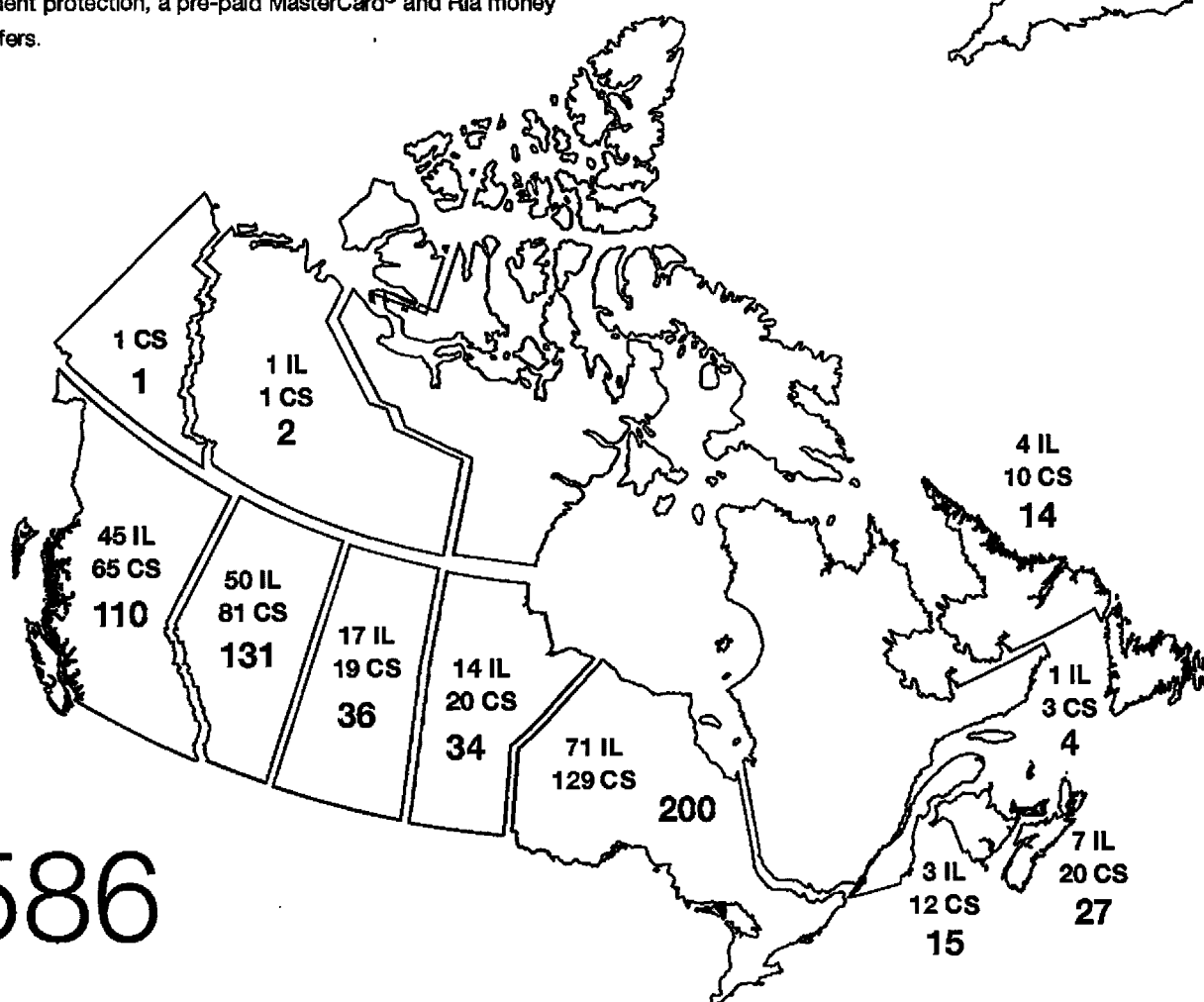
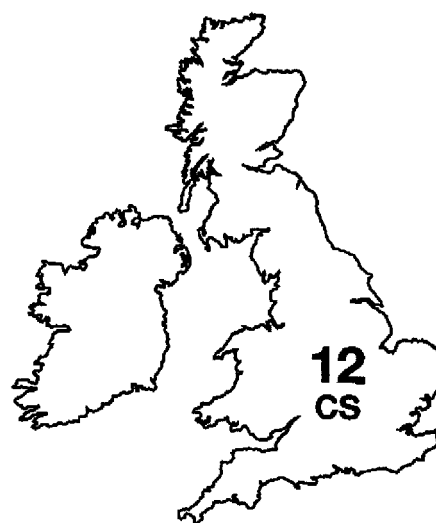
and 12 branches in  
the United Kingdom  
under the banner,  
**Cash Store Financial.**



## Our Footprint (as at September 30, 2011)

Cash Store Financial and Instalans each hold dominant positions in key markets. We have earned our position as one of Canada's leading providers of alternative financial services through our established commitment to excellence in customer service and a true commitment to solutions that meet our customers' everyday needs.

Cash Store Financial and Instalans are recognized market leaders. Our growing range of financial products includes bank accounts, small-sum short-term loans, cheque cashing, payment protection, a pre-paid MasterCard® and Ria money transfers.



5

586

MILESTONES

# 2003

57 CASH STORE FINANCIAL BRANCHES  
IN SEVEN PROVINCES

RAPID BRANCH EXPANSION INITIATED

## Chairman's Report

Chairman's Report by Peter A. Breen, Chairman, Cash Store Financial

# Cash Store Financial celebrated 10 years of success.



Fiscal 2011 was a good year. It was not our strongest year.

We have always been and continue to be proponents of industry regulation. But it is clear that more work needs to be done with regulators to build a stronger understanding of our business.

Revenue growth was strong; but it was not strong enough to fully offset the impact of rate caps.

Throughout the year we remained committed to our long-term vision to be the alternative financial services provider of choice in Canada and the United Kingdom.

This commitment required further investments in collections infrastructure, new product development, and investments in infrastructure to support our entry into the United Kingdom. Earnings for the period were impacted by \$2.4 million in legal and professional fees for class action law suits, regulatory matters and a U.S. trademark infringement action against the Company.

Weaker than expected revenues combined with increased expenses resulted in lower earnings relative to previous periods.

## OUR RESULTS

Overall, we achieved revenue of \$189.9 million for the twelve months ended September 30, 2011, up 6.1% from \$179.0 million for the same twelve-month period last year. This growth was primarily attributable to strong growth in ancillary revenues, which continues to be a strategic focus for management.

For the twelve months ending September 30, 2011, ancillary revenues were up 26.3% to \$53.3 million from \$42.2 million for the same period last year. Ancillary revenue as a percentage of total revenue increased from 23.6% to 28.1%.

Net income for the period, before class action settlement costs and related taxes, was \$11.3 million for the period ending September 30, 2011, down from \$22.9 million for the same period last year. Including these costs, net income was \$9.0 million for the period ending September 30, 2011, compared to \$20.8 million for the same period last year.

The decrease in net income was primarily attributable to lower than expected revenues combined with long-term investments in collections infrastructure, investments in United Kingdom expansion infrastructure, new product development and regulatory administrative costs.

Earnings per share (diluted), before class action settlement costs and related taxes, were \$0.64 per share, down from \$1.31 for the same period last year. Including these charges,

earnings per share (diluted) was \$0.51 compared to \$1.18 for the same period last year.

Our EBITDA was \$24.5 million for the year ended September 30, 2011, compared to \$37.4 million for the twelve months ended September 30, 2010. This decrease was due to rate compression, reduced loan volumes, and increased regional and corporate infrastructure costs compared to the same period last year, partially offset by increases in other revenues.

EBITDA, adjusted to remove class action settlements and the effective interest component of retention payments, was \$49.0 million for the year compared to \$59.2 million in the twelve-month period ended September 30, 2010.

Same branch revenues for the 445 locations open since the beginning of October 2009 decreased by 5.1% to \$356,250 from \$375,400, due to lower than expected new customer acquisitions.

Branch operating income for the period ending September 30, 2011 was \$55.0 million, down 10.7% from \$61.6 million for the same period last year due to lower revenues and increased expenses from the addition of 44 new branches.

Our cash position was \$19.3 million at September 30, 2011 compared to \$19.6 million at September 30, 2010.

## A DECADE OF EXPERIENCE

In April 2010, Cash Store Financial celebrated 10 years of growth. In 2001, we started with one branch on the corner of 124th Street and 107th Avenue in downtown Edmonton, Alberta.

We have grown to 574 branches in over 200 communities across Canada. At year-end, we operated 12 branches in the United Kingdom.

This expansion of our branch infrastructure has been primarily organic, fully funded by operational cash flows.

The objective behind our rapid Canadian growth has been to secure a dominant market footprint during a period of regulatory uncertainty, when other competitors have been reluctant to enter the market.

On the basis of branch count we have achieved 36% market share. Our market penetration is strong.

Our objective now is to grow earnings through overall performance improvements to our existing branch network, especially the 45% of our branches that are still in the early stages of development. We will further strengthen the

contribution of ancillary revenues through the introduction and roll-out of new products.

## OUR FORMULA

We offer an open concept environment like a credit union or a bank.

Our customers appreciate the chance to do business in a private setting while sitting at a desk with one of our well-trained financial customer service representatives.

We provide the best customer service in the business. To ensure the safety of our associates, we deliver loan proceeds by cheque or to an optional debit or pre-paid credit card, or bank account that customers can access when it best suits their needs. These in-demand services are offered via an agency arrangement with a Schedule 1, federally chartered bank, DC Bank.

Our focus on the electronic delivery of funds is in-line with all other segments of the financial services sector.

## OUR EXPANDING RANGE OF SERVICES

To improve our ability to adapt to market and regulatory changes, it is critical that we expand the range of products that we offer and that we leverage the inherent distribution capacity of our retail network.

Continuing to increase the contribution of ancillary revenues beyond current levels is a priority focus for management.

We initiated our move in this direction in fiscal 2010 with the introduction of general-purpose bank accounts provided by DC Bank.

Consumers use these accounts for payroll deposits to reduce cheque-cashing fees or as a transactional account into which the proceeds of a payday loan can be transferred.

Having bank accounts as part of our product mix has enabled us to increase our focus toward attracting consumers interested in a long-term relationship.

In support of our increased emphasis on longer-term clientele, through fiscal 2011, we developed a new line of credit product that is being rolled out across our Canadian network on a phased basis. This product targets consumers with differing needs than our payday loan customers. It will rely on credit scoring.

In Calendar 2012, we also anticipate the introduction and testing of a term life insurance product. Our customers will be able to secure coverage that they deserve using a low cost, internet-based distribution platform.

This platform will allow for a quick and easy sign-up for customers when they are in our branches.

## COMMITMENT TO DIABETES

In October 2008, we made an ongoing commitment to raise \$7.5 million for diabetes research at the Alberta Diabetes Institute (ADI), a globally recognized Canadian Centre of Excellence at the University of Alberta. To date we have raised and contributed \$780,000 to diabetes research.

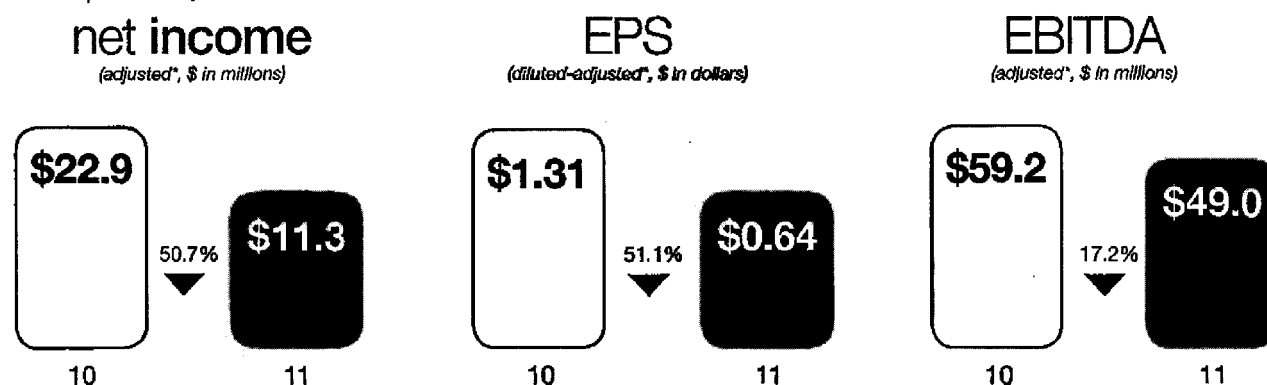
We continued to develop our Freedom Runs as a long-term platform to raise funds and to engage communities with the Cash Store Financial brand. In 2011, we conducted 32 Freedom Runs across the country.

This has been a Company-wide initiative that has received enthusiastic support from associates in every region of the country.

## LOOKING AHEAD

Although Fiscal 2011 was not our strongest year, we have not lost sight of our long-term strategic vision.

As at September 30, 2011



\* Adjusted to remove class action settlement costs and related taxes

Our past and ongoing investments position us well for long-term growth.

To improve earnings and to increase shareholder value, management has four strategic priorities.

First, we remain focused on moving toward a direct lending model and continuing to reduce the cost of capital in coming periods.

Second, we will continue to grow ancillary revenues as a percentage of overall revenue. This will be achieved by the development and roll-out of a range of new products.

Increased emphasis will be placed on expanding our range of customers to include those who seek a long-term relationship.

Third, now that we have achieved a dominant footprint, forward earnings growth will be primarily achieved through overall improvements to the operations of our existing Canadian network, especially the 45% of our Canadian branches that are in the early stages of development. The earnings potential of our existing network is strong. We have slowed our pace of new branch roll-outs to allow younger branches to mature towards a more positive level of earnings contribution.

Fourth, to continue to grow profitability, we will invest growth capital into new markets. Based on its similar economy and a favourable regulatory framework, we have initiated an expansion into the United Kingdom. Initial indications are that this is an early stage market with strong potential for earnings contribution.

In conclusion, Fiscal 2011 was a period of continued adjustment to changing regulatory circumstances, with a strong focus on solidifying our foundation for long-term growth. I remain bullish about the future.

I would like to thank our associates at all levels in the Company for their dedication and hard work. In my view, they are the best in the business.

I would also like to thank our shareholders for their ongoing support and commitment to the growth of this Company.

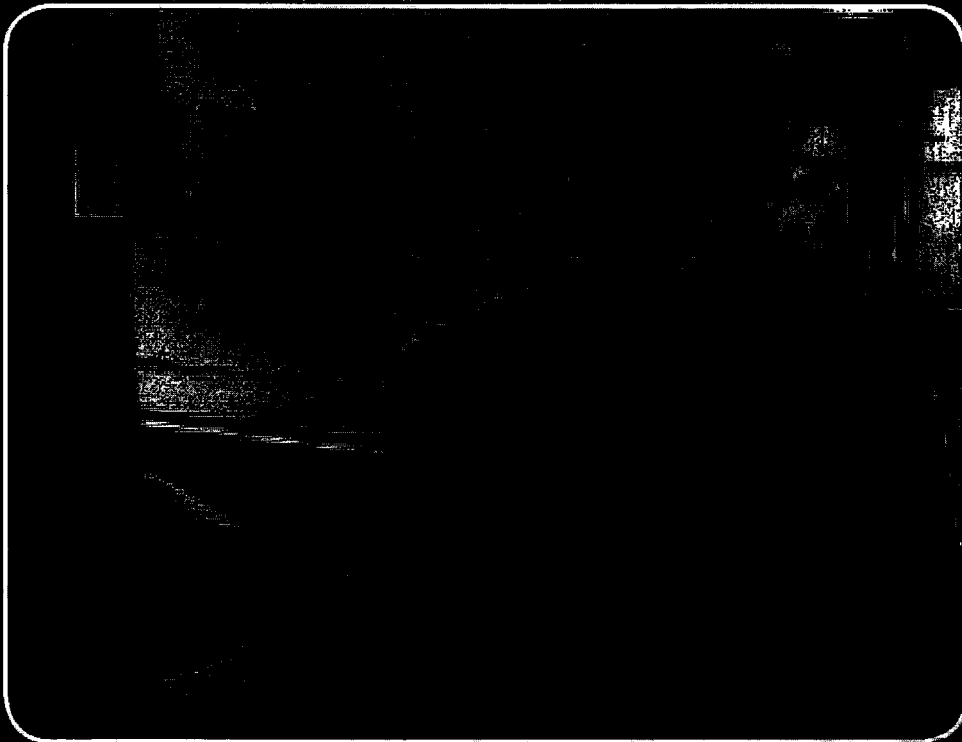


Gordon J. Reykdal  
*Chairman and Chief Executive Officer*

# President's Report

... ..

We are breaking  
new ground in the  
United Kingdom.



Cash Store Financial is a young company and a strong business. Our outlook is solid. Reliable long-term growth can be achieved through continued improvements in our operations.

Fiscal 2011 was a year of continued adjustment. Although overall loan volume was up, same branch revenues and branch operating income were down. Revenue growth has not yet been sufficient to fully offset the impact of rate compression.

Going forward our focus is to secure strong Canadian growth by improving the performance of our younger branches within our existing branch network. We plan to achieve this by slowing the pace of new branch roll-outs in Canada, continuing to develop our operations management group and continuing emphasis on training for our branch associates.

For the 12 months ending September 30, 2011, we brokered record loan volume of \$821.4 million, up 6.3% from \$772.6 million for the same period last year. We achieved overall revenue of \$189.9 million, up 6.1% from \$179.0 million for the same period last year. This growth was primarily attributable to ancillary revenues that increased 26.3% to \$53.3 million from \$42.2 million. Consistent with our strategy, growth in ancillary revenues effectively served as a partial offset to rate compression.

Same branch revenues for the 445 locations open since the beginning of October 2009 decreased by 5.1% to \$356,250 from \$375,400, due to weaker than expected new customer growth. Branch operating income was \$55.0 million, down 10.7% from \$61.6 million for the same period last year.

Earnings decreased by \$4.3 million for the year as a result of a drag on earnings from new branch openings.

## FOCUS ON THE U.K.

We have identified that the United Kingdom offers a receptive market with good potential to replicate some of our Canadian successes. At September 30, 2011, we had 12 branches operating in that market. Initial indications are that the growth potential of these locations is high.

In fiscal 2011, we dedicated requisite resources to support entry into the United Kingdom. We capitalized on our Canadian experience to train and prepare associates for a U.K.-based expansion. New branch openings will occur on a measured basis, financed by cash generated in that market.

We have opened a regional office in Stockport, located in Greater Manchester, and now have 130 local associates onboard.

## ANNUAL PRESIDENT'S FORUM

On an annual basis I conduct a national President's Forum during which I meet personally with every branch manager and every regional manager in the Company. The 2011 Forum was conducted in the second quarter.

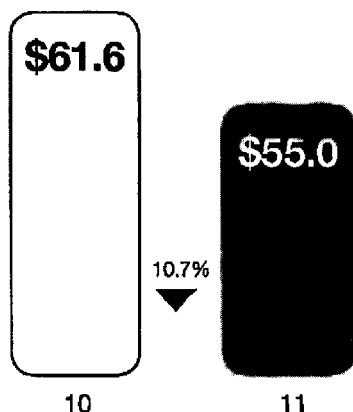
As always, I was impressed by our managers' support for this Company and its vision. Our managers are eager to grow the business. Our plan is to provide them with the new products and the training they need to make that happen.

In addition to growing our payday loan business, we will build on our branch managers' enthusiasm to build long-term relationships with our customers. In the process, we will

As at September 30, 2011

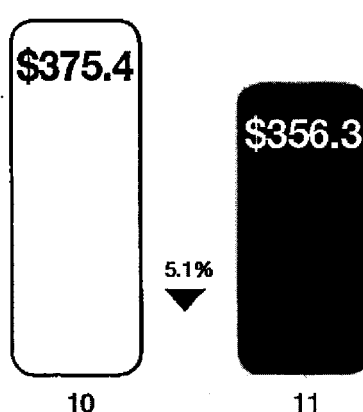
### branch operating income

(\$ in millions)



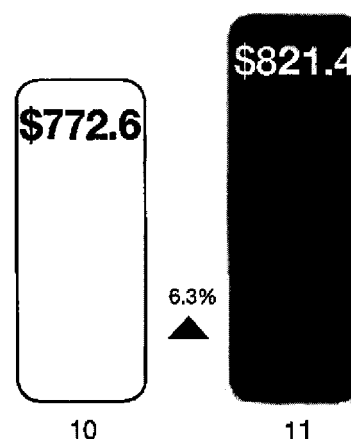
### same branch revenues

(\$ in thousands)



### loan volume

(\$ in thousands)





increase the percentage contribution of ancillary products to overall earnings.

To achieve this, through Fiscal 2011, we placed substantial emphasis on the development of new products, including a line of credit. The line of credit will appeal to customers that have a need for a long-term alternative financial solution that is not typically available through traditional financial institutions.

Our new product tests and roll-outs will be supported by Company-wide road shows that emphasize product knowledge and product-specific sales strategies.

**EFFECTIVE TRAINING FOR ASSOCIATES**

We have placed increased emphasis on the full integration of our "Coaches Program" through which each newly hired financial customer service representative is assigned an experienced branch manager that assists and assesses that associate from the first day of hire through to the completion of their probationary period.

The "Coaches Program" is complemented by Cash Store Financial College, an on-line training platform that enables us to centrally track training completion rates and scores on a

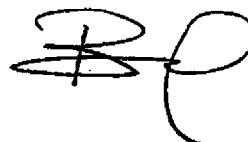
range of course materials that focus on sales and marketing, product knowledge and compliance.

All of our key messages are reinforced throughout all levels of the Company through Cash Store Financial TV, our on-line daily news network.

Through fiscal 2012, operations will maintain its focus on maturing our existing branch network by providing our managers and financial customer service representatives with more tools to help them better do their jobs.

Our business is strong. We have a strong complement of financial customer service representatives that are supported by a team of well-trained and committed managers.

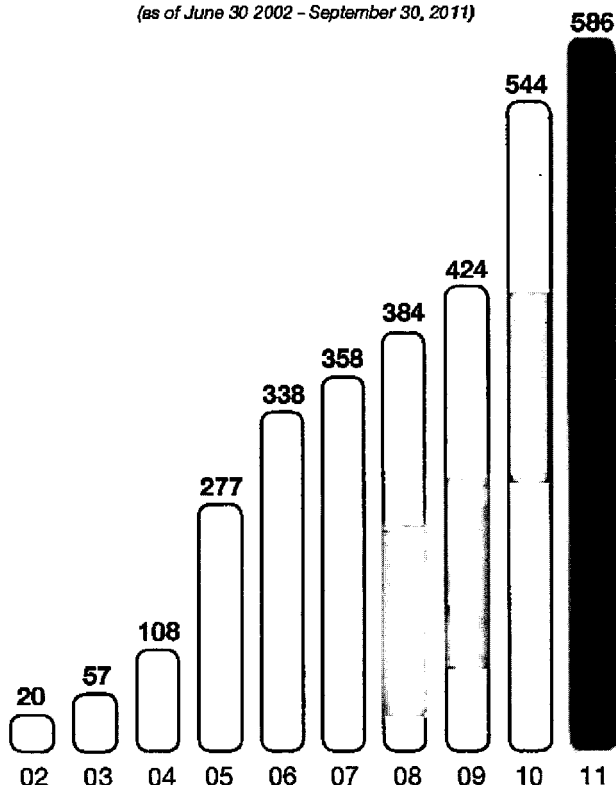
Through their commitment, our forward outlook remains positive.



Barret J. Reykdal  
President and Chief Operating Officer

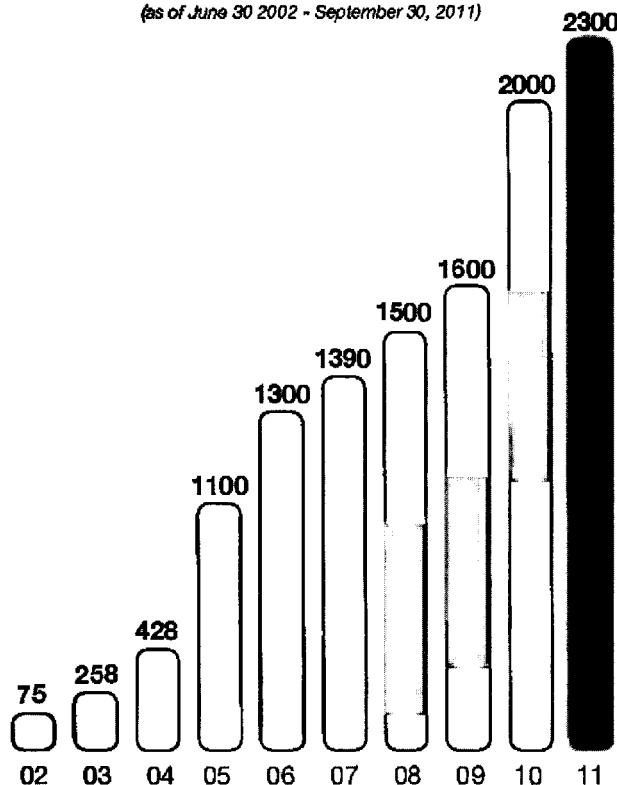
**branch count**

(as of June 30 2002 - September 30, 2011)



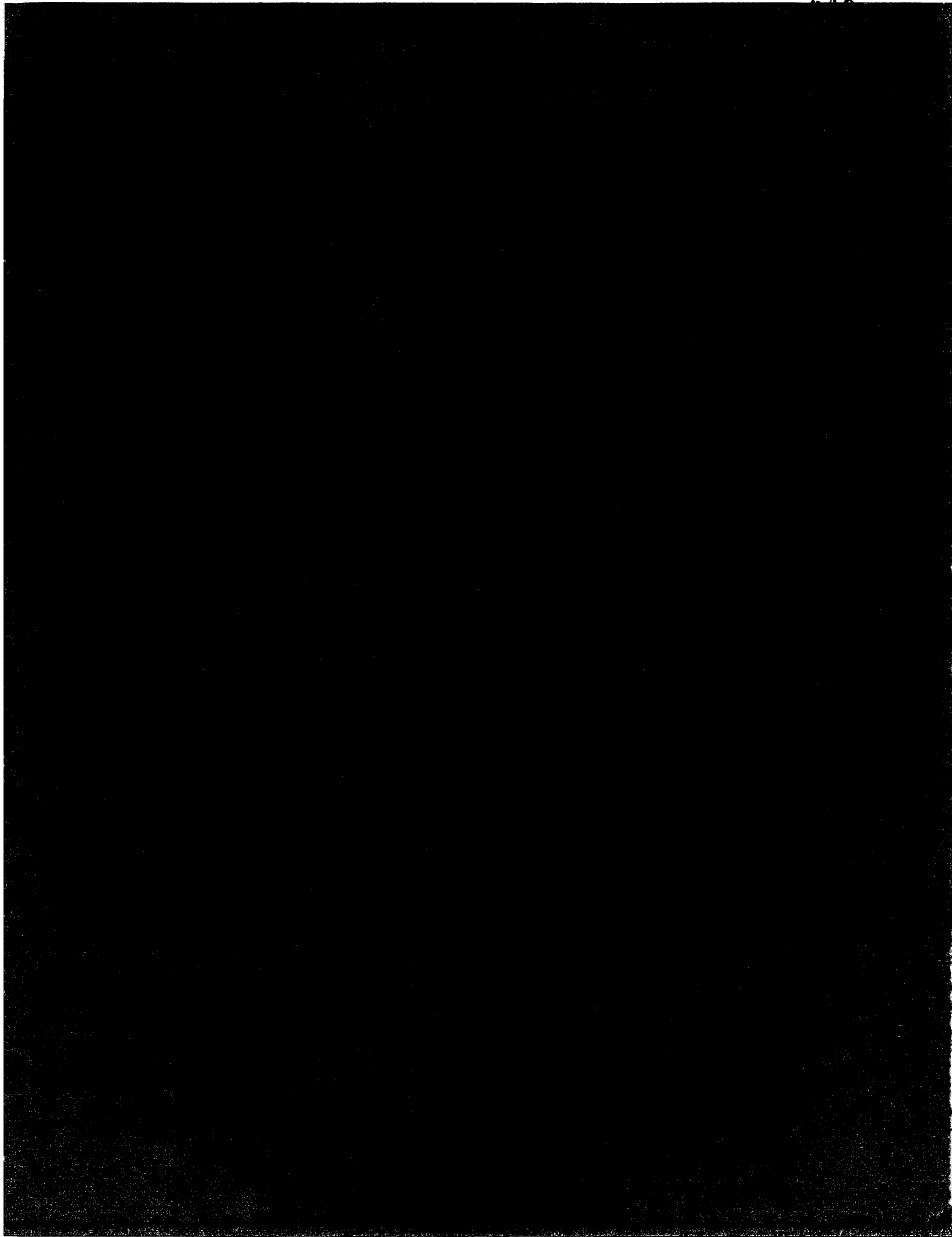
**associate count**

(as of June 30 2002 - September 30, 2011)



## **Our Associates**

**They are an  
inspiration to their  
peers.**

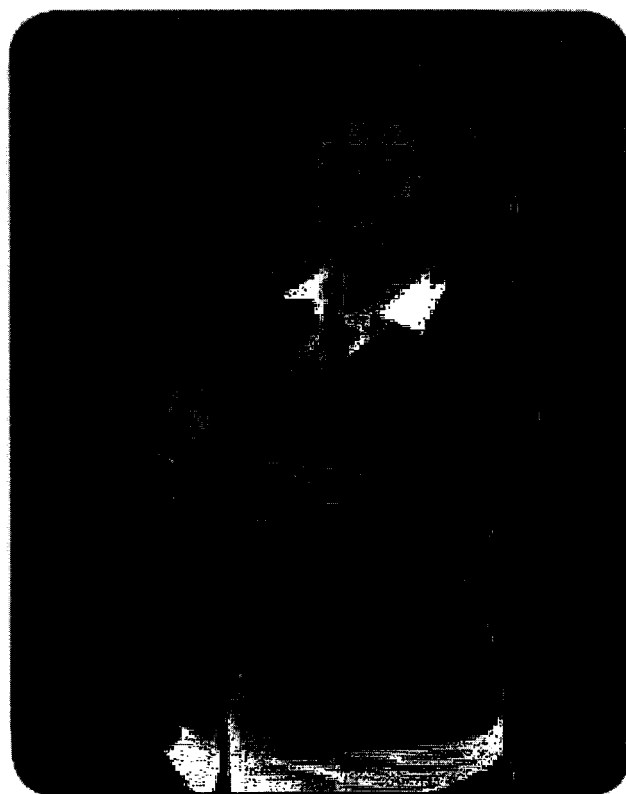


**“I really enjoy our culture and how focused everyone is on succeeding together. People here are talented and aren’t afraid to teach others. I personally have learned from people at every level of the organization from FCSRs to the CEO himself.”**

## Renee Berlingo

GENERAL MANAGER OF TRAINING, CORPORATE OFFICE, Edmonton, Alberta

Renee is proof of the many opportunities for growth and advancement with the Company. She started with the Company as a Customer Service Representative at branch C16 in 2002. In 2003 she was promoted to Branch Manager. It was during this time she dedicated herself to training new associates within the region. Over the years, she has moved up through various General Manager positions and in 2010, she was appointed General Manager of Training.



# 2004

**NAMED 28TH IN PROFIT HOT 50, DEFINITIVE RANKING OF EMERGING CANADIAN GROWTH COMPANIES**

**RANKED #6, ALBERTA'S 30 FASTEST GROWING COMPANIES**

**OVER 550 ASSOCIATES / ADDED 250 FULL-TIME POSITIONS**

# Vision to be the Best

## dedicated to:

...the safety of our customers  
...the quality of our products  
...the performance of our vehicles  
...the satisfaction of our customers  
...the reliability of our vehicles  
...the durability of our vehicles  
...the value of our vehicles  
...the peace of mind of our customers  
...the confidence of our customers  
...the respect of our customers  
...the care of our customers  
...the attention of our customers  
...the service of our customers  
...the support of our customers  
...the assistance of our customers  
...the help of our customers  
...the guidance of our customers  
...the direction of our customers  
...the leadership of our customers  
...the inspiration of our customers  
...the motivation of our customers  
...the encouragement of our customers  
...the support of our customers  
...the assistance of our customers  
...the help of our customers  
...the guidance of our customers  
...the direction of our customers  
...the leadership of our customers  
...the inspiration of our customers  
...the motivation of our customers  
...the encouragement of our customers

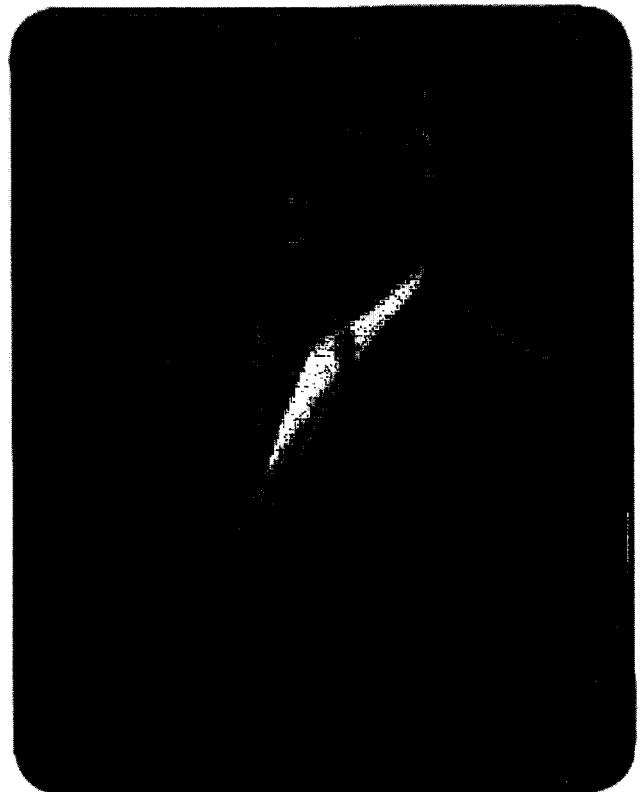


**“The best part has been all the people I’ve worked with. It’s amazing how many individuals I’ve worked with who are still behind the counters trying to make this Company the best in the market place!”**

## Renel Doucet

DIVISIONAL VICE PRESIDENT – DIVISION 4,  
Nova Scotia

In 2003, Renel was hired as the Branch Manager of our very first Cash Store Financial in Nova Scotia. With his drive and determination, Renel was promoted to Regional Manager for both Nova Scotia and Newfoundland. Renel’s strong work ethic contributed to the success of the branches in his region, and in 2007 he accepted a well-deserved promotion to Divisional Vice President. Renel has lent his leadership skills to assist his associates to be the best they can be and says this is the best part of his job.




---

MILESTONES

17

# 2005

**ACQUIRED 99 INSTALOANS BRANCHES**

**LISTED ON THE TSX**

**IMPLEMENTED A VOLUNTARY PROHIBITION  
ON ROLL-OVERS BEFORE BEING REGULATED**

**NAMED “TOP JOB CREATOR” – PROFIT HOT 50**

**RANKED #2 – ALBERTA’S FASTEST GROWING  
COMPANIES**

# Four Core Values

## Integrity

At the core of our business is a commitment to integrity. We do what we say we will do.

## Customer Focus

At the core of our business is a commitment to customer focus. We listen to our customers and we respond to their needs.

## Teamwork

At the core of our business is a commitment to teamwork. We work together to achieve our goals.

## Excellence

At the core of our business is a commitment to excellence. We strive for the highest quality in everything we do.



**“I have stayed with CSF because I feel valued, as an employee and as a person. I have such admiration for the openness of the Company. Everyone is a part of a team with a vision of helping everyone that walks through the door.”**

## Kim Hill

REGIONAL MANAGER, REGION 62, British Columbia

Kim joined the Company as Branch Manager for Instalcons 706 in 2003, a position she held until her well-deserved promotion to Regional Manager in 2011. As a team player Kim is a source of inspiration to her peers. She is proud to share the knowledge she has gained over the past eight years and believes firmly that we are only as good as the people we surround ourselves with. Kim not only believes in the Company's core values, she exemplifies them.




---

MILESTONES

19

# 2006

**RANKED #1 - ALBERTA VENTURE MAGAZINE'S  
FAST 50 LIST**

**GORDON REYKDAL NAMED ENTREPRENEUR  
OF THE MONTH - PROFIT 100**

**BARRET REYKDAL NAMED A SIZZLING TWENTY  
UNDER 30**

**CELEBRATED 5TH YEAR IN OPERATION**

**EXPANSION OF CHEQUE CASHING BUSINESS**



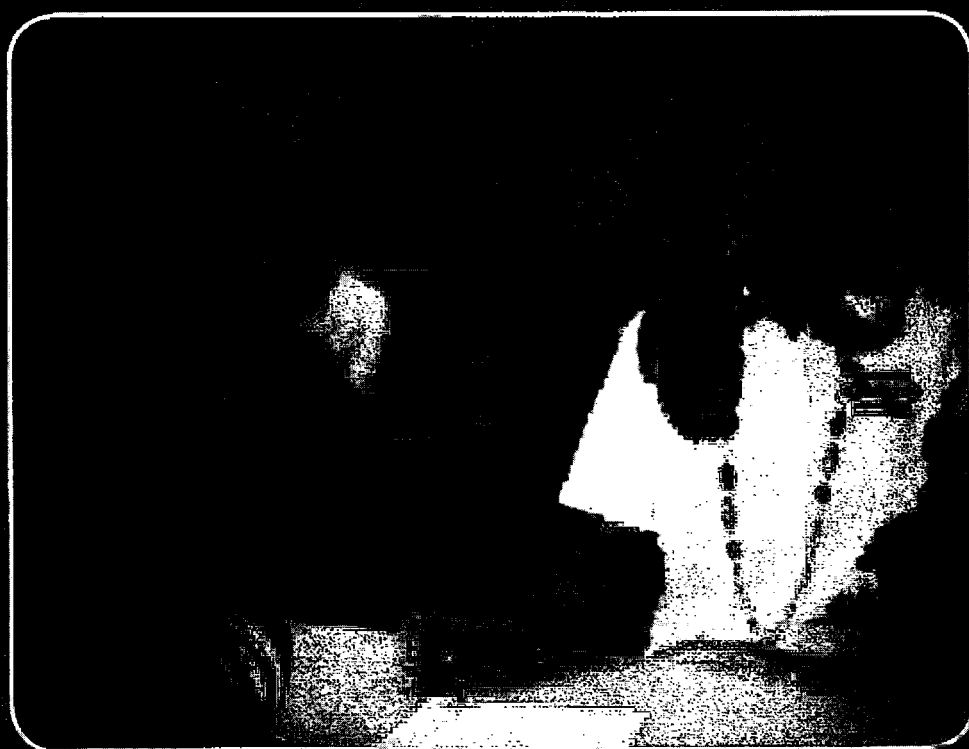
## Code of Conduct

customers

associates

yourself

the law

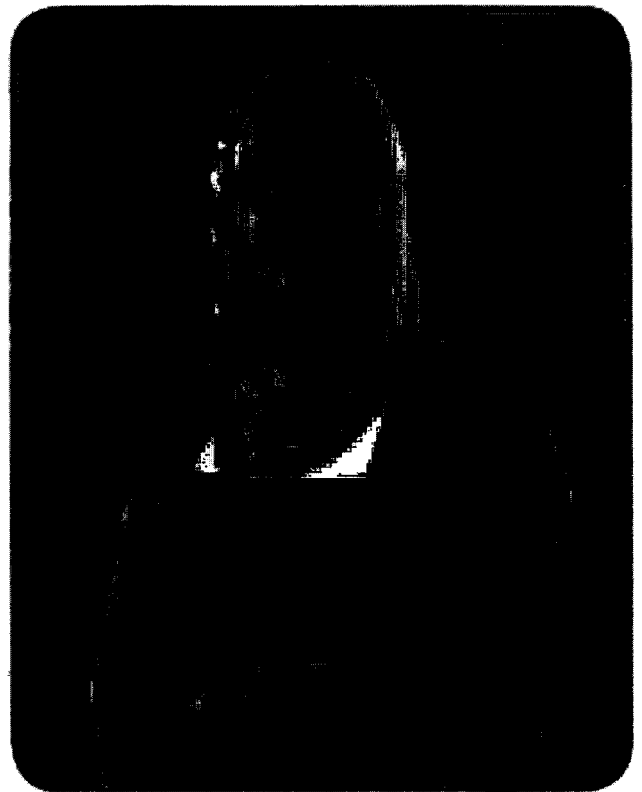


**“I work each day with positive staff who help motivate me. They make my job so much easier through their dedication.”**

## Rosanne Winstanley

REGIONAL MANAGER, REGION 44, Nova Scotia

Rosanne started with the Company in 2004 as a full-time Financial Customer Service Representative for C126. Within the next two years, she was promoted to Branch Manager. Rosanne took on the Branch Manager position with zeal and learned everything she could. Her motivation quickly led to a promotion to Regional Manager. Rosanne's positive attitude is reflected in her team's success.




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MILESTONES

21

# 2007

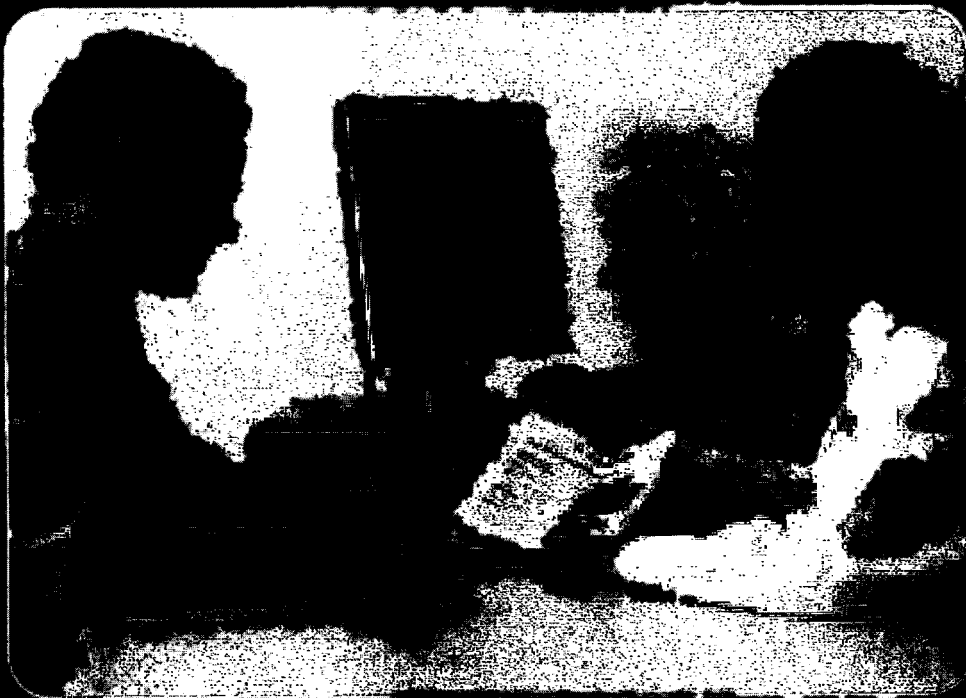
**RANKED #1 “CANADA’S FASTEST GROWING COMPANY” - PROFIT MAGAZINE**

**RANKED #3 IN THE TOP 25 PERFORMERS WITH REVENUE GROWTH GREATER THAN \$25 MILLION - ALBERTA VENTURE’S THE FAST 50**

**DECLARED FIRST QUARTERLY CASH DIVIDEND OF \$0.025 PER COMMON SHARE AND A SPECIAL CASH DIVIDEND OF \$0.075 PER COMMON SHARE**

**EMPLOYED 1390 ASSOCIATES**

all  
of our customers  
are treated fairly.



**“The Training Coach role and the Business Improvement Team helped me to grow as a Branch Manager and to prepare for the Regional Manager position.”**

## Dawna Storey

REGIONAL MANAGER, REGION 50, Ontario

Dawna started with the Company in 2006 as a Branch Manager in Peterborough. Two years later she was asked to open another branch. She became involved in the Training Coach role in 2009 and then joined the Branch Improvement Team in 2010. Dawna says it has been a fantastic journey. She loves the fast pace of the Cash Store Financial Team.



# 2008

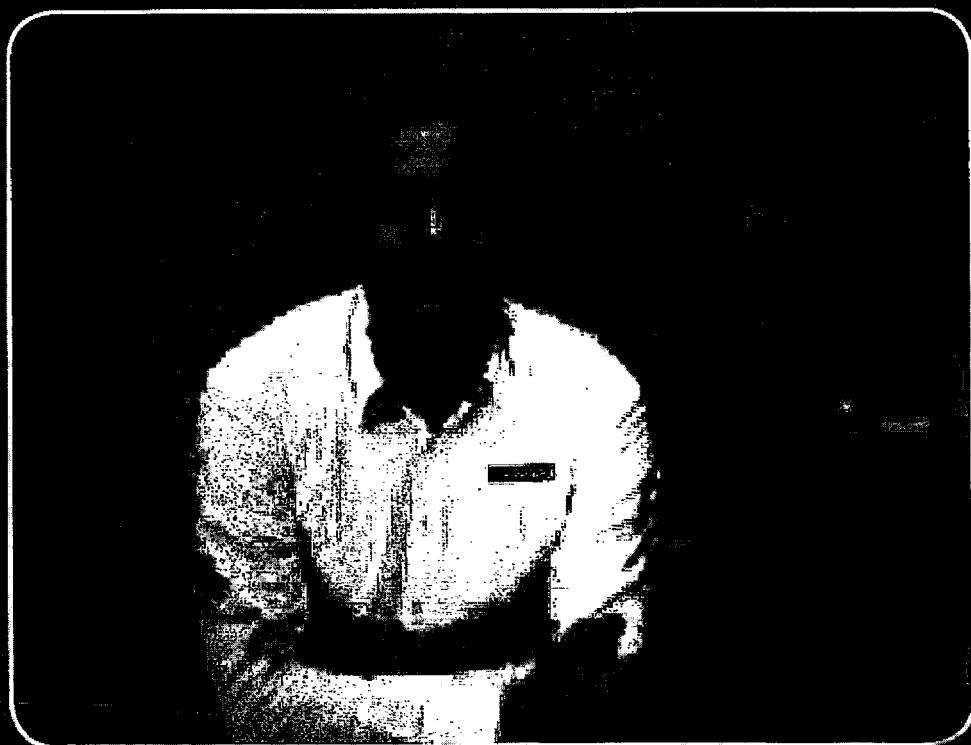
**SOLIDIFIED 25% OF CANADA'S ALTERNATIVE FINANCIAL SERVICES MARKET**

**RANKED 15TH ON THE PROFIT 100 RANKING OF CANADA'S FASTEST GROWING COMPANIES - PROFIT MAGAZINE**

**COMMITTED TO RAISE \$7.5 MILLION FOR DIABETES RESEARCH**

## Long Service Awards

our long-serving  
associates for their  
dedication.



## FIVE YEAR AWARD RECIPIENTS

Laurie Acker  
 Natasha Andow  
 Natasha Bellefeuille  
 Sarah Bellerose  
 Cynthia Bennett  
 Meranda Bernard  
 Rena Bessette  
 Michael Bezanson  
 Nancy Bland  
 Matthew Brisson  
 Nichola Carter  
 Rino Castelli  
 Michelle Chalifoux  
 Kimberley Clark  
 Tracy Clements  
 Maggie Coulter  
 Silvia Danlele  
 Brad Dextrick  
 Sherry Desaulniers  
 Tina Devaney  
 Maria Fedosov  
 Paul Fetter  
 Danielle Finoro  
 Jodie Garrow  
 Mindee Gatzke  
 Laura Goldsbury  
 Colleen Goudreau  
 Angela Harkness  
 Jacqueline Hawryluk  
 Lindsay Hewitt  
 Natasha Hill  
 Diane Hoffman  
 Terri Hutchings  
 Sherry Jewer  
 Bill Johnson  
 Melanie Jolley  
 Travis Kendall  
 Sabaf Khan  
 Allison King  
 Jason Krefting  
 Mandy Lapointe  
 Audrey Lucier  
 Terry Lyons-Schram

Jenna Malinoski  
 Melodie Masters  
 Robyn Mcknight  
 Donna Mead  
 Kristen Mitchell  
 Jamie Morrison  
 Amanda Mosher  
 Joanne Nelson  
 Michelle Nielsen  
 Heidi Pacheco  
 Kerri Palumbi  
 Crystal Paul  
 Beverley Penney  
 Julie Perry  
 Werner Pietrzyk  
 Sean Puls  
 Rhonda Raiclot  
 Tahera Rahman  
 Teresa Rose  
 Eva Ruchet  
 Glendale Sabatin  
 Mike Shaughnessy  
 Kelsa Shaw  
 Frank Spagnuolo  
 Elisabeth Tablos  
 Michelle Tye  
 Kristin Vansil  
 Sharon Watson  
 Kristin Westersund  
 Steve Whitehouse

## THREE YEAR AWARD RECIPIENTS

Yasir Abubakar  
 Heidi Alexcee  
 Brandi Antinozzi  
 Jessica Arnott  
 Mark Atkins  
 Marise Aveyard  
 Nicole Bates  
 Pilar Bautista  
 Colleen Belanger  
 Amanda Bemma  
 Paula Berry  
 Alicia Bluda  
 Catherine Botham  
 Marie Bourguignon  
 Carreena Broughton  
 Crystal Brownlee  
 Elizabeth Bueger  
 Desiree Butler  
 Amy Campbell  
 Miranda Cartier  
 Angela Cauley  
 Wendy Chrisp  
 Lauren Clare  
 Natasha Cole  
 Cassie Cormier  
 David Costain  
 Shauna Creasy  
 Gregory Cutler  
 Mark Dormuth  
 April Doucette  
 Cora Drake  
 Miranda Duguay  
 Lindsey Dutchak  
 Carlene Edwards  
 Shannon Evans  
 Janet Falconer  
 Colleen Fallis  
 Rachel Faulkner  
 Tammy Fitzpatrick  
 Candice Frewin  
 Robin Fronteddu  
 Natalie Fruck  
 Keith Gagera  
 Rochelle Gerwautz  
 Ali Gohar  
 Shelley Good  
 Pam Goodwin  
 Natasha Grant  
 Tammy Green  
 Amanda Guthro  
 Maureen Hales  
 Nicole Hand  
 Aimee Hauck  
 Amanda Hemmelgam  
 Kim Hume  
 Heather Ingram  
 Jamie Jack  
 Beth Johnson  
 Stephanie Johnston  
 Lisa Jones  
 Catharine Joyce  
 Paula Kelly  
 Bernadette Kent  
 Mona Keyes  
 Julianne King  
 Misty King  
 Lisa Klenwachter  
 Cheryl Klockow  
 Marta Koczan  
 Ashley Koochin  
 Amanda Kyle  
 Waylon Lafreniere  
 Eleanor Lafoyaux  
 Brooke Lamka  
 Pamela Langer  
 Rosette Larocque  
 Jessica Latimer  
 Kathleen Leary  
 Nancy Lefevre  
 Angela Lewis  
 Angela Lawkoski  
 Nicole Loudon  
 Shaylene Lucier  
 Ian Macdonald  
 Shabnam Mahmood  
 Aliya Mahmud  
 Shauna Manning  
 Rob Mathews  
 Kim Melenchuk  
 Ashley Miller  
 Jennifer Miller  
 Jenna Miller  
 Alla Mohamed  
 Najma Mohamed  
 Tracy Nadlger  
 Mouayed Naman  
 Crystal Neufeld  
 Denise Noseworthy  
 Natasha O'Brien  
 Tina Osmond  
 Pamela Panagapko  
 Joanne Parsons  
 Sara Penman  
 Tamara Pifer  
 Edelyn Piorque  
 Dayna Plamondon  
 Joshua Polchak  
 Trisha Dawn Powell  
 Melissa Ramnaraine  
 Tina Randell  
 Sandra Rayman  
 Rawnie Reynolds  
 Jeannie Robertshaw  
 Jody Robinson  
 Jeri-Lyn Rombs  
 Justin Sabalvaro  
 Allan Sadowsky  
 Alysha Samec  
 Leah Saquing  
 Lara Schaufelberger  
 Tammy Schwemler  
 Amber Sharpe  
 Katelin Shaughnessy  
 Renita Shaw  
 Kyle Shelby  
 Stacy Shenfield  
 Dawn Slater  
 Michelle Slaven  
 Anita St. Pierre

Noelle Stephens  
 Patrick Strand  
 Charlene Strub  
 Sheivonne Thompson  
 Tanasa Tyler  
 Helen Umolac  
 Kayla Van Dyk  
 Sammy Warsame  
 Susan Weller  
 Jade Wightman  
 Yue XuWanda Platt  
 Wendy Campbell  
 Yi Zheng

5 year award recipient  
 start date must be before May 31, 2006

3 year award recipient  
 start date must be before May 31, 2008

MILESTONES

# 2009

**SURPASSED 400 BRANCHES**

**LAUNCHED CSFTV**

**FIRST FREEDOM RUNS LAUNCHED**

## Our Commitment to Diabetes

Our commitment to the communities that we serve.



In October 2008, we made a commitment to raise \$7.5 million for diabetes research. Diabetes affects Canadians of all walks of life in every community across this country.

We are leveraging our network of 574 branches not just as a fundraising vehicle but as a conduit for education and disease prevention. To date we have raised and contributed \$780,000 to diabetes research.

In fiscal 2011, through partnerships with the Alberta Diabetes Foundation and the Canadian Diabetes Association, we held 32 Freedom Runs across the country. Pledges and registration fees were directed toward research initiatives across the country.

### **THREE DIABETES INITIATIVES RECENTLY FUNDED BY CASH STORE FINANCIAL**

#### **Clinical Research Unit**

Critical to finding ways to cure and prevent diabetes is the testing of research on live humans. To make this possible, in the summer of 2011, the Alberta Diabetes Institute opened its Clinical Research Unit. In this state-of-the-art clinical facility controlled human trials can be conducted in the presence of world leading experts at the Institute. The research undertaken at this facility will lead to a cure.

#### **Research Grants**

Three research grants, each worth \$80,000, have been awarded to the Alberta Diabetes Institute's scientists to assist with Type 1 and Type 2 diabetes research. These grants are directed toward projects that would not typically receive government funding but have real potential to jump start research toward a cure.

#### **Islet Cell Bank**

Islet cells are produced in the pancreas and secrete insulin which is essential to regulating blood sugar levels. When a person's blood sugar gets too high, they are at risk of getting diabetes. Providing researchers with access to islet cells is critical to the advancement of diabetes research.

IsletCore Canada is a specialized facility which serves as a "bank" in which islet cells are stored for future research purposes. It is one of only a few facilities of its kind in the world. By making sure that Canadian researchers have a steady supply of islet cells, the Alberta Diabetes Institute is accelerating the race toward a cure, and keeping Canada front and centre in this pursuit.

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MILESTONES

27

# 2010

**FIRST BRANCH OPENED IN THE UNITED KINGDOM**

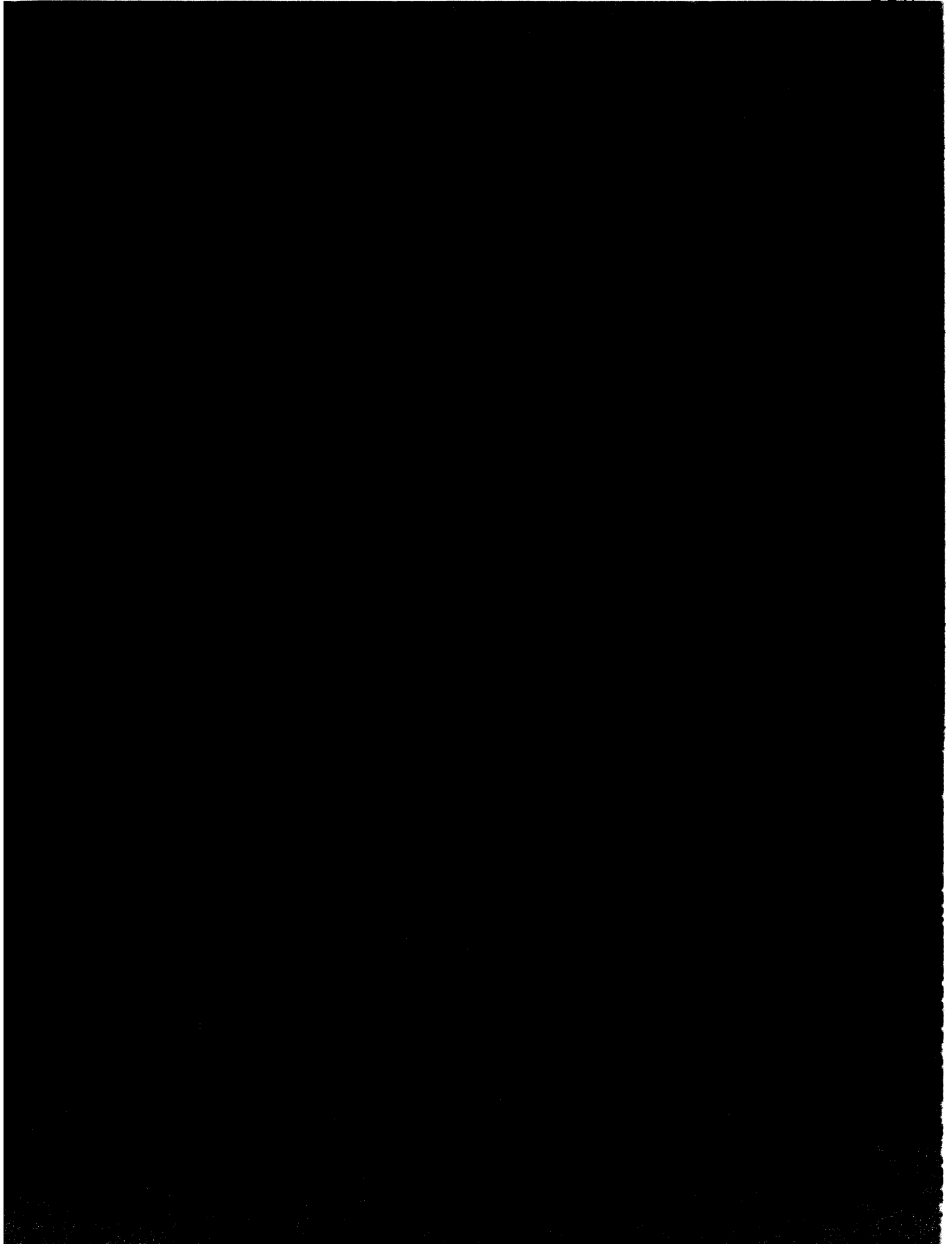
**SURPASSED 500 BRANCH COUNT**

**LISTED ON THE NEW YORK STOCK EXCHANGE**

**ENTERED AGREEMENT WITH RIA FINANCIAL SERVICES TO SUPPLY MONEY TRANSFERS**

**LAUNCHED BANK ACCOUNTS THROUGH AGENCY AGREEMENT WITH DC BANK**





# Management's Discussion and Analysis

For the three and twelve months ended September 30, 2011

**30**

INTRODUCTION

**30**

BUSINESS PROFILE AND STRATEGY

**33**

OVERALL FINANCIAL PERFORMANCE

**36**

SELECTED FINANCIAL INFORMATION

**37**

FINANCIAL ANALYSIS

**41**

LIQUIDITY AND CAPITAL RESOURCES

**42**

SUMMARY OF QUARTERLY RESULTS

**46**

RELATED PARTY TRANSACTIONS

**46**

RISK FACTORS AFFECTING PERFORMANCE

**49**

CRITICAL ACCOUNTING ESTIMATES

**53**

CHANGES IN ACCOUNTING POLICIES AND PRACTICES

**53**

RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

**53**

CONTROLS AND PROCEDURES

**54**

OUTSTANDING SHARE DATA

**54**

DIVIDENDS

**54**

OTHER

## introduction

The following management's discussion and analysis ("MD&A") should be read in conjunction with The Cash Store Financial Services Inc.'s ("Cash Store Financial" or the "Company") audited consolidated financial statements for the twelve and fifteen months ended September 30, 2011, and September 30, 2010 which are available at SEDAR ([www.sedar.com](http://www.sedar.com)) and at the United States Securities and Exchange Commission website ([www.sec.gov](http://www.sec.gov)).

All figures are presented in Canadian dollars and are reported in accordance with Canadian generally accepted accounting principles.

This MD&A is dated as of November 16, 2011.

## business profile and strategy

This section contains forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information located at the end of this MD&A.

Cash Store Financial is an alternative to traditional banks, providing short-term advances and other financial services, to serve the needs of everyday people in Canada through our two branch banners: Cash Store Financial and Instalozans. Cash Store Financial and Instalozans act as brokers and lenders to facilitate short-term advances and to provide other financial services to income-earning consumers. We also provide a range of financial products that are not supplied by traditional financial institutions. As of September 30, 2011, we owned and operated 586 branches in nine Canadian provinces, two Canadian territories and the United Kingdom (the "UK"). Our workforce is dynamic and we operate within a performance-based culture. We employ approximately 2,300 associates across Canada and the UK. Cash Store Financial is the only broker and lender of short-term advances and provider of other financial services in Canada that is publicly traded on both the Toronto and New York Stock Exchanges. Cash Store Financial trades under the symbol "CSF" on the Toronto Stock Exchange and under the symbol "CSFS" on the New York Stock Exchange.

Our business is based on the recognition that the needs of a segment of the Canadian and UK population are not being properly serviced by traditional financial institutions. Our strategic objective is to establish Cash Store Financial and Instalozans as the provider of choice, in the jurisdictions in which we operate, for short-term advances and other financial services by offering a wide range of products, a high level of customer service and convenient locations and hours of operation.

In addition to meeting our customers' needs by providing small, short-term loans which can be accessed quickly, we also offer financial product insurance, cheque cashing products, bank accounts, money transfers, pre-paid master cards, debit cards, and prepaid phone cards.

A key component of our long-term business strategy has been product diversification. This strategy has and should continue to assist us in offsetting downward pressure on revenue and earnings resulting from provincially regulated rate caps on payday loans. In the third quarter of 2010, through an agency agreement with DC Bank, a federally regulated Canadian Schedule 1 bank, we introduced a basic deposit account product. A new premium bank account product that features unlimited free cheque cashing and free on-line bill payments was introduced in late Q2 2011. Both types of account are insured by the Canada Deposit Insurance Corporation. On a national basis, consumer acceptance of both products has been high.

Cash Store Financial's strategic priorities are:

***Accelerate Direct Lending Model***

- Reducing our cost of capital.

***Introduce Additional New Products and Services***

Growing existing product lines and implementation of new product initiatives

- Providing superior service in relation to existing product offerings; and,
- Accelerating revenue growth through further new product initiatives.

***Continue to Grow Canadian Operations***

Driving market penetration

- Maximizing the potential of our expanding branch network;
- Continuing to focus on improving Branch Operating Income ("BOI") margins for all our branches;
- Continuing to educate, motivate and improve the performance of our associates through an integrated communication and training strategy that includes Cash Store Financial College, Cash Store FinancialTV and our annual President's Forum with every branch manager; and,
- Providing strong leadership through in-the-field, hands-on involvement of senior management and getting back to the basics throughout the Company.

New branch openings

- Further expanding our position in the Canadian alternative financial services industry through organic growth into underserved communities based on new branch profitability or via the acquisition of existing operators.

***Pursue International Expansion***

- Aggressive expansion of our network in the UK; and,
- Establish infrastructure in the UK to facilitate aggressive expansion.

Cash Store Financial has recognized its corporate responsibility to contribute to the communities in which we do business. In 2008, we partnered with the Alberta Diabetes Foundation to raise \$7.5 million for research to be undertaken at the Alberta Diabetes Institute, a globally-recognized centre of research excellence. In 2010 the Company was one of 16 companies recognized with a "Roll of Honour" award by the Alberta Association of Fund Raising Executives. The "Roll of Honour" award celebrates extraordinary commitment and contributions to the non-profit sector from corporate citizens and individuals around Alberta. In calendar 2011, Cash Store Financial hosted 33 "freedom" runs across Canada.

## Selected Annual Information

<i>(thousands of dollars, except for per share amounts and branch figures)</i>		Fifteen Months Ended	Twelve Months Ended
		September 30 2010	June 30 2009
<b>Consolidated results</b>			
<i>No. of branches</i>	<b>Canada</b>	542	424
	<b>United Kingdom</b>	2	-
		544	424
<b>Revenue</b>			
Loan fees		\$ 170,859	\$ 122,572
Other income		49,859	27,933
		220,518	150,505
<b>Branch expenses</b>			
Salaries and benefits		62,265	40,634
Retention payments		28,167	17,988
Selling, general and administrative		21,673	17,326
Rent		17,868	11,300
Advertising and promotion		5,535	3,971
Provision for loan losses		788	49
Depreciation of property and equipment		7,006	4,679
		143,302	95,947
<b>Branch operating income</b>		77,216	54,558
<b>Regional expenses</b>			
		13,359	8,169
<b>Corporate expenses</b>			
		21,127	16,627
<b>Other amortization</b>			
		2,055	1,333
<b>Income before income taxes and class action settlements</b>		40,675	28,429
<b>Class action settlements</b>		2,915	6,910
<b>EBITDA*</b>		48,100	28,583
<b>Net income and comprehensive income</b>		\$ 26,464	\$ 14,647
<b>Weighted average number of shares outstanding</b>			
- basic		16,913	17,958
- diluted		17,522	18,040
<b>Basic earnings per share</b>			
Net income and comprehensive income		\$ 1.56	\$ 0.82
<b>Diluted earnings per share</b>			
Net income and comprehensive income		\$ 1.51	\$ 0.81
<b>Consolidated Balance Sheet Information</b>			
<b>Working capital</b>		\$ 14,980	\$ 9,667
<b>Total assets</b>		115,045	83,796
<b>Total long-term liabilities</b>		9,882	2,959
<b>Total liabilities</b>		31,690	17,944
<b>Cash dividends declared per share</b>		0.54	0.20
<b>Shareholders' equity</b>		\$ 83,355	\$ 65,852

\*EBITDA – earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.

## overall financial performance

### 2011 Highlights and Outlook

This section contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information" located at the end of the MD&A.

(thousands of dollars, except for per share amounts)	Three	Three	Twelve	Twelve	Fifteen
	Months Ended	Months Ended	Months Ended	Months Ended	Months Ended
Consolidated results	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010	September 30, 2010
Revenue	\$ 47,151	\$ 49,279	\$ 189,899	\$ 178,982	\$ 205,131
Branch operating income	3,913	16,640	15,001	61,592	77,216
Net income					
Before class action expenses net of normalized tax	2,035	7,682	11,277	22,867	28,507
Net income and comprehensive income	2,035	7,682	9,042	20,824	26,464
Earnings before interest, taxes, depreciation, amortization, class action, expenses and effective interest component of retention payments	10,319	18,476	20,015	59,155	6,974
Earnings before interest, taxes, depreciation and amortization	6,207	11,132	22,514	37,375	18,100
Diluted earnings per share					
Before class action expenses net of normalized tax	\$ 0.72	\$ 0.42	\$ 0.63	\$ 1.31	\$ 1.63
Net income and comprehensive income	\$ 0.12	\$ 0.42	\$ 0.51	\$ 1.18	\$ 1.51

Net income and comprehensive income for the twelve months ended September 30, 2011, was \$9.0 million (after removing class action settlement costs and related taxes was \$11.3 million), compared to \$20.8 million (after removing class action settlement costs and related taxes was \$22.9 million) for the twelve months ended September 30, 2010.

Net income and comprehensive income was \$26.5 million (after removing class action settlement costs and related taxes was \$28.5 million) for the fifteen months ended September 30, 2010.

Diluted earnings per share were \$0.51 for the twelve months ended September 30, 2011 (\$0.64 after removing class action settlement costs and related taxes), compared to \$1.18 (\$1.31 after removing class action settlement costs and related taxes) for the twelve months ended September 30, 2010. Loan volumes and loan fees were lower than anticipated leading to lower than expected earnings during the year in addition to an increase in expenditures relating to regulations and increased infrastructure costs associated with collections, future expansion in the UK and new product additions.

Diluted earnings per share were \$1.51 (\$1.63 after removing class action settlement costs and related taxes) for the fifteen months ended September 30, 2010.

**Significant factors impacting the twelve months results as compared to the trailing twelve month results of 2010 and fifteen month results of 2010 include:**

- Revenue increased by 6.1% comparing the twelve months ended September 30, 2011 and 2010. For the year ended September 30, 2011 compared to the fifteen months ended September 30, 2010 overall revenue decreased by 13.9%;
- Loan fees decreased slightly by 0.1% comparing the twelve months ended September 30, 2011 and 2010. The slight decrease is as a result of decreases in same branch loan volumes, same branch revenues as it relates to loan fees, rate compression in Manitoba, and Nova Scotia offset by 44 new branches. Loan fees were down 19.9% to \$136.6 million for the year compared to \$170.7 million for the fifteen months ended September 30, 2010 given decreases in same branch loan volumes, same branch revenues as it relates to loan fees, rate compression in Manitoba, Nova Scotia and Ontario and three fewer months of reported results given change in year-end. The effect of rate compression reduced our rates by 4.1%, 0.8% and 3.4% in Manitoba, Nova Scotia and Ontario respectively;
- Other revenue increased by 26.2% or \$11.1 million when comparing the twelve months ended September 30, 2011 and 2010 reflecting continued success on our product diversification strategy. As a percentage of total revenue, other revenue increased to 28.1% from 23.6% or a 19.0% increase when comparing the twelve month periods. When comparing the year ended September 30, 2011 to the fifteen months ended September 30, 2010 we grew other revenues by 6.9% to \$53.3 million. For the year ended September 30, 2011 other revenues was 28.1% of total revenue compared to 22.6% for the fifteen months ended September 30, 2010 or a 24.1% increase;

- Loan volumes increased by 6.3% from \$772.6 million comparing the twelve months ended September 30, 2011 and 2010, as a result of branch openings. Loan volumes for the year ended September 30, 2011 were down 12.5% to \$821.4 million as compared to the fifteen month period ended September 30, 2010 as a result of reduced volumes, rate compression in Manitoba, Nova Scotia and Ontario and three fewer months of reported results due to the change in year-end;
- Earnings decreased by \$4.3 million for the year as a result of a drag on earnings from new branch openings;
- Retention payments increased by \$3.7 million or 16.1% comparing the twelve months ended September 30, 2011 and 2010 as a result of the effects of rate compression in the regulated provinces. Retention payments decreased by \$1.4 million for the year ended September 30, 2011 when compared to the fifteen months ended September 30, 2010. The decrease is due to three fewer months of reported results given the change in year-end;
- Provision for loan losses for on-balance sheet lending increased \$1.8 million for the year ended September 30, 2011 compared to the fifteen months ended September 30, 2010 as a result of a full year's lending compared to one quarter in the twelve months last year. Comparing the twelve months ended September 30, 2011 and 2010 the provision for loan losses increased by \$1.8 million;
- Branch selling, general and administration ("SG&A") increased by 1.5% when comparing the twelve months ended September 30, 2011 and 2010. During the year and for comparative quarters certain fees that were previously recorded as an increase to SG&A have been reclassified to other income. Branch SG&A costs decreased \$4.2 million for the twelve months ended September 30, 2011 compared to the fifteen months ended September 30, 2010 given cost containment measures at the branch level and three fewer months of reported results given the change in year-end;
- Corporate expenses increased by 7.6% when comparing the twelve months ended September 30, 2011 and 2010 as a result of increased professional and legal fees, UK expansion costs, and increased corporate salary costs. Corporate expenses decreased by \$2.9 million for the year ended September 30, 2011 when compared to the fifteen months ended September 30, 2010 due to three fewer months of reported results given the change in year-end offset by increased professional and legal fees, UK expansion, and increased corporate salary costs;
- Regional expenses increased by 50.2% when comparing the twelve months ended September 30, 2011 and 2010 given enhancements to collection infrastructure, a reorganization at the regional and division vice president level and infrastructure additions in both Canada and the UK. Regional expenses increased by \$3.4 million for the twelve months versus the fifteen months given enhancements to collection infrastructure, a reorganization at the regional and division vice president level, infrastructure additions in both Canada and the UK offset by three fewer months of reported results given the change in year-end;
- Revenues decreased in Manitoba and Nova Scotia by \$2.3 million and \$578,000 respectively for the twelve months as a result of rate compression; and,
- Working capital increased by \$2.1 million for the year ended September 30, 2011 compared to last year.

Our EBITDA was \$24.5 million for the year ended September 30, 2011, compared to \$37.4 million for the twelve months ended September 30, 2010. This decrease is due to rate compression, reduced loan volumes, increased regional and corporate infrastructure costs compared to the same period last year partially offset by increases in other revenues. EBITDA, adjusted to remove class action settlements and the effective interest component of retention payments, was \$49.0 million for the year, compared to \$59.2 million in the twelve month period ended September 30, 2010.

EBITDA for the fifteen months ended September 30, 2010 was \$48.1 million. This decrease in the current year compared to the fifteen month period ended September 30, 2010 is due to the same reasons noted above for the twelve months and three fewer months of reported results given the change in the year-end periods. EBITDA, adjusted to remove class action settlements and the effective interest component of retention payments, was \$74.0 million for the fifteen month period ended September 30, 2010.

The implementation of provincial industry rate regulations commenced in August 2009 and continued through until March 2010. Rate regulations have been implemented in British Columbia, Alberta, Ontario, Manitoba and Nova Scotia, representing markets in which 86% of our branches are located. Although we have experienced a decrease in our margins as a result of

provincial rate caps, we continue to view regulation as positive for the industry and critical to our long-term growth and success.

Product and revenue diversification initiatives continue to generate positive results. Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) increased to \$53.3 million in the year, up \$11.1 million from \$42.2 million in the twelve months ended September 30, 2010. We have made significant improvements in products and services which complement our existing product lines. We will continue to progress towards our objectives of diversifying our revenue stream with products which enhance and augment our core products, and increasing the value generated from our existing suite of products. When comparing to the fifteen month ended September 30, 2010, our revenue from other services went up \$3.4 million.

There has been a significant realignment of the regional and senior management structure of our operations group. We expect that these changes will lead to strong growth in future periods. Further expansion of our infrastructure will take place in order to facilitate our aggressive growth plans in the UK.



## selected financial information

		Three	Three	Twelve	Twelve	Fifteen
		Months Ended	Months Ended	Months Ended	Months Ended	Months Ended
		September 30	September 30	September 30	September 30	September 30
		2011	2010	2011	2010	2011
<i>(thousands of dollars, except for per share amounts and branch figures)</i>						
<b>Consolidated results</b>						
No. of branches	Canada	574	542	574	542	542
	United Kingdom	2	2	2	2	2
		586	544	586	544	544
<b>Loan volumes</b>						
Loan fees included		\$ 20,720	\$ 216,027	\$ 221,401	\$ 772,617	\$ 38,483
<b>Revenue</b>						
Loan fees		\$ 39,552	\$ 36,195	\$ 280,623	\$ 136,782	\$ 170,659
Other income		3,629	13,084	5,276	42,200	49,339
		47,181	49,279	285,899	178,982	220,518
<b>Branch expenses</b>						
Salaries and benefits		13,490	13,698	57,576	51,293	32,255
Retention payments		8,219	8,934	26,786	23,067	28,077
Selling, general and administrative		1,565	4,545	5,519	17,262	1,674
Rent		1,566	4,219	10,215	14,786	17,888
Advertising and promotion		1,093	1,223	3,140	4,475	5,336
Provision for loan losses		690	454	2,559	756	788
Depreciation of property and equipment		1,743	1,566	3,903	5,751	7,006
		33,266	32,639	114,688	117,390	105,602
Branch operating income		13,915	16,640	175,001	61,591	77,216
<b>Regional expenses</b>						
Regional expenses		4,523	2,358	16,749	11,149	16,359
<b>Corporate expenses</b>						
Corporate expenses		4,977	5,026	18,266	16,972	21,127
Other depreciation and amortization		570	13	2,412	1,484	2,054
Income before income taxes and class action settlements		3,843	9,243	17,874	31,987	40,676
Class action settlements		-	-	3,206	2,915	2,915
EBITDA*		6,207	11,132	25,514	37,375	48,100
Net income and comprehensive income		2,033	\$ 7,682	\$ 10,042	\$ 20,824	\$ 26,454
<b>Weighted average number of shares outstanding</b>						
- basic		17,407	17,071	17,259	16,938	16,913
- diluted		17,543	17,533	17,663	17,547	17,522
<b>Basic earnings per share</b>						
Income before class action settlement costs net of taxes		\$ 0.12	\$ 0.44	\$ 0.64	\$ 1.35	\$ 1.69
Net income and comprehensive income		\$ 0.12	\$ 0.44	\$ 0.52	\$ 1.22	\$ 1.56
<b>Diluted earnings per share</b>						
Income before class action settlement costs net of taxes		\$ 0.12	\$ 0.42	\$ 0.64	\$ 1.31	\$ 1.63
Net income and comprehensive income		\$ 0.12	\$ 0.42	\$ 0.51	\$ 1.18	\$ 1.51
<b>Consolidated Balance Sheet Information</b>						
Working capital		\$ 17,122	\$ 14,980	\$ 17,122	\$ 14,980	\$ 14,980
Total assets		121,839	115,045	121,839	115,045	115,045
Total long-term liabilities		9,882	9,882	9,882	9,882	9,882
Total liabilities		34,493	31,690	34,493	31,690	31,690
Shareholders' equity		\$ 87,346	\$ 83,355	\$ 87,346	\$ 83,355	\$ 83,355

\*EBITDA - earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.

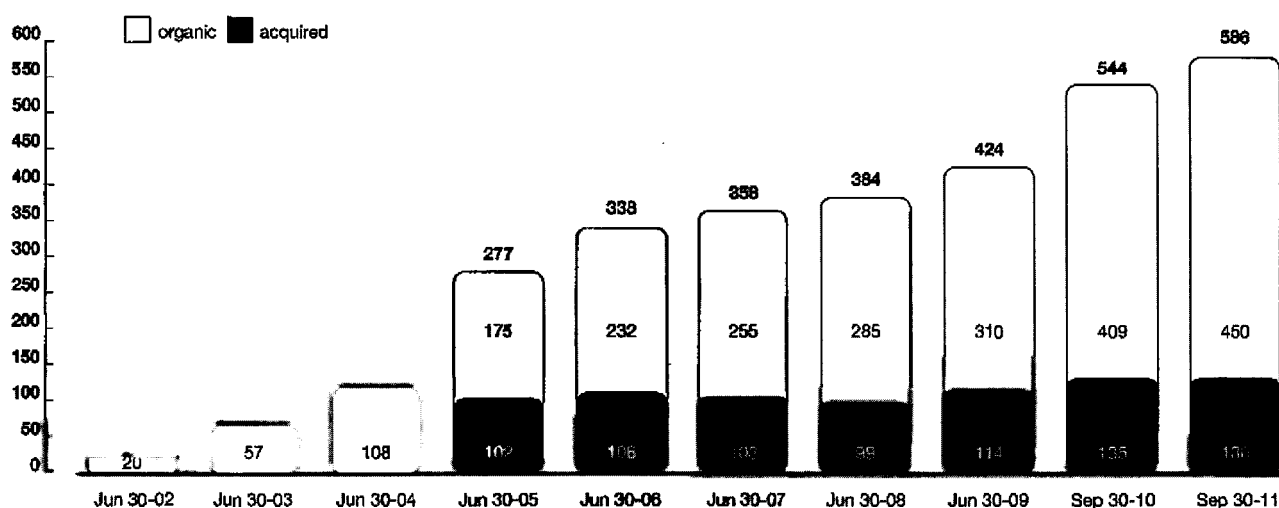
## financial analysis

This analysis provides an overview of our financial results for the twelve months ended September 30, 2011, compared to the fifteen months ended September 30, 2010. Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. Specifically, certain amounts that were previously recorded within SG&A expense have been reclassified to other income for all periods presented.

### Branch Count

This section contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information" located at the end of the MD&A.

At September 30, 2011 we had a total of 586 branches in operation, an increase of 42 branches, compared to 544 branches at the end of the last year. During the year, 44 new branches were opened, one branch was acquired and three branches were consolidated. Branch performance continues to be monitored and branch consolidations will occur when efficiencies can be achieved.



	Jun 30-02	Jun 30-03	Jun 30-04	Jun 30-05	Jun 30-06	Jun 30-07	Jun 30-08	Jun 30-09	Sep 30-10	Sep 30-11
Opening	5	20	57	108	277	338	358	384	424	544
Organic	15	37	51	67	61	20	37	31	104	44
Acquired	0	0	0	102	6	0	0	18	22	1
Consolidations	0	0	0	0	(6)	0	(11)	(9)	(6)	(3)
Closing	20	57	108	277	338	358	384	424	544	586

37

We increased our net number of branches by 42 over the year as compared to 93 over the twelve month period ended September 30, 2010 or 120 branches over the fifteen months ended September 30, 2010. For the year ended September 30, 2011 we consolidated three branches compared to six branches for the fifteen month period last year. We reached our goal of having 12 branches in the UK by the end of this year.

Material factors that determine the number of branch openings include availability of suitable locations with suitable lease terms, branch performance within similar areas and favorable market rates. In the coming year, we will be aggressively growing our branch network in the UK. We anticipate adding minimal branches next year in Canada.

### Revenue

For the year ended September 30, 2011, revenues increased by \$10.9 million to \$189.9 million or 6.1% as compared to the twelve months ended 2010 which is mainly due to record other revenue. Loan volumes were \$821.4 million in the year, up

6.3% from \$772.6 million for the twelve months last year. Loan fees for the year were down slightly by 0.1% to \$136.6 million compared to \$136.8 million for the twelve month period last year. The slight decrease is as a result of decreases in same branch loan volumes, same branch revenues as it relates to loan fees, rate compression in Manitoba, Nova Scotia and Ontario offset by 44 new branches.

As compared to the fifteen months ended September 30, 2011, revenues were down 13.9% compared to \$220.5 million. Loan volumes were \$821.4 million in the year, down 12.5% from \$938.5 million for the fifteen months last year. Loan fees for the year were down 19.9% to \$136.6 million compared to \$170.7 million for the fifteen month period last year. The loan fees were down in the year as a result of decreased loan volumes, rate compression and three fewer months of reported results given the change in year-end.

The implementation of cost of borrowing rate caps commenced in August 2009 and continued through until April 2011. The following cost of borrowing rate caps are currently in place: Nova Scotia - \$25 per hundred dollars loaned; British Columbia - \$23 per hundred dollars loaned; Ontario - \$21 per hundred dollars loaned; Manitoba - \$17 per hundred dollars loaned; Alberta - \$23 per hundred dollars loaned. We had an average loan fee of \$25.30 per hundred dollars loaned prior to regulations. For the twelve and fifteen months year ended September 30, 2010, our average loan fee earned per hundred dollars loaned was \$20.30. For the year ended September 30, 2011, our average loan fees earned per hundred dollars was \$19.70. This equates to a 3% reduction in loan fees earned.

The table below illustrates branch aging categories by year opened (twelve versus twelve months).

<i>(thousands of dollars, except branch figures)</i>						
Year Opened	Number of Branches	Revenues			Average Revenue per Branch per Quarter	
		September 30, 2011	September 30, 2010	% Change	September 30, 2011	September 30, 2010
2001*	94	35,402	\$ 38,617	-8%	377	\$ 103
2002	13	10,367	7,274	-12%	798	140
2003	35	15,651	18,374	-6%	447	117
2004	52	20,762	21,941	-5%	400	105
2005	66	24,777	25,989	-5%	375	98
2006	50	17,945	19,020	-6%	359	95
2007**	37	12,093	9,943	22%	327	67
2008	34	10,367	11,081	-6%	305	81
2009	48	12,340	11,567	7%	258	60
2010	112	26,900	15,093	78%	240	34
2011	45	5,182	-	100%	115	-
	586	188,028	178,899	8%	\$ 80	\$ 75
Consolidation of branches		128	880			
Other		1,745	1,203			
Continuing operations		\$ 189,899	\$ 178,982			

\* Instalment branches were acquired by Cash Store Financial on April 22, 2006; they have been operating since 2001.

\*\* EZ Cash branches were acquired by Cash Store Financial on April 26, 2010; they have been assumed on average to be operating since 2007.

38

Set forth below is a breakdown of our revenue that can be attributed to payday loans, segregated by loans internally originated and loans generated by third-party lenders. Types of revenue that can be attributed to the generation of payday loans include brokerage and loan fees, interest income and default fees. For the year ended September 30, 2011, the following table summarizes the allocation of types of revenue segregated between internally originated loans and third-party funded loans:

<i>(thousands of dollars)</i>	Third Party Funded Loan	Internally Originated Loan	Total
Loan fees	126,681	9,943	136,623
Interest	-	523	523
Default fees	3,429	150	3,579

Loan volumes related to internally originated loans increased to \$41.4 million in the year from \$7.9 million in the twelve month period last year.

For the fifteen month period ended September 30, 2010, the following table summarizes the allocation of types of revenue segregated between internally originated loans and third-party funded loans:

<i>(thousands of dollars)</i>	Third Party Funded Loan	Internally Originated Loan	Total
Loan fees	169,363	1,297	170,659
Interest	-	23	23
Default fees	2,011	121	2,131

The following table depicts the split between loan fees, agency fees, and other revenues:

<i>(thousands of dollars)</i>	Three Months Ended September 30 2011	Three Months Ended September 30 2010	Twelve Months Ended September 30 2011	Twelve Months Ended September 30 2010
Loan fees	\$ 36,195	\$ 36,195	\$ 136,623	\$ 136,782
Agency fees	9,916	9,916	6,809	31,472
Other	3,168	3,168	6,457	10,728
<b>Total Revenue</b>	<b>\$ 49,279</b>	<b>\$ 49,279</b>	<b>\$ 189,899</b>	<b>\$ 178,982</b>

When comparing the twelve months ended September 30, 2011 and 2010 overall loan fees decreased slightly by 0.1% given the decreases in same branch revenues as it relates to loan fees offset by the increased number of branches in operation during fiscal 2011. For the twelve months ended September 30, 2011, loan fees were \$136.6 million compared to \$170.7 million for the fifteen months ended September 30, 2010. The decline was due to three fewer months of reported results given change in year-end, decreases in same branch revenues as it relates to loan fees and decreases in same branch loan volumes.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. Specifically, certain amounts previously recorded within SG&A expense have been reclassified to other income for all periods presented.

Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) for the year was \$53.3 million, up 26.2% from \$42.2 million for the same period last year. Agency fee income has increased significantly as a result of the introduction of new products and other product enhancements namely bank accounts. These new products and enhancements are part of our long-term strategy to diversify revenue streams by providing our customers with a broader suite of financial services and products. Other revenue increased 6.9% or 28.1% of total revenue, up from \$49.9 million or 22.6% of revenue as compared to the fifteen month period ended September 30, 2010.

The most significant components of "other" revenue were agency fees at \$46.8 million in the year, which represented 87.9% of other revenue for the year or a 17.8% increase in the year. Compared to the twelve month period last year, agency fees were \$42.2 million or 74.6% of other revenue. Agency fees include fees earned from the provision of debit and prepaid credit cards and all other agency fees we earn from financial product insurance, money transfers and prepaid phone cards. The largest contributor to the increase was the introduction of bank accounts being offered to our customers. For the year, 99% of customers who secured a loan also purchased one or more of the following optional financial services: bank accounts, financial product insurance, pre-paid master cards, and/or debit cards, which is similar to the twelve and fifteen months ended September 30, 2010.

For the fifteen month period last year, agency fees were \$36.7 million or 73.6% of other revenue. As a percentage of other revenue, these agency fees increased 19.3% in the year.

In the year ended September 30, 2011, the average loan size was \$492 compared to \$469 per loan for the twelve and fifteen month period last year.

Due to the seasonal nature of our business, we anticipate revenues will decrease next quarter as compared to the current quarter.

### Same Branch Revenues

Same branch revenues for the 445 locations open since October 1, 2009 decreased by 5.1% as compared to the same twelve month period last year, with same branch revenues averaging \$356,250 in the year compared to \$375,400 in the same period last year. Same branch revenues decreased as a result of rate compression in Alberta, Manitoba and Nova Scotia and a drop in same branch loan volumes. The corresponding decreases in same branch revenues for Alberta, Manitoba and Nova Scotia in total were \$2.0 million, \$2.8 million and \$535,000 respectively in the year.

Also, same branch revenue, as it relates to the brokering of loans, was down 10.9% for the year as a result of loan fee rate compression in Alberta, Manitoba and Nova Scotia coupled with decreased loan volumes. The corresponding decreases in total same branch revenue, as it relates to the brokering of loans in Alberta, Manitoba and Nova Scotia were \$3.2 million, \$3.4 million and \$710,000 respectively for the year ended September 30, 2011.

### Branch Operating Income

BOI in the year was \$55.0 million (29.0% of revenue), compared to \$61.6 million (34.4% of revenue) for the twelve months ended September 30, 2010. BOI was \$77.2 million (35.0% of revenue) for the fifteen month period last year.

BOI was down as a percentage of revenue as a result of decreased same branch revenues, increases in expenses due to the opening of 44 new branches adding to the drag on earnings, and provision for loan losses. The decreased margins and increased expenses have been partially offset by positive trending in revenues from other services.

BOI, by maturity level is outlined below (twelve months versus twelve months):

(thousands of dollars, except branch figures)		BOI (Loss)		BOI % of Revenues	
Year Opened	Number of Branches	September 30 2011	September 30 2010	September 30 2011	September 30 2010
2001*	94	\$ 14,915	\$ 17,138	22.1%	44.4%
2002	13	2,905	3,332	45.0%	45.8%
2003	35	7,383	7,521	45.2%	45.9%
2004	52	9,111	9,179	43.9%	41.8%
2005	66	9,993	10,016	40.3%	38.5%
2006	50	6,904	7,253	37.9%	38.1%
2007**	37	4,693	3,738	38.8%	37.6%
2008	34	4,870	4,226	49.3%	38.1%
2009	48	1,681	1,090	11.2%	9.4%
2010	112	(3,476)	(2,121)	(12.2%)	(14.1%)
2011	45	(2,585)	2	(46.1%)	-
	586	55,410	61,374		
Branches not yet open		(33)	(70)		
Consolidation of branches		(104)	(122)		
Other		(272)	409		
Branch operating income		\$ 55,001	\$ 61,591		

\* Insta loans branches were acquired by Cash Store Financial on April 22, 2005; they have been operating since 2001.

\*\* EZ Cash branches were acquired by Cash Store Financial on April 26, 2010; they have been assumed on average to be operating since 2007.

### Expenses (excluding retention payments, amortization and class action settlements)

Expenses increased by \$19.6 million or 16.8% given the addition of 44 new branches, increased professional fees, increased collection infrastructure costs, increased provision for loan losses for on-balance sheet lending, an increase in regional and corporate infrastructure costs and costs associated with expanding into the UK when comparing the twelve months ended September 30, 2011 and 2010. Expenses in the year have decreased to \$136.3 million, compared to \$142.6 million for the fifteen month period last year. The decrease is primarily due to three fewer months of reported results given change in the year-end periods which offset the addition of 44 new branches, increased professional fees, collection fees, increased provision for loan losses for on-balance sheet lending, an increase in regional and corporate infrastructure costs and costs associated with expanding into the UK.

### Retention Payments

Third-party lender retention payments for the year totalled \$26.8 million (3.3% of loans brokered), compared to \$23.1 million (3.0% of loans brokered) for the twelve months ended September 30, 2010. Retention payments as a percentage of loan fees have increased to 19.6% in the year ended September 30, 2011, compared to 16.9% in the twelve month period last year. The increases as a percentage of loan fees and loans brokered are primarily as a result of rate compression. In the fifteen months ended September 30, 2010, retention payments were \$28.2 million (3.0% of loans brokered). As a percentage of loan fees, retention payments have increased to 16.5% in the fifteen month period last year.

### Depreciation and Amortization

Depreciation of property and equipment and amortization of intangible assets for the year totalled \$8.9 million, compared to \$7.2 million in the twelve month period ended September 30, 2010 and \$9.1 million in the fifteen month period last year. Amortization increased for the year as compared to the twelve month period last year as a result of 44 new branches and a large scale refresh program for our mature branches.

### Income Taxes

Our effective tax rate was 38.3% in the year, compared to 28.4% for the twelve month period last year and 29.9% for the fifteen month period last year. The effective tax rate is higher than the statutory tax rate of 28.0% due to adjustments for prior year immaterial errors.

## liquidity and capital resources

Our cash decreased by \$348,000 to \$19.3 million at September 30, 2011 compared to \$19.6 million as of September 30, 2010. Our cash, excluding restricted cash, decreased by \$3.6 million to \$13.0 million at September 30, 2011 compared to \$16.7 million as of September 30, 2010. Significant items impacting cash in the year ended September 30, 2011 included:

- Cash generated from operating activities, before non-cash operating items, of \$20.8 million;
- A \$2.9 million increase in amounts due from suppliers, \$2.4 million increase in prepaids, \$2.0 million decrease in income taxes payable offset by a \$2.8 million increase in amounts due to third-party lenders;
- A \$3.3 million increase in cash restricted for class action settlements. Subsequent to year-end all funds segregated for the BC class action were transferred to a third-party administrator;
- Property and equipment and intangible asset expenditures of \$10.0 million;
- Cash required for on balance sheet lending of \$2.9 million;
- Dividend payments of \$7.9 million; and,
- Issuance of common shares for proceeds from exercised options and warrants of \$2.1 million.

At September 30, 2011, our working capital position totalled \$17.1 million compared to \$15.0 million as at September 30, 2010. We expect our cash to decrease in the future due to growth in our UK consumer loans receivable.

### Consumer Loans Receivable

During the year, we increased our overall consumer loans receivable balance to \$4.8 million from \$4.5 million in the prior year. We internally originated all our loans in the UK. Given our strategy of growth in the UK we expect amounts due from consumers will increase substantially in the coming year.

The benefit to us of originating loans is to reduce our cost of capital, thereby increasing our profitability. The most significant risk related to originating loans is that we assume the risk of default.

The aging of customer loans receivable is as follows:

		2010
Consumer loans receivable, net of allowance for consumer loan losses		
Current		\$ 3,410
1-30 days past due date		992
31-60 days past due date		306
61-90 days past due date		119
Greater than 90 days past due date		144
Consumer loans receivable		4,971
Allowance for consumer loan losses		(511)
		\$ 4,460

Due to certain banking process and collection restrictions we were unable to effectively process collections on accounts in the UK. These issues were resolved on August 25, 2011.

On average, for internally originated loans 60.2% of our customers or \$24.9 million of payday cash advances were paid in full on or before their due date for the year ended September 30, 2011 as compared to 49.1% of our customers or \$3.9 million for the fifteen months ended September 30, 2010.

#### Normal Course Issuer Bid

On June 30, 2009, we announced our intention to make a normal course issuer bid ("Bid") to purchase, through the facilities of the Toronto Stock Exchange, certain of our outstanding common shares. We repurchased no common shares (fifteen months ended September 30, 2010 - 387,799 common shares) during the year ended September 30, 2011 (at a cost of \$3.3 million for the fifteen months ended September 30, 2010). Common shares purchased pursuant to the Bid were cancelled.

#### Contractual Obligations

Our contractual obligations over the next five years and thereafter are summarized in the table below. For additional information, see Notes 15 and 20 (a) of our audited consolidated financial statements for the year ended September 30, 2011.

Payments due by Period (amounts in thousands of \$CDN)					
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Capital (Finance) Lease Obligations	\$1,443	\$750	\$693	\$-	\$-
Operating Lease Obligations	85,662	19,981	44,090	5,042	16,548
Total	\$87,905	\$20,731	\$44,783	\$5,042	\$16,548

## summary of quarterly results

42

The financial results for each of the last eight quarters are summarized in the following table.

In general, more recent results have been negatively impacted by rate compression in the regulated provinces partially offset by growth in other revenue. There was an increase in overall revenues over prior periods due to our strategy of diversifying our other revenue. Branch expenses and overall expenses have also steadily increased due to an increased number of branches in operation and costs associated with growth in the UK, adding infrastructure at the regional and corporate levels, increased professional and legal fees related to regulatory matters, class actions, and other lawsuits, and continued costs associated with the class action settlements.

From a seasonality perspective, we believe that our revenues are generally stronger in the third and fourth quarters followed by the first and second quarter. In addition, quarterly results of operations are impacted by the number and timing of new branch openings.

(thousands of dollars, except for per share amounts and branch figures)		2011				2010				Twelve Months ended September 30	
		Q1	Q2	Q3	Q4	Q5	Q4	Q3	Q2	2011	2010
<b>Consolidated Results</b>											
No. of branches	Canada	574	566	566	566	542	523	489	489	574	542
	United Kingdom	1	1	1	1	2	2	-	-	1	2
		575	567	567	567	544	525	489	489	586	544
Loan volume											
Loan fees included		\$216,027	\$205,659	\$178,826	\$172,105	\$216,027	\$205,659	\$178,826	\$172,105	\$821,401	\$772,617
Regulated definition (excluding loan fee upon regulation)		184,110	174,902	157,653	164,819	184,110	174,902	157,653	164,819	690,601	681,484
Loan fees excluded in regulated provinces		\$181,071	\$172,043	\$149,357	\$141,851	\$181,071	\$172,043	\$149,357	\$141,851	\$630,601	\$644,322
Revenue											
Loan fees		\$36,195	\$35,161	\$31,308	\$34,118	\$36,195	\$35,161	\$31,308	\$34,118	\$136,623	\$136,782
Other income		13,084	11,699	9,351	8,066	13,084	11,699	9,351	8,066	42,200	42,200
Branch expenses											
Salaries and benefits		13,698	13,695	12,206	11,694	13,698	13,695	12,206	11,694	51,293	51,293
Retention payments		6,934	5,833	5,300	5,000	6,934	5,833	5,300	5,000	23,067	23,067
Selling, general and administrative		4,545	4,361	4,242	4,114	4,545	4,361	4,242	4,114	17,262	17,262
Rent		4,219	3,780	3,480	3,307	4,219	3,780	3,480	3,307	14,786	14,786
Advertising and promotion		1,223	1,170	1,023	1,069	1,223	1,170	1,023	1,069	4,475	4,475
Provision for loan losses		454	200	86	16	454	200	86	16	756	756
Depreciation of property and equipment		1,566	1,477	1,374	1,334	1,566	1,477	1,374	1,334	5,751	5,751
Branch operating income		32,639	30,516	27,711	26,524	32,639	30,516	27,711	26,524	117,390	117,390
Regional expenses		16,840	16,344	12,948	15,860	16,840	16,344	12,948	15,860	61,592	61,592
Corporate expenses		2,358	3,173	2,864	2,754	2,358	3,173	2,864	2,754	11,149	11,149
Other depreciation and amortization		5,026	4,513	3,703	3,730	5,026	4,513	3,703	3,730	16,972	16,972
Net income before income taxes and class action settlements		13	405	279	787	13	405	279	787	1,484	1,484
Class action settlements		9,243	8,253	6,102	8,389	9,243	8,253	6,102	8,389	31,987	31,987
EBITDA*		11,132	10,325	6,275	10,643	11,132	10,325	6,275	10,643	37,375	37,375
Net income and comprehensive income		\$ 7,682	\$ 5,476	\$ 2,199	\$ 5,467	\$ 7,682	\$ 5,476	\$ 2,199	\$ 5,467	\$ 20,824	\$ 20,824
Basic earnings per share											
Before class action expenses net of normalized tax		\$ 0.44	\$ 0.33	\$ 0.23	\$ 0.34	\$ 0.44	\$ 0.33	\$ 0.23	\$ 0.34	\$ 1.36	\$ 1.36
Net income and comprehensive income		\$ 0.44	\$ 0.32	\$ 0.13	\$ 0.33	\$ 0.44	\$ 0.32	\$ 0.13	\$ 0.33	\$ 1.22	\$ 1.22
Diluted earnings per share											
Before class action expenses net of normalized tax		\$ 0.42	\$ 0.31	\$ 0.23	\$ 0.32	\$ 0.42	\$ 0.31	\$ 0.23	\$ 0.32	\$ 1.31	\$ 1.31
Net income and comprehensive income		\$ 0.42	\$ 0.31	\$ 0.13	\$ 0.32	\$ 0.42	\$ 0.31	\$ 0.13	\$ 0.32	\$ 1.18	\$ 1.18

\*EBITDA - earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. Specifically, certain amounts previously recorded within SG&A expense have been reclassified to other income for all periods presented.



#### Fourth Quarter

The fourth quarter of 2011 (July 1, 2011 to September 30, 2011) is used as the comparison to the fifth quarter of 2010 (July 1, 2010 to September 30, 2010) as they are comprised of the same calendar months.

#### Significant factors impacting the fourth quarter include:

- Reductions in overall revenue of 4.3% for the three months ended September 30, 2011, compared to the same period last year due to a decrease in same branch revenues as it relates to loans fees. Revenue decreased in Manitoba by \$883,000 in the quarter;
- Loan fees were down 7.3% for the three months ended September 30, 2011, at \$33.6 million compared to \$36.2 million in the same period last year given decreases in same branch loan volumes, same branch revenues as it relates to loan fees and some rate compression in Nova Scotia. The effect of rate compression reduced our rates by 21.6% in Nova Scotia;
- Growth in other income of 4.2% to \$13.6 million for the three months period ended September 30, 2011 when compared to the same period last year. As a percentage of total revenue, other income increased to 28.9% from 26.6% or an 8.8% increase for the quarter. Agency fee income was up 24.1% or \$2.4 million in the quarter offset by decreases in other revenue of \$1.8 million;
- Loan volumes for the three months ended September 30, 2011 were down 6.6% to \$201.7 million;
- Earnings decreased by \$476,000 in the quarter as a result of a drag on earnings from branches opened less than one year;
- Retention payments decreased by \$889,000 for the three months ended September 30, 2011 compared to the same period last year;
- Provision for loan losses for on-balance sheet lending increased by \$126,000 for the quarter ended September 30, 2011 compared to the same period last year;
- Branch SG&A costs decreased \$389,000 as a result of cost containment measures for the fourth quarter compared to the same period last year;
- Regional expenses increased by \$2.2 million related to increased collection related costs, a reorganization at the regional and division vice president level, enhancement of collection infrastructure and infrastructure additions in the UK;
- Corporate expenses increased by \$151,000 in the quarter due to the UK expansion and increased corporate salary costs as a result of infrastructure additions in marketing, training and new product development, increased director costs and increased legal fees; and,
- Working capital increased by \$687,000 in the quarter compared to last year.

Our EBITDA was \$6.2 million for the quarter, compared to \$11.1 million for the same period last year. This decrease in the current quarter is due to rate compression, reduce loan volumes, and increased regional and corporate infrastructure costs compared to the same period last year partially offset by increases in other revenues.

Net income for the quarter decreased to \$2.0 million, compared to \$7.7 million for the fifth quarter of 2010. Diluted earnings per share for the quarter were \$0.12 per share (\$0.12 basic), compared to \$0.42 per share (\$0.44 basic) for the fifth quarter of 2010.

BOI for the quarter, by maturity level, is outlined below:

		BOI (Loss)		BOI % of Revenues	
<i>(thousands of dollars, except branch figures)</i>					
Year Opened	Number of Branches	September 30 2011	September 30 2010	September 30 2011	September 30 2010
2001*	94	\$ 3,507	\$ 4,798	26.9%	48.5%
2002	13	1,016	997	27.9%	52.4%
2003	35	1,334	2,120	29.9%	50.2%
2004	52	1,725	2,429	27.5%	43.2%
2005	66	2,047	2,855	26.9%	42.0%
2006	50	1,564	1,864	27.0%	38.4%
2007**	37	1,119	1,222	21.1%	38.1%
2008	34	1,049	1,308	15.1%	45.1%
2009	48	37	290	14.1%	9.2%
2010	112	(552)	(1,162)	28.0%	-19.2%
2011	45	(796)	-	35.4%	-
	586	\$ 13,594	\$ 16,721		
Branches not yet open		(13)	(64)		
Consolidation of branches		(3)	(48)		
Other		335	31		
Branch operating income		\$ 13,913	\$ 16,640		

\* Instaans branches were acquired by Cash Store Financial on April 22, 2005; they have been operating since 2001.

\*\* EZ Cash branches were acquired by Cash Store Financial on April 26, 2010; they have been assumed on average to be operating since 2007.

BOI has decreased 18.4% to \$13.9 million in the quarter compared to \$16.6 million in the fifth quarter of 2010. The decrease was caused by rate compression, decreased loan volumes and same branch revenues and increased drag on earnings from new branches.

Revenue for the quarter decreased to \$47.2 million, compared to \$49.3 million for the fifth quarter of 2010 due to rate compression and decreases in same branch revenues.

		Revenues			Average Revenue per Branch per Quarter	
<i>(thousands of dollars, except branch figures)</i>						
Year Opened	Number of Branches	September 30 2011	September 30 2010	% Change	September 30 2011	September 30 2010
2001*	94	\$ 3,572	\$ 9,896	-13%	\$ 91	\$ 105
2002	13	1,537	1,901	-17%	71	146
2003	35	3,676	4,221	-13%	105	121
2004	52	5,000	5,617	-11%	96	108
2005	66	5,981	6,793	-12%	91	103
2006	50	4,279	4,854	-12%	86	97
2007**	37	2,966	3,206	-7%	80	87
2008	34	2,531	2,901	-13%	74	85
2009	48	3,091	3,166	-2%	64	66
2010	112	6,888	6,064	14%	62	54
2011	45	2,249	-	100%	50	-
	586	\$ 46,810	\$ 48,619	-4%	\$ 80	\$ 83
Consolidation of branches		-	174			
Other		371	486			
Continuing operations		\$ 47,181	\$ 49,279			

\* Instaans branches were acquired by Cash Store Financial on April 22, 2005; they have been operating since 2001.

\*\* EZ Cash branches were acquired by Cash Store Financial on April 26, 2010; they have been assumed on average to be operating since 2007.

Loan fees for the three months ended September 30, 2011 decreased to \$33.6 million from \$36.2 million in the same period last year, as a result of a decrease in same branch loan volumes and rate compression of 21.6% in Nova Scotia.

Same branch revenues for the 522 locations open since the beginning of July 2010 for the three month period, decreased by 9.7% compared to the same period last year, with same branch revenue averaging \$83,800 this period compared to \$92,700 in the same period last year. Same branch revenues decreased as a result of rate compression and decreased loan volumes partially offset by improvements in other revenue. Same branch revenues, as it relates to the brokering of loans were down 13.2% in the quarter.

Loans brokered for the quarter, were \$201.7 million and averaged \$501 per loan, compared to \$216.0 million and an average of \$474 per loan for the three months ended September 30, 2010.

Expenses for the quarter totalled \$35.0 million, compared to \$31.5 million in the fifth quarter of 2010. These increased costs are due to increases in the number of branches, infrastructure additions at the regional, corporate levels and in the UK along with increased costs associated with provincial regulations and legal matters. Retention payments totalled \$6.2 million in the quarter, compared to \$6.9 million in the fifth quarter of fiscal 2010. The depreciation of property and equipment and amortization of intangible assets was \$2.3 million.

Our effective tax rate was 44.0% for the quarter, compared to 16.9% for the fifth quarter of fiscal 2010. The effective tax rate is higher than the statutory tax rate of 28.0% due to adjustments for prior year immaterial errors.

## related party transactions

We own 18.3% of the outstanding common shares of The Cash Store Australia Holdings Inc. ("AUC"). Included in other receivables as of September 30, 2011, was a \$16,000 (September 30, 2010 - \$7,000) receivable from AUC. We entered into an interim service agreement with AUC to provide ongoing services such as financial, accounting and HR support and contracts administrative services, and the use of our IT and telecommunication systems. Included in SG&A expenses is a recovery of \$363,000 (September 30, 2010 - \$362,000) related to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Certain employees, directors, and officers have an ownership in AUC.

We own 15.7% of the outstanding common shares of RTF Financial Holdings Inc. (RTF). We entered into an interim service agreement with RTF to provide ongoing services such as financial and accounting support and contracts administrative services. Included in SG&A expenses is a recovery of \$240,000 (September 30, 2010 - \$120,000) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. We have a \$45,000 (September 30, 2010 - \$485,000) receivable from RTF. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Certain employees, directors, and officers have an ownership in RTF.

## risk factors affecting performance

Our financial and operational performance is potentially affected by a number of factors including, but not limited to, changing consumer protection regulations, industry and company specific class action lawsuits, access to third-party lenders and other issues described in our most recent Annual Information Form ("AIF"). A more detailed discussion of our risk factors is presented in our most recent AIF filed with the securities regulatory authorities on SEDAR ([www.sedar.com](http://www.sedar.com)). Our Risk Management department works continually to assess and mitigate the impact of potential risks to our stakeholders.

### Consumer Protection Regulations

"Consumer protection measures" relates broadly to two categories of regulation: 1) measures that restrict rates or fees that may be charged both in respect of a loan and regarding other services or fees that may be charged in relation to a payday loan or related services; and 2) general business practices issues which would include, for example, prohibitions on rollovers, concurrent loans, maximum allowable loans based on a percentage of a customer's net income and certain collection practices. These measures vary considerably from one jurisdiction to the next. Rates are generally structured as a maximum allowable charge per \$100 loaned. Interest may be charged up to a regulated maximum amount when a loan is in default. This maximum varies by jurisdiction but in no jurisdiction does it exceed 59% per annum. Some jurisdictions restrict the amount that may be

charged when a customer's cheque or pre-authorized debit is dishonored.

The following rate caps are currently in effect: Nova Scotia - \$25 per hundred dollars loaned; British Columbia - \$23 per hundred dollars loaned; Ontario - \$21 per hundred dollars loaned; Manitoba - \$17 per hundred dollars loaned; and Alberta - \$23 per hundred dollars loaned. Newfoundland has announced that it does not intend to implement industry specific consumer protection legislation. In October 2011 Saskatchewan received a federal designation that will facilitate implementation of new consumer protection measures, including a rate cap of \$23 per hundred dollars loaned. We anticipate that these measures will be implemented in Saskatchewan early in calendar year 2012. The provinces of New Brunswick and Prince Edward Island have passed legislation to facilitate the implementation of rate caps and other industry specific consumer protection measures; however, at this stage it remains difficult to specify expected rates for these provinces or when these provinces will actually implement rate caps or other consumer protection measures. All Canadian jurisdictions that have implemented industry specific consumer protection measures appear to be committed to facilitating a competitive industry. Below is a summary of rate caps per province:

	Rate per \$100	Date enacted or anticipated
Nova Scotia	25	April 1, 2011
British Columbia	23	November 18, 2009
Ontario	21	December 15, 2009
Alberta	23	March 1, 2010
Manitoba	17	October 18, 2010
Saskatchewan	23	Early calendar 2012

Restrictions on the size and duration of a payday loan are uniformly applied in British Columbia, Alberta, Manitoba, Ontario and Nova Scotia. Specifically, a payday loan is defined by statute or regulation as a loan of \$1,500 or less for a period of 62 days or less. Saskatchewan restricts loan sizes to a maximum of \$1,000. Saskatchewan is expected to adopt the previously described definition of a payday loan, if new regulations are implemented in 2012 as anticipated. Similar restrictions do not exist in the Yukon, the Northwest Territories, New Brunswick, Prince Edward Island and Newfoundland.

In the first quarter of fiscal 2011, the Nova Scotia Utility and Review Board conducted administrative hearings to review the rate cap of \$31 per hundred dollars loaned that was in force in that province at that time. As of April 1, 2011 the new rate cap in Nova Scotia is \$25 per hundred dollars loaned.

On November 9, 2010, Consumer Protection BC issued a compliance order requiring Cash Store Financial to: (i) reimburse all borrowers with loan agreements negotiated with Cash Store Financial and its subsidiaries between November 1, 2009, and November 9, 2010, the amount charged, required or accepted in relation to the issuance of a cash card; (ii) provide the option to any borrower negotiating a loan agreement with Cash Store Financial and its subsidiaries, of receiving a cheque, cash or some other financial instrument which provides the loan proceeds to the borrower at the time the loan agreement is negotiated; and, (iii) make a payment of \$4,006 in respect of costs.

The Company has formally disputed certain findings upon which this compliance order was based, and on December 9, 2010 filed a Request for Redetermination. The basis of our submission is that Cash Store Financial does not issue and has never issued cash cards to its customers. Rather, customers are issued cash cards by an arms-length third party. This arms-length third party is a federally regulated Canadian Schedule I bank. Cash Store Financial is not a party to any agreements in respect of cash cards. All contracts in respect of cash cards are directly between individuals and the arms-length third party. Through agreements with an arms-length third party, Cash Store Financial's customers are given the option, following the completion of a loan agreement offered or arranged by Cash Store Financial, of receiving a cash card and related services from an arms-length third party. All fees associated with the issuance of these cash cards accrue directly to an arms-length third party. Customers also have the option of receiving their loan proceeds by way of a cheque.

We anticipate no material impact from the determination. Consumer Protection BC has advised us they will reconsider their original determination.

On May 10, 2011, Service Alberta issued an Interim Order (the "Order") directing Cash Store Financial to cease certain practices. Pursuant to minor adjustments to our sales processes and compliance systems and ongoing discussions with officials in the Office of the Director of Fair Trade, we consider this matter to be resolved. The Government of Alberta had stated in the Order that it had been based on allegations that unfair lending activities were being practiced by Cash Store Financial. Of particular concern to Cash Store Financial were reported allegations that the Company required customers to purchase ancillary services, such as a pre-paid cash card, as a condition for receiving a loan. This is not and never has been Company policy, but it was the

major issue identified in the Order. Company policy is to provide customers with the ability to immediately receive proceeds of their loan by way of cheque, immediately upon request.

In 2005, Cash Store Financial implemented a voluntary prohibition on rollovers which is the extension of an existing loan for a fee. More specifically, we disallowed the provision of a new loan to payout an existing loan. We do not provide any rollovers in any jurisdictions in Canada. Customers must repay a loan in full before a new loan may be secured. In some jurisdictions customers may borrow against more than one source of income. In some instances a customer may be indebted to a third-party lender for more than one loan at a time. In these cases, each of these loans and the repayment requirements for each loan are structured and secured against a specific source of income.

## Legal Proceedings

### *British Columbia*

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified on his own behalf and on behalf of all persons who have borrowed money from the defendants: The Cash Store Inc. (Canada), Cash Store Financial and All Trans Credit Union Ltd. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada. On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the B.C. Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of our customers' third-party lenders added to the claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others against Cash Store Financial, Instalozans Inc. and others in respect of the business carried out under the name Instalozans since April 2005. Collectively, these actions are referred to as the "British Columbia Related Actions".

On May 12, 2009, we settled the British Columbia Related Actions in principle. The settlement has been approved by the Court. The settlement does not constitute any admission of liability by us. The settlement is a compromise of disputed claims.

Under the terms of the court approved settlement, the Company is to pay to the eligible class members who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full, or who met certain other eligibility criteria, a maximum estimated amount of \$9.4 million in cash and \$9.4 million in credit vouchers. Thus, the estimated maximum exposure with respect to this settlement is approximately \$18.8 million including approved legal expenses. The credit vouchers may be used to pay existing outstanding brokerage fees and interest or to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced. The credit vouchers are not transferable and have no expiry date. In addition, the Company is to pay the legal fees and costs of the class. Based on the Company's estimate of the rate of take-up of the available cash and credit vouchers, an expense of \$10.9 million to date has been recorded to cover the estimated costs of the settlement, including legal fees of the Class and costs to administer the settlement fund. It is possible that additional settlement costs could be required. In the current year, the Company increased the provision by \$3.2 million due to new information being received (2010 – \$2.9 million). As at September 30, 2011, the remaining accrual is \$4.0 million. Subsequent to year-end the administration of the settlement fund was transferred to a third-party based on a court approved order. The total amount transferred was \$6.3 million.

### *Alberta*

We have been served in prior fiscal periods with a Statement of Claim issued in Alberta alleging that we are in breach of s. 347 of the Criminal Code of Canada (the interest rate provision) and certain provincial consumer protection statutes.

The certification motion has been pending since fiscal 2006 and has not yet been heard. On January 19, 2010, the plaintiffs in the Alberta action brought forward an application to have a related subsidiary, certain of our customers' third-party lenders, directors and officers added to the Claim.

We have agreed to a motion to certify the class action proceeding if the lender, officers and directors are removed as defendants. Class counsel has agreed to our proposal.

We believe that we conduct our business in accordance with applicable laws and are defending the action vigorously. However, the likelihood of loss, if any, is not determinable at this time.

### *Manitoba*

On April 23, 2010, an action under the Manitoba Class Proceedings Act was commenced in the Manitoba Court of Queen's

Bench by Scott Meeking against The Cash Store (Canada), Instalozans, and Cash Store Financial proposing that a class action be certified on his own behalf and on behalf of all persons in Manitoba and others outside the province who elect to claim in Manitoba and who obtained a payday loan from the Cash Store Financial or Instalozans. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada.

We believe that we conducted our business in accordance with applicable laws and are defending the action vigorously. Further it will be maintained that most of the proposed class members are bound by the judgment in the settlement of the Ontario class action in 2008, as approved by the Ontario Superior Court of Justice and that accordingly the action should be dismissed. However, the likelihood of loss, if any, is not determinable at this time.

#### *Other*

We are also involved in other claims related to the normal course of operations. Management believes that it has adequately provided for these claims.

#### **Third-Party Lenders/Retention Payments**

Most funding of short-term advances is currently provided by independent third-party lenders. As a result, our business is highly dependent on third-party lenders who are willing to make significant funds available for lending to our customers. There are no assurances that the existing or new third-party lenders will continue to make funds available. Any reduction or withdrawal of funds could have a significant material adverse impact on our results of operations and financial condition.

To facilitate the short-term advance business, we have entered into written agreements with a number of third party lenders who are prepared to consider lending to our customers. Pursuant to these agreements, we provide services to the lenders related to the collection of documents and information as well as loan collection services. Material terms of our agreements with third-party lenders include ensuring that any proposed loan was applied for through an authorized outlet, ensuring each potential customer meets the loan selection criteria as set forth by the third-party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing default realization services on behalf of the third-party lender for all loans funded which are not paid in full by the due date, all while ensuring information system integrity is maintained. Losses suffered on account of uncollectible loans are not contractually the Company's responsibility as long as it has performed and fulfilled its duties under the terms of the third-party lender agreements. In the event we do not properly perform our duties and the lenders make a claim as required under the agreement, we may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that we have a liability under the agreement.

Our board of directors regularly approves a resolution which authorizes us to pay a maximum amount of retention payments per quarter to third-party lenders as consideration to those lenders who continue to be willing to fund advances to our customers. While the third-party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to deflect the impact of the loan losses they experienced. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the board of directors.

During the year we have three lenders that have helped us generate ten percent or more of our consolidated revenues: 367463 Alberta Ltd., Trimor Annuity Focus Limited Partnerships and Assistive Financial Corp. The loss of any of these three third-party lenders would have a material adverse effect on us if alternative lenders could not be located or other financing was not available to permit direct lending.

## **critical accounting estimates**

Our accounting policies are integral to understanding and interpreting the financial results reported in this MD&A. The significant accounting policies used in preparing our consolidated financial statements are summarized in Note 1 to those statements which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain policies included in Note 1 are considered to be particularly important to the presentation of our 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 our business may also be discussed elsewhere in this MD&A.

### Revenue Recognition

Revenue arising from brokering short-term advances for customers is recognized once all services have been rendered, all advance amounts have been received by the customer, and the brokerage fee has been received by the Company.

Revenue arising from direct lending of short-term advances to customers is recognized on a constant yield basis ratably over the term of the related loan.

Revenue from the Company's cheque cashing, money order sales, money transfer, bill payment services and other miscellaneous services is recognized when the transactions are completed at the point-of-sale in the branch and the related fee charged by the Company has been received. Revenue from the Company's banking and non-sufficient funds fees are recognized when collected.

Revenue from each of these sources is recorded in other income in the statement of operations.

### Retention Payments

When the Company acts as a broker on behalf of income earning consumers seeking short-term advances, the funding of short-term advances is provided by independent third party lenders. The advances provided by the third party lenders are repayable by the customer to the third party lenders and represent assets of the lenders; accordingly, they are not included on the Company's balance sheet.

To facilitate the short term advance business, the Company has entered into written agreements with third party lenders who are prepared to consider lending to the Company's customers. Pursuant to these agreements, the Company provides services to the lenders related to the collection of documents and information as well as loan collection services. Under the terms of the Company's agreements with third party lenders, responsibility for losses suffered on account of uncollectible loans rests with the third party lender, unless the Company has not properly performed its duties as set forth under the terms of the agreement. The significant duties under the terms of the agreements generally include ensuring that any proposed loan was applied for through an authorized outlet, ensuring each potential customer meets the loan selection criteria as set forth by the third party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing collection services on behalf of the third party lender for all loans funded which are not paid in full by the due date, all of which while ensuring information system integrity is maintained. In the event the Company does not properly perform its duties and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreement.

The Company's Board of Directors regularly approves a resolution which authorizes management to pay a maximum amount of retention payments per quarter to third party lenders as consideration to those lenders that continue to be willing to fund advances to the Company's customers. While the third party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to lessen the impact of loan losses experienced by the third party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

### Provisions for Loan Losses

Loans in default consist of direct lending short-term consumer loans originated by the Company which are past due. The Company defines a past due or delinquent account whereby payment has not been received in full from the customer on or before the maturity date of the loan. A provision for loan losses is recorded when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest (included in loan fee). In determining whether the Company will be unable to collect all principal and interest payments due, the Company assesses relevant internal and external factors that affect loan collectability, including the amount of outstanding loans owed to the Company, historical percentages of loans written off, current collection patterns and other current economic trends. The provision for loan losses reduces the carrying amount of consumer loan receivables to their estimated realizable amounts. The provision is primarily based upon models that analyze specific portfolio statistics, and also reflect, to a lesser extent, management judgment regarding overall accuracy. The analytical model takes into account several factors, including the number of transactions customers complete and charge-off and recovery rate. The provision is reviewed monthly, and any additional provision as a result of historical loan

performance, current and expected collection patterns and current economic trends is included in the provision for the loan losses at that time. If the loans remain past due for an extended period of time, an allowance for the entire amount of the loan is recorded and the loan is ultimately written off. The Company's policy for charging off uncollectible consumer loans is to write the loan off when a loan remains in default status for an extended period of time without any extended payment arrangements made, typically 210 days. Loans to customers who file for bankruptcy are written off upon receipt of the bankruptcy notice.

### **Stock Based Compensation**

We have a stock based compensation plan, which is described in Note 16 (b) of our audited consolidated financial statements. We account for all stock based compensation payments that are settled by the issuance of equity in accordance with a fair value-based method of accounting. Stock based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, or as applicable, over the period to the date an employee is eligible to retire, whichever is shorter, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by us, together with the amount in contributed surplus associated with the exercised options, are credited to share capital.

### **Consumer Loans Receivable**

Unsecured short-term and longer-term advances that the Company originates on its own behalf are reflected on the balance sheet in consumer loans receivable. Consumer loans receivable are reported net of a provision. In regulated jurisdictions, interest is charged on consumer loans commencing upon default; however, it is not recorded as income until payment is received in full or partially from the consumer. In unregulated jurisdictions, interest is charged on consumer loans over the period of the loan and is recorded in income as it is earned.

### **Income Tax Estimates and Future Income Taxes**

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is recorded against any future tax assets if it is more likely than not that the asset will not be realized.

### **Long-term investments**

We apply the equity method of accounting for its investment in The Cash Store Australia Holdings Inc. and RTF Financial Holdings Inc. These investments are recorded at cost plus our share of net income or loss to date.

### **Amortization Policies and Useful Lives**

We depreciate the cost of property and equipment and intangible assets over the estimated useful service lives of the items. These estimates of useful lives involve considerable judgment. In determining these estimates, we take 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, we assess our existing estimates of useful lives to ensure they match the anticipated life of the asset from a revenue-producing perspective. If the in-service period change happens more quickly than we have anticipated, we may have to shorten the estimated life of certain property and equipment or intangible assets, which could result in higher depreciation expenses in future periods or an impairment charge to write down the value of property and equipment or intangible assets.



### 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 fair values.

Both internal and external costs incurred to purchase and develop computer software are capitalized after the preliminary project stage is completed and management authorizes the computer software project.

Intangible assets with finite useful lives are amortized over their estimated useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate that such assets might be impaired.

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
Computer software	Straight-line – 5 years
Non-compete agreements	Term of the agreements
Brand name	Indefinite life

### Goodwill

Goodwill represents the residual amount that results when the fair value of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, and liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate it may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit.

When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

### Accounting for the Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a group of assets may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset to the sum of future undiscounted cash flows expected to be generated from the use and eventual disposition of the group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the group of assets exceeds the fair value of the group of assets. Any assets to be disposed by sale are reported at the lower of carrying amount or fair value less costs to sell. Such assets are not amortized while they are classified as held-for-sale.

### Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts. Obligations under capital leases are recorded as an asset with a corresponding liability. Asset values recorded under capital leases are depreciated on a straight-line basis over the estimated useful life. Obligations under capital leases are reduced by lease payments net of imputed interest. Computer and phone operating lease expenses are recorded in selling, general, and administrative expenses. Branch leases are recorded in rent.

### Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes and commitments under contractual and other commercial obligations. We recognize 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.

## changes in accounting policies and practices recent accounting pronouncements not yet adopted

### International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants previously announced its decision to require all publicly accountable enterprises to report under IFRS for years beginning on or after January 1, 2011. However, National Instrument 52-107 allows Securities and Exchange Commission ("SEC") registrants, such as the Company, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S. GAAP. The Company has decided to adopt U.S. GAAP instead of IFRS as its primary basis of financial reporting commencing in fiscal 2012.

The decision to adopt U.S. GAAP was made to enhance communication with shareholders and improve the comparability of financial information reported with its U.S. based competitors and peer group.

## controls and procedures

### Evaluation of disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information we are required to disclose is recorded, processed, summarized and reported within the time periods specified under Canadian and US securities laws. They include controls and procedures designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

As of September 30, 2011, an evaluation was carried out under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d - 15(e) under the US Securities Exchange Act of 1934, as amended, and in National Instrument 52-109 under the Canadian Securities Administrators Rules and Policies. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the Evaluation Date such disclosure controls and procedures were effective.

### Management's Report on Internal Control over Financial Reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with US GAAP. Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting (ICFR), as such term is defined in Rule 13(a)-15(e) under the US Securities Exchange Act of 1934 and in National Instrument 52-109 under the Canadian Securities Administrators Rules and Policies. A material weakness in ICFR exists if the deficiency is such that there is reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections or any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of September 30, 2011, we assessed the effectiveness of our ICFR. In making this assessment, we used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of September 30, 2011, our internal

control over financial reporting is effective. Our independent auditor, KPMG LLP, has issued an audit report that we, as at September 30, 2011, maintained, in all material respects, effective internal control over financial reporting based on the criteria established in Internal Control-Integrated Framework issued by the COSO.

#### Changes in Internal Control Over Financial Reporting

During the period ended September 30, 2011, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## outstanding share data

As at November 16, 2011, we had 17,420,880 common shares outstanding. There were also options to purchase 977,502 common shares, which if exercised, would provide us with proceeds of approximately \$9.2 million.

## dividends

On November 16, 2011, we declared a quarterly dividend of \$0.12 per common share. The dividend is payable on December 14, 2011, to shareholders of record on November 29, 2011.

The Company reviews its dividend distribution policy on a quarterly basis, evaluating its financial position, profitability, cash flow and other factors the Board of Directors considers relevant. Prior to August 31, 2007, we had not declared or paid a dividend on the common shares. We declared our first dividend on August 31, 2007, in the amount of \$0.025 cents per common share. In total, dividends of \$3.6 million were paid to holders of common shares in fiscal 2008, \$5.3 million in fiscal 2009, \$9.1 million in the fifteen months of fiscal 2010 and \$7.9 million in fiscal 2011. The following table sets forth the quarterly dividends paid by the Company in the last quarter ended:

	2011	2010	2009	2008
Dividend per share	\$0.120	\$0.100	\$0.065	\$0.025
Percentage increase	20%	54%	160%	

## other

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store." Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

#### Cautionary Statement Regarding Forward-looking Information

This MD&A contains "forward-looking information" within the meaning of applicable Canadian and United States securities legislation. Forward-looking information includes, but is not limited to, information with respect to our objectives, strategies, operations and financial results, competition as well initiatives to grow revenue or reduce retention payments. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions, the availability of alternative transactions, shareholder, legal, regulatory and court approvals and third party consents, and other factors described

in our latest AIF filed on SEDAR at [www.sedar.com](http://www.sedar.com) under the heading "Risk Factors". Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.

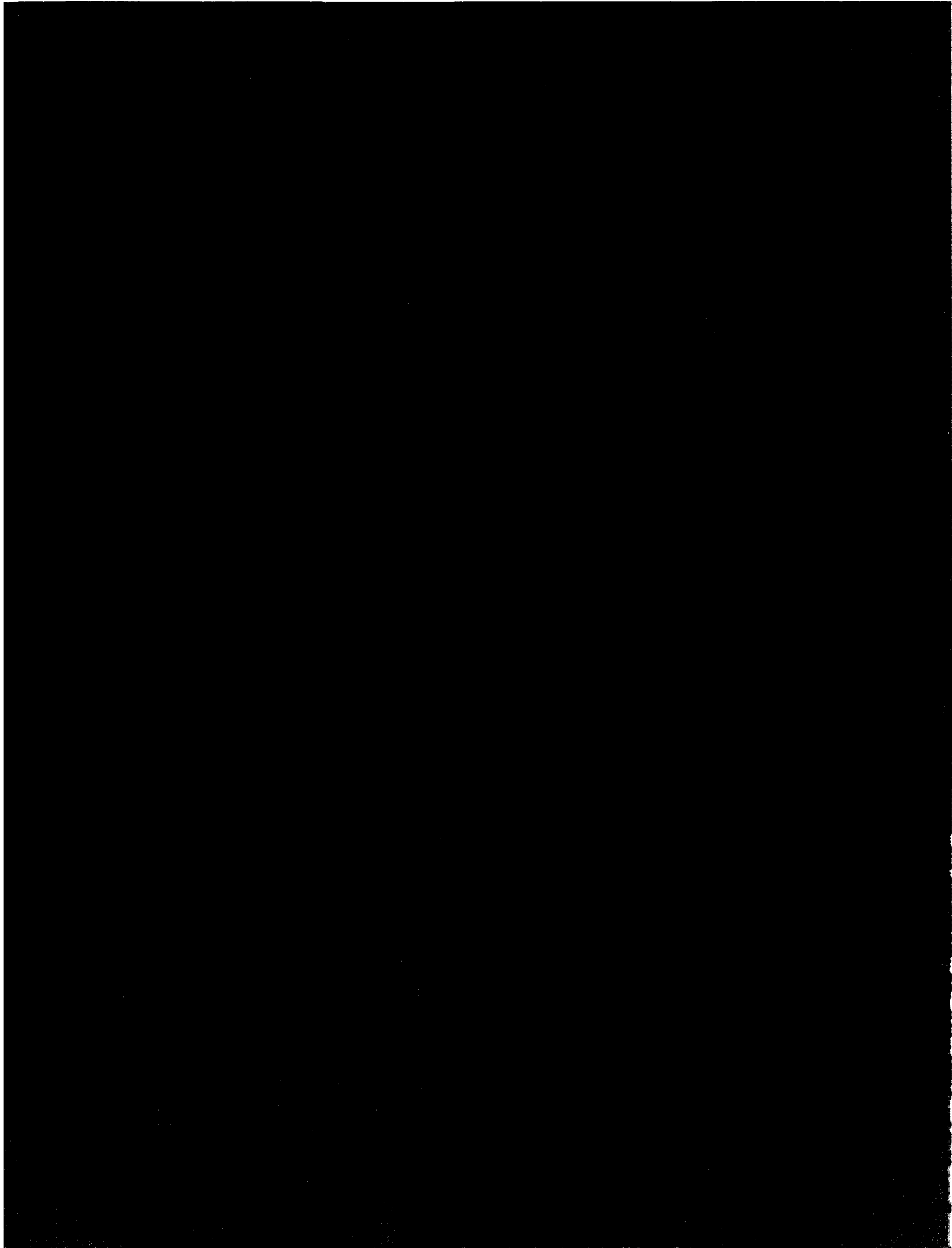
### Non-GAAP Measures

This MD&A refers to certain financial measures that are not determined in accordance with GAAP in Canada. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although a measure such as 'Earnings Before Interest, Income Taxes, Stock-based Compensation, Depreciation of Property and Equipment and Amortization of Intangible Assets' (EBITDA) does not have a standardized meaning prescribed by GAAP, this measure is used herein or can be determined by reference to our financial statements. "Same branch revenues" is a non-GAAP measure tracked and reported by us and is generally used to compare the average revenue for a particular group of branches in a current period to that same particular group of branches in a prior period. This non-GAAP measure is a way to gauge the performance of a particular group of branches and is directly related to, and helps explain, changes in total revenue. Average revenue is defined as revenue for the period divided by the number of branches. "BOI" is a non-GAAP measure tracked and reported by us and is generally used to compare the performance at branch level and includes expenses which primarily relate to the operations of the branch network. "Operating income" (OI) is a non-GAAP measure tracked and reported by us and is generally used to compare the income before income taxes and other non-recurring items which primarily relates to the overall operations of the branch, regional and corporate network. "Regional expenses" is a non-GAAP measure which is used to gauge expenditures at the regional and divisional level and includes compensation of associates including centralized regional departments, Regional Managers, Divisional Vice Presidents and President, as well as other expenses related to the functions of these groups. "Corporate expenses" is a non-GAAP measure which is used to gauge expenditures at the corporate level and includes compensation of associates and related expenses at the corporate office level. These measures are discussed because management believes that they facilitate the understanding of our results as it relates to our operational and financial position.

The following table provides a reconciliation of net income in accordance with GAAP to EBITDA for the past eight quarters.

### EBITDA Reconciliation

(thousands of dollars)	2011				2010			
	Q4	Q3	Q2	Q1	Q5	Q4	Q3	Q2
<b>Consolidated Results</b>								
Net income and comprehensive income	\$ 2,035	\$ 3,155	\$ 2,500	\$ 5,352	\$ 7,682	\$ 5,476	\$ 2,199	\$ 5,467
Interest	33	41	36	43	51	44	29	29
Income tax	1,408	1,519	1,311	1,687	1,561	2,676	1,190	2,822
Stock-based compensation	218	171	180	217	260	247	205	204
Depreciation of property and equipment and amortization of intangible assets	2,319	2,188	2,233	2,204	1,578	1,882	1,652	2,121
<b>EBITDA</b>	<b>\$ 6,207</b>	<b>\$ 7,074</b>	<b>\$ 6,260</b>	<b>\$ 7,500</b>	<b>\$ 11,132</b>	<b>\$ 10,325</b>	<b>\$ 5,275</b>	<b>\$ 10,643</b>
Adjustments:								
Class action settlements	\$ -	\$ 3,206	\$ -	\$ -	\$ -	\$ 100	\$ 2,715	\$ 100
Effective interest component of retention payments	5,112	5,107	5,561	5,505	5,344	4,895	4,400	4,226
<b>Adjusted EBITOA</b>	<b>\$ 11,319</b>	<b>\$ 12,660</b>	<b>\$ 11,821</b>	<b>\$ 13,005</b>	<b>\$ 16,476</b>	<b>\$ 15,320</b>	<b>\$ 12,390</b>	<b>\$ 14,969</b>



# **Consolidated Financial Statements**

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010

## **58**

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

## **58**

**INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM**

## **59**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

## **61**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

## **61**

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

## **62**

**CONSOLIDATED BALANCE SHEETS**

## **63**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

## **64**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and management's discussion and analysis (MD&A) are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements and MD&A have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's best estimates and informed judgments. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances.

The Cash Store Financial Services 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 independent external auditors to review the financial statements and the MD&A and to discuss audit, financial and internal control matters. The Company's independent external auditors have full and free access to the Audit Committee. The Audit Committee is responsible for approving the remuneration and terms of engagement of the Company's independent external auditors. The consolidated financial statements have been subject to an audit by the Company's internal auditors and the Company's external auditors, KPMG LLP, in accordance with generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) on behalf of the shareholders.

The consolidated financial statements and MD&A have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized in note 1 of the notes to the consolidated financial statements.

Signed "Gordon J. Reykdal"

Gordon J. Reykdal

Chairman and Chief Executive Officer

November 16, 2011 Edmonton, Alberta, Canada

Signed "Nancy Bland"

Nancy Bland, CA

Chief Financial Officer

## Independent Auditors' Report of Registered Public Accounting Firm

To the Shareholders and Board of Directors of The Cash Store Financial Services Inc.

We have audited the accompanying consolidated financial statements of The Cash Store Financial Services Inc., which comprise the consolidated balance sheets as at September 30, 2011 and 2010, the consolidated statements of operations and comprehensive income, retained earnings, and cash flows for the year ended September 30, 2011 and the fifteen months ended September 30, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. With respect to the consolidated financial statements for the year ended September 30, 2011, we also conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Cash Store Financial Services Inc. as at September 30, 2011 and 2010, and its consolidated results of operations and its consolidated cash flows for the year ended September 30, 2011 and the fifteen months ended September 30, 2010, in accordance with Canadian generally accepted accounting principles.

#### *Other Matter*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Cash Store Financial Services Inc.'s internal control over financial reporting as of September 30, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 16, 2011 expressed an unqualified opinion on the effectiveness of The Cash Store Financial Services Inc.'s internal control over financial reporting.

#### **Signed "KPMG LLP"**

Chartered Accountants

Edmonton, Canada

November 16, 2011

## **Report of Independent Registered Public Accounting Firm**

*To the Shareholders and Board of Directors of The Cash Store Financial Services Inc.*

We have audited The Cash Store Financial Services Inc.'s internal control over financial reporting as of September 30, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Cash Store Financial Services Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting included in Form 40-F for the year ended September 30, 2011. Our responsibility is to express an opinion on The Cash Store Financial Services Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures



that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Cash Store Financial Services Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of The Cash Store Financial Services Inc. as at September 30, 2011, and the consolidated statements of operations and comprehensive income, retained earnings, and cash flows for the year then ended, and our report dated November 2, 2011 expressed an unqualified opinion on those consolidated financial statements.

**Signed "KPMG LLP"**

Chartered Accountants

*Edmonton, Canada*

*November 16, 2011*

## Consolidated Statements of Operations and Comprehensive Income

(In thousands, except share and per share amounts)

	Year ended September 30 2011	Fifteen months ended September 30 2010
<b>Revenue</b>		
Loan Fees	170,659	\$ 170,659
Other income - Note 5	49,859	49,859
	220,518	220,518
<b>Expenses</b>		
Salaries and benefits	84,614	84,614
Selling, general and administrative	32,550	32,550
Retention payments	28,167	28,167
Rent	18,553	18,553
Advertising and promotion	6,109	6,109
Provision for loan losses - Note 23	788	788
Depreciation of property and equipment	8,138	8,138
Amortization of intangible assets	923	923
Class action settlements - Note 13	2,915	2,915
	182,757	182,757
<b>Income before income taxes</b>	37,761	37,761
<b>Provision for income taxes - Note 11</b>		
Current	11,196	11,196
Future (recovery)	101	101
	11,297	11,297
<b>Net income and comprehensive income</b>	\$ 26,464	\$ 26,464
<b>Weighted average number of common shares outstanding - Note 17</b>		
Basic	16,913,213	16,913,213
Diluted	17,522,246	17,522,246
<b>Basic earnings per share</b>		
Net income and comprehensive income	\$ 1.56	\$ 1.56
<b>Diluted earnings per share</b>		
Net Income and comprehensive Income	\$ 1.51	\$ 1.51

61

## Consolidated Statements of Retained Earnings

(In thousands)

	Year ended September 30 2011	Fifteen months ended September 30 2010
<b>Retained earnings, beginning of period</b>	\$ 35,908	\$ 20,978
Dividends on common shares - Note 19	(7,929)	(9,120)
Shares repurchased - Note 16 (a)		(2,416)
Net income and comprehensive income for the period	9,042	26,464
<b>Retained earnings, end of period</b>	\$ 37,019	\$ 35,908

See accompanying notes to consolidated financial statements.

**Consolidated Balance Sheets***(in thousands)*

	September 30, 2011	September 30, 2010
<b>Assets</b>		
Cash and cash equivalents - Note 4	\$ 19,261	\$ 19,639
Other receivables - Note 5	12,675	9,940
Consumer loans receivable, net - Note 6	4,781	4,460
Prepaid expenses and other assets	1,370	2,135
Current future income taxes	1,516	614
	<b>42,539</b>	<b>36,788</b>
Long term receivable - Note 5	681	450
Deposits and other assets	787	684
Future income taxes - Note 11	2,468	2,381
Property and equipment - Note 8	25,589	24,986
Intangible assets - Note 9	10,578	10,648
Goodwill - Note 10	39,183	39,108
	<b>\$ 121,839</b>	<b>\$ 115,045</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities - Note 12	\$ 22,089	\$ 17,027
Income taxes payable	138	2,116
Current portion of deferred revenue - Note 14	1,136	1,277
Current portion of deferred lease inducements	490	427
Current portion of obligations under capital leases - Note 15	650	961
	<b>25,411</b>	<b>21,808</b>
Deferred revenue - Note 14	4,876	5,916
Deferred lease inducements	1,082	1,039
Obligations under capital leases - Note 15	636	991
Future income taxes - Note 11	2,388	1,836
	<b>34,493</b>	<b>31,690</b>
<b>Shareholders' equity</b>		
Share capital - Note 16	46,149	43,468
Contributed surplus - Note 18	4,178	3,981
Retained earnings	37,019	35,906
	<b>87,346</b>	<b>83,355</b>
	<b>\$ 121,839</b>	<b>\$ 115,045</b>

Commitments - Note 20

Contingencies - Note 21

Subsequent Event - Note 25

**Approved by the Board:**Signed "Gordon J. Reykdal"Gordon J. Reykdal  
DirectorSigned "J. Albert Mondor"J. Albert Mondor, FCA  
Director

See accompanying notes to consolidated financial statements.

## Consolidated Statements Of Cash Flows

(in thousands)

	Year ended September 30, 2011	Fifteen months ended September 30, 2010
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net income	\$ 9,042	\$ 26,464
Items not affecting cash:		
Depreciation of property and equipment	7,960	8,138
Amortization of intangible assets	965	923
Provision for loan losses - Note 23	2,559	788
Equity loss on investments - Note 7		540
Stock-based compensation - Note 18	798	1,098
Future income taxes (recovery)	(532)	101
	20,770	38,052
Change in non-cash operating items:		
Other receivables and long-term receivables	(2,866)	(7,462)
Prepaid expenses, deposits and other assets	(2,409)	(841)
Income taxes receivable		150
Accounts payable and accrued liabilities	6,617	2,262
Income taxes payable	(1,978)	2,116
Deferred revenue	(1,082)	7,047
Deferred lease inducements	106	720
<b>Cash generated by operating activities</b>	<b>19,159</b>	<b>42,044</b>
<b>Investing activities</b>		
Consumer loans receivable, net	(2,851)	(4,985)
Business acquisitions - Note 3	(25)	(5,276)
Cash restricted for class action facilitation - Note 4	(3,299)	1,532
Purchase of intangible assets	(1,895)	(2,648)
Purchase of property and equipment	(8,091)	(17,440)
Purchase of long-term investments		(360)
<b>Cash used in investing activities</b>	<b>(16,151)</b>	<b>(29,177)</b>
<b>Financing activities</b>		
Repayment of obligations under capital leases	(778)	(156)
Dividends paid on common shares - Note 19	(7,929)	(9,120)
Issuance of common shares	2,092	2,397
Shares repurchased		(3,336)
<b>Cash used by financing activities</b>	<b>(6,615)</b>	<b>(10,215)</b>
<b>(Decrease) increase in cash</b>	<b>(3,637)</b>	<b>2,652</b>
<b>Cash, beginning of period</b>	<b>16,871</b>	<b>14,019</b>
<b>Cash end of period</b>	<b>\$ 13,034</b>	<b>\$ 16,671</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 147	\$ 210
Interest received	90	8
Income taxes paid (inclusive of tax refunds)	\$ 8,132	\$ 8,891

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

# Notes to The Consolidated Financial Statements

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010

## nature of business

The Cash Store Financial Services Inc. (the "Company") operates under two branch banners: The Cash Store Financial and Instalcons, who act as brokers and lenders to facilitate short-term advances and provide other financial services, to income-earning consumers. As at September 30, 2011, the Company operated 586 (2010 – 544) branches. The Company has operations in Canada and the United Kingdom.

The Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. who operates in the United States under the name "Cash Store." The Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

### Change in Fiscal Year

In 2010, the Company changed its fiscal year end from June 30 to September 30. The fiscal year end change results in a 15 month comparative reporting period from July 1, 2009 to September 30, 2010.

## note 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 (Canadian GAAP) and differ in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP), as described in Note 27. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

All figures are presented in Canadian dollars, unless otherwise disclosed.

### (b) Use of Estimates

The preparation of the consolidated financial statements in conformity with Canadian and U.S. GAAP 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. Certain estimates, such as those related to allowance for consumer loan losses, property and equipment, goodwill and intangible asset, income taxes, accrued liabilities related to the class action lawsuits, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Actual results could differ from those estimates made by management.

64

### (c) Business Combinations

The Company accounts for all business combinations using the acquisition method. Acquisition related costs which include finder's fees, advisory, legal, accounting, valuation, other professional or consulting fees, and administrative costs are expensed as incurred.

### (d) Revenue Recognition

Revenue arising from brokering short-term advances for customers is recognized once all services have been rendered, all advance amounts have been received by the customer, and the brokerage fee has been received by the Company. Revenue from this source is recorded in Loan fees in the statement of operations.

## note 1 – significant accounting policies (continued)

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### (d) Revenue Recognition (continued)

Revenue arising from direct lending of short-term advances to customers is recognized on a constant yield basis ratably over the term of the related loan.

Revenue from the Company's cheque cashing, money order sales, money transfer, bill payment services and other miscellaneous services is recognized when the transactions are completed at the point-of-sale in the branch and the related fee charged by the Company has been received. Revenue from the Company's banking and non-sufficient funds fees are recognized when collected.

Revenue from each of these sources is recorded in Other income in the statement of operations.

### (e) Retention payments

When the Company acts as a broker on behalf of income earning consumers seeking short-term advances, the funding of short-term advances is provided by independent third party lenders. The advances provided by the third party lenders are repayable by the customer to the third party lenders and represent assets of the lenders; accordingly, they are not included on the Company's balance sheet.

To facilitate the short term advance business, the Company has entered into written agreements with third party lenders who are prepared to consider lending to the Company's customers. Pursuant to these agreements, the Company provides services to the lenders related to the collection of documents and information as well as loan collection services. Under the terms of the Company's agreements with third party lenders, responsibility for losses suffered on account of uncollectible loans rests with the third party lender, unless the Company has not properly performed its duties as set forth under the terms of the agreement. The significant duties under the terms of the agreements generally include ensuring that any proposed loan was applied for through an authorized outlet, ensuring each potential customer meets the loan selection criteria as set forth by the third party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing collection services on behalf of the third party lender for all loans funded which are not paid in full by the due date, all of which while ensuring information system integrity is maintained. In the event the Company does not properly perform its duties and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreement.

The Company's Board of Directors regularly approves a resolution which authorizes management to pay a maximum amount of retention payments per quarter to third party lenders as consideration to those lenders that continue to be willing to fund advances to the Company's customers. While the third party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to lessen the impact of loan losses experienced by the third party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

### (f) Provision for Loan Losses

Loans in default consist of direct lending short-term consumer loans originated by the Company which are past due. The Company defines a past due or delinquent account whereby payment has not been received in full from the customer on or before the maturity date of the loan. A provision for loan losses is recorded when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest (included in loan fee). In determining whether the Company will be unable to collect all principal and interest payments due, the Company assesses relevant internal and external factors that affect loan collectability, including the amount of outstanding loans owed to the Company, historical percentages of loans written off, current collection patterns and other current economic trends. The provision for loan losses reduces the carrying amount of consumer loan receivables to their estimated realizable amounts. The provision is primarily based upon models that analyze specific portfolio statistics, and also reflect, to a lesser extent, management judgement regarding overall accuracy. The analytical model takes into account several factors, including the number of transactions customers complete and charge-off and recovery rate. The provision is reviewed monthly, and any additional provision as a result of historical loan

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(In thousands except share and per share amounts)

**note 1 – significant accounting policies (continued)**

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**(f) Provision for Loan Losses (continued)**

performance, current and expected collection patterns and current economic trends is included in the provision for the loan losses at that time. If the loans remain past due for an extended period of time, an allowance for the entire amount of the loan is recorded and the loan is ultimately written off. The Company's policy for charging off uncollectible consumer loans is to write the loan off when a loan remains in default status for an extended period of time without any extended payment arrangements made, typically 210 days. Loans to customers who file for bankruptcy are written off upon receipt of the bankruptcy notice.

**(g) Stock Based Compensation**

The Company has a stock based compensation plan, which is described in Note 16 (b). The Company accounts for all stock based compensation payments that are settled by the issuance of equity in accordance with a fair value-based method of accounting. Stock based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, or as applicable, over the period to the date an employee is eligible to retire, whichever is shorter, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by the Company, together with the amount in contributed surplus associated with the exercised options, are credited to share capital.

**(h) Earnings Per Share**

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during each reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised, and that proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

**(i) Consumer Loans Receivable**

Unsecured short-term and longer-term advances that the Company originates on its own behalf are reflected on the balance sheet in consumer loans receivable. Consumer loans receivable are reported net of a provision. In regulated jurisdictions, interest is charged on consumer loans commencing upon default; however, it is not recorded as income until payment is received in full or partially from the consumer. In unregulated jurisdictions, interest is charged on consumer loans over the period of the loan and is recorded in income as it is earned.

**(j) Income Taxes**

Income taxes are accounted for under the asset and liability method. Future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

**(k) Long-term Investments**

The Company applies the equity method of accounting for its investments in The Cash Store Australia Holdings Inc. and RTF Financial Holdings Inc. These investments are recorded at cost plus the Company's share of net income or loss to date.

**note 1 – significant accounting policies (continued)****(l) Property and Equipment**

Property and Equipment are recorded at cost. Depreciation is recorded using the rates and methods outlined in the table below.

	Rate	Method
Computer hardware	25%	Straight-line
Computer software	20%	Straight-line
Fixtures, furniture, and equipment	20%	Straight-line
Signs	20%	Straight-line
Buildings	4%	Straight-line
Vehicles	20%	Straight-line

Leasehold improvements are depreciated based on the straight-line basis over the shorter of the lease term, including renewal options that are reasonably assured and the estimated useful life of the asset.

**(m) 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 fair values.

Both internal and external costs incurred to purchase and develop computer software are capitalized after the preliminary project stage is completed and management authorizes the computer software project.

Intangible assets with finite useful lives are amortized over their estimated useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate that such assets might be impaired.

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
Computer software	Straight-line – 5 years
Non-compete agreements	Term of the agreements
Brand name	Indefinite life

**(n) Goodwill**

Goodwill represents the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate it may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it were the purchase price.

When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.



## note 1 – significant accounting policies (continued)

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### (o) Accounting for the Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of a group of assets to the sum of future undiscounted cash flows expected to be generated from the use and eventual disposition of the group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the group of assets exceeds the fair value of the group of assets. Any assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell. Such assets are not depreciated while they are classified as held-for-sale.

### (p) Deferred Revenue

The Company has entered into a long-term services contract for which the Company received advance payments. These advance payments are recorded as deferred revenue and recognized as revenue over the life of the contract.

### (q) Deferred Lease Inducements

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

### (r) Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts. Obligations under capital leases are recorded as an asset with a corresponding liability. Asset values recorded under capital leases are depreciated on a straight-line basis over the estimated useful life. Obligations under capital leases are reduced by lease payments net of imputed interest. Computer and phone operating lease expenses are recorded in selling, general, and administrative expenses. Branch leases are recorded in rent.

### (s) Fair Value of Financial Instruments

The Company's financial instruments consist of cash, other receivables, consumer loans receivables less any allowance for loan losses, accounts payable and accrued liabilities, all of which are short-term in nature and their fair value approximates their carrying value. The fair value of obligations under capital leases carrying amounts are determined by estimating future cash flows on a borrowing-by-borrowing basis, and discounting these future cash flows using a rate which takes into account the Company's spread for credit risk at year-end for similar terms and types of debt arrangements.

## note 2 - changes in accounting policies and practices

There have been no changes in accounting policies and practices under Canadian GAAP that have impacted these annual consolidated financial statements.

### Recent Accounting Pronouncements Not Yet Adopted International Financial Reporting Standards (IFRS)

The Accounting Standards Board of the Canadian Institute of Chartered Accountants previously announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. However, National Instrument 52-107 allows Securities and Exchange Commission ("SEC") registrants, such as the Company, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S. GAAP. The Company has decided to adopt U.S. GAAP instead of IFRS as its primary basis of financial reporting commencing in fiscal 2012.

**note 2 - changes in accounting policies and practices (continued)**

The decision to adopt U.S. GAAP was made to enhance communication with shareholders and improve the comparability of financial information reported with its U.S. based competitors and peer group.

**note 3 - business acquisitions**

On October 16, 2010, the Company acquired all the business assets of Dash for Cash representing one branch in Manitoba for total cash consideration of \$25 all of which was allocated to Goodwill. Dash for Cash operated in the short-term advances industry.

On April 26, 2010, the Company acquired all the business assets of 101019134 Saskatchewan Ltd. (EZ Cash), representing 14 branches in Saskatchewan, for total cash consideration of \$4,476. EZ Cash operated in the short-term advances industry.

On September 1, 2009, the Company acquired all the business assets of Affordable Payday Loans (APL) representing eight branches in Ontario and two branches in Alberta for total cash consideration of \$800. Affordable Payday Loans operated in the short-term advances industry.

The combined purchase price allocation for the fifteen months ended September 30, 2010, is detailed in the following table below.

**Net assets acquired at assigned values**

Property and equipment	36
Non-compete and other intangible assets	392
Goodwill	1,881
Accounts payable and accrued liabilities	(93)
	<b>\$ 5,276</b>

Revenues and earnings since the acquisitions date and pro-forma information as if the acquisitions were completed as of the dates described below, are as follows:

	2011		2010	
	As reported <sup>1</sup>	Pro forma <sup>2</sup>	As reported <sup>1</sup>	Pro forma <sup>2</sup>
Operating revenues	\$ 189,899	\$ 189,899	\$ 220,518	\$ 226,540
Net income	9,042	9,042	26,464	27,578
Net Income per Common Share				
- Basic	0.52	0.52	1.56	1.63
- Diluted	\$ 0.51	\$ 0.51	\$ 1.51	\$ 1.59

<sup>1</sup> Operating revenues and net income for the year ended September 30, 2011, include \$72 related to the acquisition of Dash into Cash and for the fifteen months ended September 30, 2010, include \$4,627 and \$854, respectively, in respect of the acquisitions of APL and EZ Cash.

<sup>2</sup> Pro forma amounts for the year ended September 30, 2011, reflect Dash into Cash as if it was acquired on October 1, 2010. Pro forma amounts for the fifteen months ended September 30, 2010, reflect APL and EZ Cash as if they were acquired on July 1, 2009.

The acquisition costs related to the business acquisitions are not significant. Goodwill related to the business acquisitions are 75% tax deductible.

**note 4 - cash**

The significant components of cash are as follows:

	2011	2010
Cash	\$ 13,094	\$ 16,671
Restricted cash	6,257	2,968
	<b>\$ 19,291</b>	<b>\$ 19,639</b>

Restricted cash includes \$6,257 (2010 - \$2,968) in funds to facilitate claims related to the British Columbia class action lawsuit settlement (Note 13 (b)). Subsequent to year end, the total amount transferred to a third-party administrator was \$6,257.

Approximately \$3,611 (2010 - \$2,697) was cash in transit as a result of pre-authorized debit, facilitated by a third-party.

## note 5 - other receivables and other income

### (a) Other Receivables

	2011	2010
Due from investee corporations	\$ 81	\$ 492
Due from suppliers	11,143	7,223
Other	2,052	2,675
	\$ 13,256	\$ 10,390

### Due from Suppliers

Due from suppliers includes \$11,143 (2010 - \$7,223) of short term receivables from our main suppliers of bank accounts, debit and prepaid mastercard and insurance products that have occurred in the normal course of business.

### Other

Amounts included in Other receivables are from the sale of a business and amounts due in the normal course of business. Included with long-term receivables is an amount of \$681 (2010 - \$450).

### (b) Other Income

	2011	2010
Agency fee income	\$ 46,809	\$ 36,706
Other income	6,467	13,153
	\$ 53,276	\$ 49,859

## note 6 - consumer loans receivable

	2011	2010
Short-term advances receivable	\$ 6,799	\$ 3,644
Term loans receivable	765	1,327
Allowance for consumer loan losses	(2,783)	(511)
	\$ 4,781	\$ 4,460

## note 7 - long-term investments

### (a) The Cash Store Australia Holdings Inc.

The Company owns 3,000,000 shares, or approximately 18.3% of the outstanding common shares of The Cash Store Australia Holdings Inc. (AUC) acquired at a price of \$0.06 per share. The carrying amount of this investment is \$nil (2010 - \$nil). Of the 3,000,000 common shares, 450,000 common shares are subject to escrow provisions that prevent the Company from selling these shares until the following dates:

Date	Percentage	Common Shares
March 8, 2012	15%	450,000

Included in selling, general, and administrative expenses is the Company's share of AUC's loss of \$nil (2010 - \$180).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 7 - long-term investments (continued)

### (b) RTF Financial Holdings Inc.

The Company owns 6,000,000 shares, or approximately 15.7%, of RTF Financial Holdings Inc. (RTF) acquired at a price of \$0.06 per share. The carrying amount of this investment is \$nil (2010 - \$nil).

Included in selling, general, and administrative expenses is the Company's share of RTF's loss of \$nil (2010 - \$360).

## note 8 - property and equipment

	2011		
	Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$ 28,887	\$ 15,491	\$ 13,396
Fixtures, furniture and equipment	12,421	6,195	6,226
Computer hardware	10,463	3,598	2,867
Signs	7,539	4,670	2,863
Buildings	132	20	112
Vehicle	77	15	62
Land	51	-	51
Computer software	241	229	12
	\$ 59,805	\$ 30,218	\$ 25,589

	2010		
	Cost	Accumulated Depreciation	Net Book Value
Leasehold improvements	\$ 27,359	\$ 13,509	\$ 13,850
Fixtures, furniture and equipment	11,578	5,475	6,103
Computer hardware	5,538	2,949	2,589
Signs	6,014	3,821	2,193
Buildings	132	15	117
Vehicle	75	4	71
Land	51	-	51
Computer software	242	230	12
	\$ 50,989	\$ 26,003	\$ 24,986

Depreciation expense for the twelve months ended September 30, 2011 includes a write off of property and equipment of \$65 (2010 - \$61).

Cost and accumulated depreciation of property and equipment as at September 30, 2011 included \$13,866 of fully depreciated assets.

Assets under capital lease included above:

	2011		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 2,171	\$ 1,163	\$ 1,008
Fixtures, furniture and equipment	903	653	250
	\$ 3,074	\$ 1,816	\$ 1,258

	2010		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 2,050	\$ 1,064	\$ 986
Fixtures, furniture and equipment	903	587	316
	\$ 2,953	\$ 1,651	\$ 1,302

**note 8 - property and equipment (continued)**

Depreciation of property and equipment for the twelve months ended September 30, 2011, includes \$165 (2010 - \$821) relating to assets under capital leases.

During the twelve months ended September 30, 2011, additions to property and equipment included \$121 (2010 - \$683) of assets that were acquired by means of capital lease and \$nil (2010 - \$47) of assets that were acquired by way of vehicle financing.

**note 9 - intangible assets**

	2011		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts, relationships, lists and other	\$ 952	\$ 917	\$ 45
Non-compete agreements	507	249	258
Computer software	6,717	1,742	4,975
Brand name	5,300	-	5,300
	\$ 13,486	\$ 2,908	\$ 10,578

	2010		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts, relationships, lists and other	\$ 952	\$ 887	\$ 65
Non-compete agreements	507	175	332
Computer software	5,832	881	4,951
Brand name	5,300	-	5,300
	\$ 12,591	\$ 1,943	\$ 10,648

During the twelve months ended September 30, 2011, the Company acquired \$nil in non-compete agreements (2010 - \$330) and \$nil in customer contracts, relationships, lists and other (2010 - \$62) as part of the business acquisitions (Note 3).

Included in computer software are assets under development with a cost of \$262 (2010 - \$3,274). These assets have not been amortized in the twelve months ended September 30, 2011.

Cost and accumulated amortization of intangibles as at September 30, 2011 included \$305 of fully amortized intangible assets.

**note 10 - goodwill**

	2011	2010
Balance, beginning of period	\$ 39,108	\$ 34,554
Goodwill acquired - Note 3	25	4,881
Disposal of goodwill	-	(327)
Balance, end of period	\$ 39,133	\$ 39,108

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 11 - income taxes

### (a) Provision for 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 28.0% (2010 – 29.1%) to income as a result of the following:

	2011	2010
Income before income taxes	\$ 14,667	\$ 37,761
Computed tax expense at statutory income tax rates	\$ 4,107	\$ 11,011
Change in enacted tax rates	(31)	(1)
Adjustment for prior year immaterial errors	1,180	-
Stock-based compensation	206	319
Permanent differences and other	163	(32)
Total income tax provision	\$ 5,625	\$ 11,297

### (b) Future Income Taxes

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

	2011	2010
<b>Future income tax assets:</b>		
<b>Current:</b>		
Accrued liability for class action settlements and other temporary differences	\$ 1,078	\$ 614
Loan loss provision	138	-
	\$ 1,516	\$ 614
<b>Non-current:</b>		
Losses available to be carried forward	193	-
Property and equipment, intangible assets and goodwill	320	192
Deferred lease inducements	308	381
Deferred revenue	1,647	1,808
	\$ 2,468	\$ 2,381
<b>Future income tax liabilities:</b>		
Property and equipment, intangible assets and goodwill	\$ (2,388)	\$ (1,936)

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

## note 12 - accounts payable and accrued liabilities

	2011	2010
Trade accounts payable and accrued liabilities	\$ 6,937	\$ 5,733
Class action settlements Note 13 (a), (b), (c), and (d)	4,185	2,153
Accrued salaries and benefits	2,808	2,725
Amounts due to third party lenders	8,487	5,647
Other	572	769
	\$ 22,989	\$ 17,027

## note 12 - accounts payable and accrued liabilities (continued)

The amounts due to third party lenders reflects funds made available by lenders but not yet advanced to customers, any liability under the lending agreement, including any paid retention payments, as well as loan repayment and interest amounts collected from customers. Amounts due to third party lenders are non-interest bearing, unsecured and have no specified repayment terms.

## note 13 - class action settlements

### (a) Ontario and the rest of Canada with the exception of British Columbia and Alberta

On April 13, 2004, a legal proceeding was commenced against The Cash Store Financial and Instalozans Inc., by Thompson McCutcheon (the "Plaintiff"), a customer. The Plaintiff obtained an order pursuant to the Class Proceedings Act, 1992, S.O. 1992 c.6 (the "Class Proceeding Act"), as amended, certifying the action as a class proceeding and appointing him as the representative of the class. The Plaintiff asserted that the defendants were in breach of the Criminal Code of Canada and the Fair Trading Act as the aggregate of all charges, including interest, broker fees and card fees, was in excess of those allowed by law. The Statement of Claim stated that the members of the Class would seek to recover all amounts charged, collected or received by the defendants at a criminal rate of interest and/or at an excessive rate, as well as damages, costs and interest.

On December 2, 2008, the Ontario Superior Court of Justice certified the class action lawsuit as a class proceeding under the Act, and granted approval of the settlement that had been agreed to between the Company and the representative Plaintiff on behalf of the Class. The settlement does not constitute any admission of liability by The Cash Store Financial.

Under the terms of the settlement, the Company is to pay to the class a minimum of \$750 and a maximum of \$1,500 in cash and a minimum of \$750 and a maximum of \$1,500 in credit vouchers to those customers of The Cash Store Financial and Instalozans, exclusive of Alberta and British Columbia, who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full. The credit vouchers may be used to pay existing outstanding brokerage fees and interest or to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced. The credit vouchers are fully transferable and have no expiry date. Based on our estimate of the rate of take-up of the available cash and vouchers, a total provision of \$2,010 was previously recorded to cover the estimated costs of the settlement, including legal fees and other costs. During the year ended June 30, 2009, the Company paid the legal fees and costs of the class. On August 6, 2009, the claims process was concluded and we issued \$750 in vouchers and \$750 in cheques to the class members as full and final satisfaction of all claims. As at September 30, 2011, the remaining accrual is \$46 (2010 - \$52).

### (b) British Columbia

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified on his own behalf and on behalf of all persons who have borrowed money from the defendants: The Cash Store Financial and All Trans Credit Union Ltd. The action stems from the allegations that all Payday Loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada. On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the B.C. Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of our customers' third-party lenders added to the claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others against The Cash Store Financial, Instalozans Inc., and others in respect of the business carried out under the name Instalozans since April 2005. Collectively, the above actions are referred to the "British Columbia Related Actions".

On May 12, 2009, the Company settled the British Columbia Related Actions in principle. The settlement has been approved by the Court. The settlement does not constitute any admission of liability by The Cash Store Financial.

Under the terms of the court approved settlement, the Company is to pay to the eligible class members who were advanced funds under a loan agreement and who repaid the Payday Loan plus brokerage fees and interest in full, or who met certain other eligibility criteria, a maximum estimated amount of \$9,400 in cash and \$9,400 in credit vouchers. Thus, the estimated maximum exposure with respect to this settlement is approximately \$18.8 million including approved legal expenses. The credit vouchers may be used to pay existing outstanding brokerage fees and interest or to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced. The credit vouchers are not transferable and have no expiry date. In

## note 13 - class action settlements (continued)

### (b) British Columbia (continued)

In addition, the Company is to pay the legal fees and costs of the class. Based on the Company's estimate of the rate of take-up of the available cash and credit vouchers, an expense of \$10,921 to date has been recorded to cover the estimated costs of the settlement, including legal fees of the Class and costs to administer the settlement fund. The Company increased the provision by \$3,206 for the twelve months ended September 30, 2011 (2010 - \$2,915) as a result of new information being received. It is possible that additional settlement costs could be required in the future. As at September 30, 2011, the remaining accrual is \$4,039 (2010 - \$2,001). Subsequent to year end the administration of the settlement fund was transferred to a third-party based on a court approved order. The total amount transferred was \$6,257.

### (c) Alberta

The Company has been served in prior fiscal periods with a Statement of Claim issued in Alberta alleging that we are in breach of s. 347 of the Code (the interest rate provision) and certain provincial consumer protection statutes.

The certification motion has been pending since fiscal 2006 and has not yet been heard. On January 19, 2010, the plaintiffs in the Alberta action brought forward an application to have a related subsidiary, as well as certain of our customers' third-party lenders, directors and officers added to the Claim.

The Company has agreed to a motion to certify the class proceeding if the third party lenders, officers and directors are removed as defendants. Class counsel has agreed to the Company's proposal.

The Company believes that it conducted its business in accordance with applicable laws and is defending the action vigorously. As at September 30, 2011, a total of \$100 (2010 - \$100) has been accrued. However, the likelihood of loss, if any, is not determinable at this time.

### (d) Manitoba

On April 23, 2010, an action under the Manitoba Class Proceedings Act was commenced in the Manitoba Court of Queen's Bench by Scott Meeking against The Cash Store Financial and Instalozans proposing that a class action be certified on his own behalf and on behalf of all persons in Manitoba and others outside the province who elect to claim in Manitoba and who obtained a payday loan from The Cash Store Financial or Instalozans. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada.

The Company conducts business in accordance with applicable laws and is defending the action vigorously. Further it will be maintained that most of the proposed class members are bound by the judgment in the settlement of the Ontario class action in 2008, as approved by the Ontario Superior Court of Justice and that accordingly the action should be dismissed. However, the likelihood of loss, if any, is not determinable at this time.

75

## note 14 - deferred revenue

	2011	2010
Current	\$ 1,135	\$ 1,277
Long-term	4,976	5,916
Balance, end of period	\$ 6,111	\$ 7,193

On September 1, 2010, the Company entered into an agreement with Ria Financial Services, a division of Euronet Worldwide Inc. (NASDAQ: EFFT), to supply money transfer services across the Company's network of The Cash Store Financial and Instalozans branches in Canada. The Company received a \$7,000 signing bonus, which will be recognized into revenue over the next seven years, which is the length of the agreement.



## note 15 - obligations under capital leases

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

	2011		
	Aggregate Due	Less Imputed Interest	Net
Various leases - repayable in monthly instalments totalling \$57 including imputed interest ranging from nil - 19.8%; due to mature between 2012 - 2015; secured by leased assets with an aggregate carrying amount of \$1,258.	\$ 1,421	\$ 126	\$ 1,295
Less current portion	761	102	659
	\$ 660	\$ 24	\$ 636

	2010		
	Aggregate Due	Less Imputed Interest	Net
Various leases - repayable in monthly instalments totalling \$59 including imputed interest ranging from nil - 19.8%; due to mature between 2011 - 2014; secured by leased assets with an aggregate carrying amount of \$1,302. Included in leases is a one time payment of \$368 due in 2011.	\$ 2,167	\$ 215	\$ 1,952
Less current portion	1,081	120	961
	\$ 1,086	\$ 95	\$ 991

The capital lease repayments are due as follows:

	Aggregate Due	Less Imputed Interest	Net
2012	\$ 749	\$ 90	\$ 659
2013	433	40	393
2014	233	13	220
2015	27	4	23
	\$ 1,442	\$ 147	\$ 1,295

During the twelve months ended September 30, 2011, the Company incurred interest charges related to capital leases in the amount of \$147 (2010 - \$179). These have been included in selling, general, and administrative expenses.

## note 16 - share capital

### (a) Issued share capital

	2011		2010	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized:</b>				
Unlimited common shares with no par value				
<b>Issued:</b>				
Balance, beginning of period	17,085,727	\$ 43,468	16,959,492	\$ 40,222
Transfer from contributed surplus for stock options exercised - Note 18		572	-	1,769
Options exercised	183,487	939	514,034	2,397
Warrants exercised	150,000	1,170	-	-
Shares repurchased			(387,799)	(920)
Balance, end of period	17,419,214	\$ 46,149	17,085,727	\$ 43,468

For the year ended September 30, 2011, the Company did not purchase and subsequently cancel any common shares (2010 - 387,799 common shares at a cost of \$3,336).

note 16 - **share capital** (continued)**(b) Options to Employees and Directors**

The Company has an incentive stock option plan for certain employees, officers and directors. Options issued under the plan have vesting terms that vary depending on date granted and other factors. All stock options must be exercised over specified periods not to exceed five years from the date granted.

	2011		2010	
	Total Options for Shares	Weighted Average Price	Total Options for Shares	Weighted Average Price
Outstanding, beginning of period	1,019,322	\$ 4.07	1,128,356	\$ 4.72
Granted	155,000	12.96	460,000	12.18
Exercised	(183,487)	5.12	(514,034)	4.66
Expired	(10,000)	5.52	-	-
Forfeited	(1,667)	8.80	(55,000)	5.69
Outstanding, end of period	979,168	9.42	1,019,322	8.07
Exercisable, end of period	505,832	\$ 6.84	321,644	\$ 5.00

At September 30, 2011, the range of exercise prices, the weighted average exercise price, and weighted average remaining contractual life are as follows:

Fiscal Year Granted	Number Outstanding	Weighted Average Remaining Term	Weighted Average Exercise Price	Number Exercisable
2008	238,600	14 mos.	\$ 3.81	238,600
2009	169,733	30 mos.	6.65	124,735
2010	415,835	40 mos.	12.45	142,497
2011	155,000	58 mos.	12.96	-
	979,168	35 mos.	\$ 9.42	505,832

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

	2011	2010
Risk free interest rate	1.6%	1.7%
Expected life (years)	3	3
Expected volatility	39.0%	52.8%
Expected dividends	3.7%	3.4%

The weighted average grant-date fair value of options granted was estimated at \$2.72 (2010 - \$3.46) per option.

The Company is authorized to issue an additional 1,868,167 equity share options under its existing stock option plan.

**(c) Warrants to outside agents**

	2011		2010	
	Number of Warrants	Weighted Average	Number of Warrants	Weighted Average
Balance, beginning of period	150,000	\$ 7.80	150,000	\$ 7.80
Issued	nil	nil	nil	nil
Exercised	150,000	7.80	nil	nil
Expired	nil	nil	nil	nil
Balance, end of period	nil	nil	150,000	\$ 7.80
Exercisable for shares, end of period	nil	nil	150,000	\$ 7.80

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 16 - share capital (continued)

## (c) Warrants to outside agents (continued)

On May 14, 2009, the Company entered into an agreement for the exclusive financing services of a financing agent. In consideration of providing these financial advisory and agency services, non-transferrable warrants up to a total of 150,000 common shares in the Company were issued at a strike price of \$7.80 per share expiring on May 14, 2011. On April 26, 2011, the Company received \$1,170 of proceeds related to the 150,000 warrants being exercised by the financing agent.

## note 17 - per share amounts

Basic net income per common share is calculated by dividing net income attributable to common shares by the total weighted average common shares outstanding during the period. Diluted net income per common share is calculated to give effect to share option awards and warrants.

The following table presents the reconciliations of the denominators of the basic and diluted per share computations. Net income attributable to common shares equaled diluted income attributable to common shares for all periods presented.

	2011	2010
Basic total weighted average common shares outstanding	17,250,196	16,913,213
Effect of dilutive securities		
Share option awards	399,345	459,033
Warrants	34,839	150,000
Diluted total weighted average common shares outstanding	17,663,380	17,522,246

## note 18 - contributed surplus

For stock options granted to certain employees, officers and directors after July 1, 2002, the Company records compensation expense using the fair value method. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense, which has been recorded in selling, general, and administrative expenses, with a corresponding increase to contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital.

	2011	2010
Balance at beginning of period	\$ 3,981	\$ 4,652
Stock options exercised	(589)	(1,769)
Stock-based compensation expense	786	1,098
	\$ 4,178	\$ 3,981

78

## note 19 - dividends

	2011		Total
	Declared effective	Paid to shareholders	
Dividend per Common Share			
Dividend \$0.10	December 6, 2010	December 21, 2010	\$ 1,710
Dividend \$0.12	February 7, 2011	February 21, 2011	2,082
Dividend \$0.12	May 9, 2011	May 24, 2011	2,084
Dividend \$0.12	August 10, 2011	August 25, 2011	2,073
Dividend	N/A	N/A	
			\$ 7,929

note 19 - **dividends** (continued)

	2010		Total
	Declared effective	Paid to shareholders	
Dividend per Common Share			
Dividend \$0.14	September 9, 2009	September 24, 2009	\$ 2,342
Dividend \$0.10	October 28, 2009	November 26, 2009	1,676
Dividend \$0.10	February 10, 2010	February 25, 2010	1,694
Dividend \$0.10	May 11, 2010	May 26, 2010	1,701
Dividend \$0.10	August 11, 2010	August 26, 2010	1,707
			\$ 9,120

The Company reviews its dividend distribution policy on a quarterly basis, evaluating its financial position, profitability, cash flow and other factors the Board of Directors considers relevant.

note 20 - **commitments****(a) Lease Commitments**

The Company is committed to future minimum annual operating lease payments for office and branch premises, which expire through 2022.

	Aggregate Lease Payments
2012	\$ 20,425
2013	18,900
2014	15,183
2015	10,395
2016	5,042
Thereafter	16,548
	\$ 86,493

**(b) New Branch Openings and Additional Lease Commitments**

Subsequent to the year-end, the Company has committed to leases for six additional Cash Store Financial and Instalcoans locations. The additional minimum annual lease payments required for the next five years, including these six leases and thereafter are as follows:

	Additional Lease Payments	Aggregate Lease Payments
2012	\$ 162	\$ 20,587
2013	202	19,102
2014	202	15,385
2015	202	10,597
2016	202	5,244
Thereafter	1,299	17,847
	\$ 2,269	\$ 88,762

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 21 - contingencies

### (a) Legal Proceedings

The Company has been served in prior fiscal periods with Statements of Claim issued in Alberta alleging that the Company is in breach of s. 347 of the Criminal Code (the interest rate provision) and certain provincial consumer

### (a) Legal Proceedings (continued)

protection statutes. One of the claims is in respect of payday loans and the certification motion has been pending since fiscal 2006. The other Alberta claim is in respect of title loans in which the Company has agreed to a motion to certify the class proceeding if the lenders, officers and directors are removed as defendants. Class counsel has agreed to our proposal. The Company believes that it conducts its business in accordance with applicable law and is defending each of the actions vigorously. However, the likelihood of loss if any is not determinable.

The Company is also involved in other claims related to the normal course of operations. Management believes that it has adequately provided for these claims.

### (b) Branch Operations

When the Company acts as a broker on behalf of consumers seeking short term advances, the funding of the advances is provided directly to the customers by independent third party lenders. The Company has entered into written business arrangements with a number of third party lenders that are prepared to consider lending to customers. Pursuant to these agreements, services related to the collection of documents and information as well as loan collection services are provided to the third party lenders. The agreements also provide that the third party lenders are responsible for losses suffered as a result of uncollectible loans provided the required duties under the terms of the agreements have been properly performed by the subsidiaries. In the event the duties are not properly performed and the lenders make a claim as required under the agreement, the subsidiaries may be liable to the lenders for losses they have incurred. The Company's contingent risk is the balance of the third party lenders loan portfolio which totalled approximately \$104,581 as at September 30, 2011 (2010 - \$109,082).

To date, no claims have been made by the third party lenders and no payments have been made or accrued by the subsidiaries pursuant to this clause in the agreements. Risk is managed through compliance with the loan limits, procedures and selection criteria established by the lenders.

## note 22 - related party transactions

### (a) The Cash Store Australia Holdings Inc.

The Company provides administrative services to The Cash Store Australia Holdings Inc. The Company entered into an interim services agreement with AUC to provide ongoing services such as financial and accounting support, contracts administrative services, and the use of the Company's information technology and telecommunication systems. Included in selling, general, and administrative expenses is a recovery of \$363 (2010 - \$362) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount.

The Company has a \$16 (2010 - \$7) receivable from AUC. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. The receivable was repaid subsequent to year-end.

### (b) RTF Financial Holdings Inc.

The Company provides administrative services to RTF Financial Holdings Inc. The Company entered into an interim services agreement with RTF to provide ongoing services such as financial and accounting support and contracts administrative services. Included in selling, general, and administrative expenses is a recovery of \$240 (2010 - \$120) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount.

The Company has a \$45 (2010 - \$485) receivable from RTF. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. The receivable was repaid subsequent to year-end.

## note 23 - financial instruments and risk management

### (a) Classification of Financial Instruments

The Company has made the following classifications: cash as held-for-trading, other receivables and consumer loans receivable as loans and receivables, and accounts payable and accrued liabilities and obligations under capital leases as other financial liabilities.

### (b) Fair Values

The fair values of financial instruments are determined with respect to the hierarchy that prioritizes the input to fair value measurement. In the absence of an active market, the Company determines fair value by using valuation techniques that refer to observable market data or estimated market prices. Fair values are inherently judgmental, thus the estimated fair values do not necessarily reflect amounts that would be received or paid in case of immediate settlement of these instruments. The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts. The carrying value of other receivables, consumer loans receivable net, accounts payable and accrued liabilities approximate their fair values due to the relatively short-term nature of these balances. The fair value of obligations under capital leases are determined by estimating future cash flows on a borrowing-by-borrowing basis, and discounting these future cash flows using a rate which takes into account the Company's spread for credit risk at year-end for similar terms and types of arrangements. Based on estimates, the fair-value of the Company's obligation under capital lease as at September 30, 2011 and 2010 are not significantly different than their carrying value.

The hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of these instruments.

The Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. Cash is the only financial instruments valued using Level 1 inputs (quoted market prices). There were no financial instruments categorized in Level 2 (valuation techniques using observable market inputs) and Level 3 (valuation techniques using non-observable market inputs) as at September 30, 2011.

81

### (c) Risk Management

The Company is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in interest rates, as well as credit and liquidity risks. The nature of the financial risks and the Company's strategy for managing these risks has not changed significantly from the prior period.

Market risk is the risk of loss that results from changes in market factors such as foreign currency exchange rates and interest rates. The level of market risk to which the Company is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and composition of the Company's financial assets and liabilities held, non-trading physical assets, and contract portfolios.

Overall, the Company's Board of Directors has responsibility for the establishment and approval of the Company's risk management policies. To manage the exposure to changes in market risk, management performs a risk assessment on a continual basis to help ensure that all significant risks related to the Company and its operations have been reviewed and assessed to reflect changes in market conditions and the Company's operating activities. The following summarizes the types of market price risks to which the Company is exposed, and the risk management instruments applied to mitigate them. The

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 23 - financial instruments and risk management (continued)

sensitivities provided below are hypothetical and should not be considered to be predictive of future performance or indicative

### (c) Risk Management (continued)

of earnings on these contracts. The Company does not currently use derivative financial instruments to manage its market risks and does not hold or issue derivative financial instruments for trading or speculative purposes.

#### (i) Currency Risk

The Company is exposed to currency risk due to operations in the United Kingdom; however, the majority of operations are in Canada and as such this risk is not considered significant to the Company.

#### (ii) Interest Rate Risk

The Company does not have any variable interest bearing obligations; therefore, the Company's exposure to interest rate fluctuations relative to financial instruments is minimal.

#### (iii) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash, other receivables, consumer loans receivable, and long-term receivable. The maximum amount of credit risk exposure is limited to the carrying amount of the balances disclosed in these financial statements.

The best representation of the Company's maximum exposure (excluding tax effects) to credit risk, which is a worst case scenario and does not reflect results expected by the Company, is as set out in the following table:

	2011	2010
Cash - Note 4	\$ 19,291	\$ 19,639
Other receivables - Note 5	12,575	9,940
Consumer loans receivable, net - Note 6	4,781	4,460
Long-term receivable - Note 5	681	450
	\$ 37,328	\$ 34,489

*Cash:* Credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with reputable Canadian financial institutions that have been accorded strong investment grade ratings by a primary rating agency.

*Other receivables:* Other receivables includes amounts owing to the Company from various parties. Included within other receivables are amounts of \$11,143 whereby a significant portion is owed by two different parties and as such, these balances represent a concentration of credit risk to the Company. For such parties, the Company trades with entities that are assessed as being credit worthy and the Company maintains an ongoing review of their credit status. The balance of other receivables is owed by a large number of parties that individually owe amounts to the Company that are not significant in value as at September 30, 2011.

*Consumer loans receivable:* The Company also directly lends to its customers and has no significant concentration of credit risk with any particular individual related to short-term advances.

Credit risk relates to the possibility of default of payment on the Company's consumer loans receivable. The Company performs on-going credit evaluations, and reviews the aging of the receivable, payment history and other factors, and

it establishes a provision for loan losses when it is determined that a loan is impaired.

**(iii) Credit Risk (continued)**

The following table presents an analysis of the age of consumer loans receivable as of September 30, 2011.

	2011	2010
Consumer loans receivable, net of allowance for consumer loan losses		
Current	\$ 2,178	\$ 3,410
1-30 days past due date	856	992
31-60 days past due date	581	306
61-90 days past due date	417	119
Greater than 90 days past due date	364	144
Consumer loans receivable	4,396	4,971
Allowance for consumer loan losses	(2,783)	(511)
	\$ 1,613	\$ 4,460

The Company makes significant estimates in respect of the allowance for consumer loan losses. Historical information is considered when determining whether past-due accounts should be provided for and the same factors are considered when determining whether to write off amounts charged to the allowance against the consumer loans receivable.

The following table presents a summary of the activity related to the Company's allowance for consumer loan losses.

	2011	2010
Balance, beginning of period	\$ 511	\$ 49
Provisions made during the period	2,559	788
Write-offs during the period	(287)	(326)
Balance, end of period	\$ 2,783	\$ 511

**(iv) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or will not receive sufficient funds from its third party lenders to advance to the Company's customers. The Company manages all liquidity risk through maintaining a sufficient working capital amount through daily monitoring of controls, cash balances and operating results. The Company's principal sources of cash are funds from operations, which the Company believes will be sufficient to cover its normal operating and capital expenditures.

The maximum exposures to liquidity risk are represented by the carrying amount of accounts payable and accrued liabilities, and obligations under capital leases, which is approximately \$24,920. This amount is made up of the following:

	Carrying Amount	Contractual Cash Flows	Less Than 1 Year	1-3 Years
Accounts payable and accrued liabilities	\$ 22,989	\$ 22,989	\$ 22,989	\$ -
Obligations under capital leases (including interest)	1,295	1,421	761	660
	\$ 24,284	\$ 24,410	\$ 23,750	\$ 660

## note 24 - management of capital

The Company's objective when managing capital is to provide a return to its shareholders by fairly pricing its services with the associated level of risk while being able to sufficiently fund future growth initiatives. The Company defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of share capital, contributed surplus and retained earnings.

In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue shares, repurchase shares through a normal course issuer bid, pay dividends or undertake other activities as deemed appropriate under



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 24 - management of capital (continued)

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the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestures, as well as capital and operating budgets.

The Company sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it based on economic or regulatory changes. In order to maintain or modify the capital structure, the Company may seek additional sources of capital. The Company has limited reliance on debt facilities and is not subject to any restrictive covenants.

The Company's capital management objectives, policies and procedures were unchanged since the prior year-end.

## note 25 - subsequent event

On November 16, 2011, the Company declared a quarterly dividend of \$0.12 per common share. The dividend is payable on December 14, 2011, to shareholders of record on November 29, 2011.

## note 26 - comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period. Specifically, certain amounts previously recorded within Selling, general and administrative expense have been reclassified to Other income for all periods presented.

## note 27 - U.S. GAAP reconciliation

The Company prepares its consolidated financial statements in accordance with Canadian GAAP, which conforms from a recognition and measurement perspective in all material aspects applicable to the Company with U.S. GAAP for the periods presented. Presentation differences and additional disclosures required under U.S. GAAP are as follows:

### (A) Consolidated Statements of Cash Flows

Canadian GAAP permits the disclosure of a subtotal of the amount of funds provided by operating activities before changes in non-cash operating items in the consolidated statements of cash flows. U.S. GAAP does not permit this subtotal to be included in the consolidated statements of cash flows.

### (B) Long-Term Investments

U.S. GAAP requires the Company to disclose the aggregate quoted market value of long-term investments, which is not required under Canadian GAAP.

#### (a) The Cash Store Australia Holdings Inc.

The Company accounts for the investment under the equity method of accounting as it has significant influence over strategic operating, investing and financing activities due to board representation and management involvement in day to day operations. The difference between the carrying amount of the investment and the underlying equity in net assets of the investee is not significant. The aggregate quoted market value of this investment is \$2,700.

#### (b) RTF Financial Holdings Inc.

The Company accounts for the investment under the equity method of accounting as it has significant influence over strategic operating, investing and financing activities due to board representation and management involvement in day to day operations. The difference between the carrying amount of the investment and the underlying equity in

note 27 - **U.S. GAAP reconciliation** (continued)

net assets of the investee is not significant. No aggregate quoted market value of the investment exists as RTF is not publicly traded.

**(C) Intangible Assets**

The estimated aggregate annual amortization expense for the next five years for intangible assets subject to amortization is as follows:

Fiscal year ending September 30	2012	2013	2014	2015	2016
Amortization expense for intangible assets	\$ 2,280	\$ 2,214	\$ 804	\$ -	\$ -

**(D) Income Taxes**

Under Canadian GAAP, the tax effects of temporary differences are referred to as future income taxes. Under U.S. GAAP, the tax effects of temporary differences are referred to as deferred income taxes.

The Company has a tax loss carry forward in the amount of \$689.

The Company currently does not have any unrecognized tax benefits. The Company's tax positions for 2008 to present in Canada remain subject to examination by tax authorities. The Company's tax position for the current fiscal year in the United Kingdom remains subject to examination by tax authorities.

**(E) Accounts Payable and Accrued Liabilities**

U.S. GAAP requires the Company to disclose components of accrued liabilities, which is not required under Canadian GAAP. Accrued liabilities included in trade accounts payable and accrued liabilities within Note 12 as at September 30, 2011, were \$4,097 (2010 - \$2,749).

**(F) Stock Based Compensation**

U.S. GAAP requires the Company to disclose nonvested share options, which is not required under Canadian GAAP. A summary of the status of the Company's nonvested share options as of September 30, 2011, and the changes during the fifteen months ended September 30, 2010, are presented below:

	2011		2010	
	Total Options for Shares	Weighted Average Price	Total Options for Shares	Weighted Average Price
Nonvested, beginning of period	697,678	\$ 9.48	661,991	\$ 4.70
Granted	155,000	12.96	460,000	12.18
Vested	(377,675)	7.53	(374,313)	4.85
Forfeited	(1,667)	8.80	(50,000)	5.71
Nonvested, end of period	473,336	\$ 12.17	697,678	\$ 9.48

The total intrinsic value of options exercised during the twelve months ended September 30, 2011, was \$1,593 (2010 - \$3,610). The total fair value of options that vested during the twelve months ended September 30, 2011, was \$1,346 (2010 - \$996).

As at September 30, 2011, and September 30, 2010, the aggregate intrinsic value of options outstanding was \$1,610 and \$7,635, respectively, while the aggregate intrinsic value of the options that are currently exercisable was \$1,521 and \$3,322, respectively.

As at September 30, 2011, there was \$1,125 of total unrecognized compensation costs related to non-vested stock options. The Company expects to recognize this expense over a weighted average period of 1.8 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the twelve and fifteen months ended September 30, 2011 and September 30, 2010  
(in thousands except share and per share amounts)

## note 27 - U.S. GAAP reconciliation (continued)

For the twelve months ended September 30, 2011, the total cash received for stock options exercised totalled \$939 (2010 - \$1,725).

### (G) Financial Instruments

#### Valuation Techniques:

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Cash	\$ 19,291	\$ 19,291	\$ 19,639	\$ 19,639
Other receivables	12,575	12,575	9,940	9,940
Consumer loans receivable	781	781	4,460	4,460
Long term receivable	681	681	\$ 450	\$ 450
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 22,989	\$ 22,989	\$ 17,027	\$ 17,027
Obligations under capital leases	1,295	1,295	\$ 1,952	\$ 1,952

### (H) Recent United States Accounting Pronouncements

In 2010, FASB amended ASC Topic 310 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The ASC significantly expands existing disclosures about the credit quality of financing receivables and their allowance for credit losses. The ASC affects all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost and fair value. This section is effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of the provisions of ASC Topic 310 did not have a material impact on the Company's consolidated financial statements.

In 2010, FASB issued ASU 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Award in the Currency of the Market in Which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force (Issue No. 09-J)." The Task Force reached a consensus that an employee share-based payment with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade should be considered an equity classified award assuming all other criteria for equity classification are met. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning, on or after December 15, 2010. The Company is evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In December 2010, FASB issued ASU 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2010. The Company is evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In December 2010, FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations". The objective of this Update is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The Task Force reached a consensus that if an entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. This ASU is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company is evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In May 2011, FASB issued ASU 2011-04 "Fair Value Measurement: Amendments to Achieve Common Fair Value

Measurement and Disclosure Requirements in US GAAP and IFRSs.” This ASU was issued concurrently with IFRS 13, Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. The Company is required to apply the ASU prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that result from applying the ASU and to quantify the total effect, if practicable. The Company is evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In June 2011, FASB issued ASU 2011-05 “Comprehensive Income: Presentation of Comprehensive Income.” This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. An entity should apply the ASU retrospectively. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is evaluating the impact of the adoption of this ASU on its consolidated financial statements.

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance will be effective for the Company’s fiscal year ending September 30, 2012, with early adoption permitted. The Company has determined that this new guidance will not have a material impact on its consolidated financial statements.

## Corporate Governance

Cash Store Financial believes that effective corporate governance practices are fundamental to the overall success of a Company.

Our Corporate Governance practices reflect our commitment to openness and accountability. Cash Store Financial is committed to full compliance with applicable corporate governance requirements and seeks to continuously improve its corporate governance standards.

Each Director is expected to attend all regularly scheduled meetings and all of the Committees on which they serve. To prepare for meetings, members of the Board are expected to review the materials that are sent to each Director in advance of those meetings. Each Director must act honestly and in good faith with a view to the best interests of Cash Store Financial and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Board of Directors of Cash Store Financial has:

- adopted a Board Mandate
- adopted charters for each of the standing committees
- adopted Position Descriptions for the CEO, Lead Director and the Committee Chairs
- adopted a Code of Business Conduct and Ethics that establishes a high standard for ethical behaviour among management and employees
- implemented a formal Timely Disclosure, Confidentiality and Insider Trading Policy to ensure that communications with investors and the public are timely, factual and materially accurate

The Board of Directors has established an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. The Audit Committee and Corporate Governance and Nominating Committee are made up of independent directors. The majority of the members of the Compensation Committee are independent directors.

To further reinforce independence, the Board appoints an independent Director as Lead Director. The Lead Director is responsible for developing the agenda for and presiding over in-camera sessions, and acting as principal liaison between the non-management Directors and the CEO on matters dealt within the in-camera sessions.

A Whistleblower Policy, which establishes the process of reporting a complaint or concern with respect to accounting or auditing matters, has also been adopted.

For a complete review of Cash Store Financial's corporate governance practices, including the significant ways in which such practices differ from those followed by U.S. companies under NYSE listing standards, please refer to the Management Information Circular, available on our website at [www.csfinancial.ca](http://www.csfinancial.ca).

## Board of Directors



### Gordon J. Reykdal

CHAIRMAN & CHIEF EXECUTIVE OFFICER

Mr. Reykdal is Chairman and Chief Executive Officer of Cash Store Financial, a Company he founded in February 2001. He was also the founder, Chairman, President and Chief Executive Officer of RTO Enterprises Inc. from 1991 to 2001. RTO Enterprises Inc., a rental Company, was restructured and became Easyhome (TSX:EH).

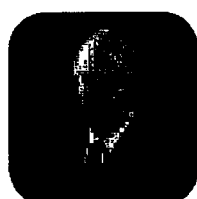


### William C. (Mickey) Dunn

COMPENSATION COMMITTEE - CHAIR  
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

**Joined the Board of Cash Store Financial on May 12, 2002**

Chairman, Bellatrix Exploration Inc. (TSX:BXE)  
Previously, Mr. Dunn was a director for Precision Drilling. From 1982 to 1999 he was the President of Cardium Service and Supply Ltd.

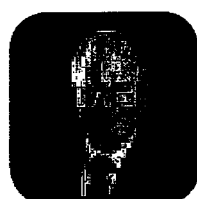


### Edward C. McClelland

COMPENSATION COMMITTEE

**Joined the Board of Cash Store Financial on November 8, 2005**

CEO of The Cash Store Australia Holdings Inc.  
Chairman, TEC Group #223  
Mr. McClelland has been the Chairman of TEC (The Executive Committee) Group #223, an international organization comprised of over 15,000 CEOs from businesses with revenues of more than \$3 million, since 1997. From 1994 to 1996 he was the Vice President of CIBC Finance. Prior to that, he was the President of Transamerica/Borg Warner Group of Companies, Canada, Australia, and Europe.



### J. Albert (Al) Mondor

LEAD DIRECTOR, AUDIT COMMITTEE - CHAIR

**Joined the Board of Cash Store Financial on April 9, 2008**

Governance and business advisor  
Mr. Mondor is a Fellow of Chartered Accountants and a holder of the ICD.D designation of the Institute of Corporate Directors. Currently, he is Chair of the Alberta Pension Services Corporation, which administers contributions, transfers and pension payments on behalf of nine Alberta public sector pension plans. Mr. Mondor also serves on the boards of Alberta Municipal Service Corporation and Cleankeys Inc. Until his retirement from public practice, he was a partner with Grant Thornton LLP where he held positions as senior audit partner and managing partner in its Edmonton practice.



## Ron Chicoyne

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE,  
AUDIT COMMITTEE

**Joined the Board of Cash Store Financial on October 29, 2008**

Managing Director, Links Capital Partners

Mr. Chicoyne holds a Chartered Financial Analyst designation, Corporate Finance Qualification, Institute of Corporate Directors designation (ICD.D), and received his Bachelor of Commerce (Honours) degree from the University of Manitoba. Mr. Chicoyne is an experienced corporate finance professional with applied operational experience in both private and public equity capital markets.

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## Robert Gibson

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE - CHAIR  
COMPENSATION COMMITTEE

**Joined the Board of Cash Store Financial on April 8, 2008**

President, Stuart & Company Limited

Mr. Gibson has been a director of Precision Drilling Corporation since June 1996 as a Trustee on the Board of Trustees until it was reconverted in June 2009. He holds an Institute of Corporate Directors designation (ICD.D)

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## Michael Shaw

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE,  
AUDIT COMMITTEE

**Joined the Board of Cash Store Financial on October 29, 2009**

President & Director, Amkco Inc.

Mr. Shaw is a Corporate Director and President of Amkco Inc. Previously, Mr. Shaw spent 30 years with the ATCO Group of Companies in a variety of roles and has vast experience in strategic management, international ventures and board directorships. Mr. Shaw graduated from Queen's University with a Bachelor of Commerce (Honours) degree and currently serves on three other Boards of Directors.

## Senior Officers



### Gordon J. Reykdal

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

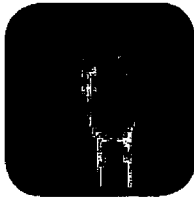
Mr. Reykdal is Chairman and Chief Executive Officer of Cash Store Financial, a company he founded in February 2001. He was also the founder, Chairman, President and Chief Executive Officer of RTO Enterprises Inc. from 1991 to 2001. RTO Enterprises Inc., a rental company, was restructured and became easyhome Ltd. (TSX:EH).



### Nancy L. Bland

CHIEF FINANCIAL OFFICER

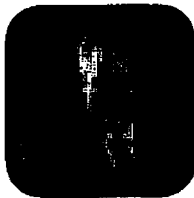
Ms. Bland joined Cash Store Financial in March of 2006 as the Company's Vice President of Finance. She was appointed Chief Financial Officer in October 2007. Previously, Ms. Bland held positions with Capital Health, Luscar Ltd., Northwest Territories Power Corporation, and Grant Thornton LLP. Ms. Bland is a Chartered Accountant and a Certified Internal Auditor. She holds a Bachelor of Commerce from the University of Alberta.



### Barret J. Reykdal

PRESIDENT AND CHIEF OPERATING OFFICER

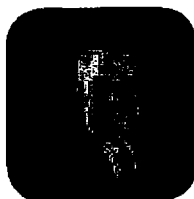
Mr. Reykdal was one of the first associates to join Cash Store Financial in 2001. He was responsible for launching and managing operations of many of the Company's inaugural branches. Mr. Reykdal went on to become Regional Manager for Northern Alberta and then Vice President of Western Canada. He was appointed President and Chief Operating Officer in 2006. Previously, Mr. Reykdal held positions with RTO Enterprises Inc., and was the owner operator of two Insta-Rent locations.



### S. William (Bill) Johnson

SENIOR EXECUTIVE VICE PRESIDENT

Previous to this position, Mr. Johnson was President and Chief Executive Officer of Insta-rent, the furniture rental division of The Cash Store Financial Services Inc.. In April 2008, the rental division was successfully spun-out of The Cash Store Financial Services Inc., becoming a separate publicly-traded Company (Insta-Rent Inc.) of which Mr. Johnson was the President and Chief Executive Officer. In October 2008 The Cash Store Financial Services Inc. sold its position in Insta-Rent Inc. and Mr. Johnson was appointed Senior Executive Vice President of The Cash Store Financial Services Inc. From 1996 to 2006, Mr. Johnson was Executive Vice President and Chief Financial Officer of easyhome Ltd., the largest consumer rental company in Canada. He is a Chartered Accountant, holds a Bachelor of Economics degree and has over 40 years of financial and business management experience.



### Michael J.L. Thompson

SENIOR VICE PRESIDENT AND CORPORATE SECRETARY

Mr. Thompson joined Cash Store Financial in November 2006, as Vice President Investor Relations and Government Affairs. He was appointed Senior Vice President and Corporate Secretary in 2008. Previously, he was President of The Canadian Payday Loan Association, Economic Policy Advisor to the Deputy Prime Minister of Canada and Director of Communications for the Canadian Federation of Labour. He holds an M.A. in Political Science.



# Company Information

## senior officers

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

**Nancy L. Bland**  
Chief Financial Officer

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

**S. William (Bill) Johnson**  
Senior Executive Vice President

**Michael J.L. Thompson**  
Senior Vice President and Corporate Secretary

## listed

**Toronto Stock Exchange**  
Trading symbol: CSF

**New York Stock Exchange**  
Trading symbol: CSFS

## head office

17631-103 Avenue  
Edmonton, Alberta T5S 1N8  
T (780) 408-5110  
F (780) 408-5122  
Website: [www.csfinancial.ca](http://www.csfinancial.ca)

## bankers

**CIBC**  
Edmonton, Alberta

## auditors

**KPMG LLP**  
Edmonton, Alberta

## solicitors

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

## transfer agent

Computershare Investor Services Inc.

## annual meeting

Annual meeting of Shareholders of The Cash Store Financial Services Inc. will be held in the Oborowsky Degner Seminar Hall at the Alberta Diabetes Institute located at 8602 112 Street, Edmonton, Alberta on February 8th, 2012 at 9:00 a.m. (MST).

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**10** 2001-2011  
*years strong*  
**Cash Store**  
FINANCIAL



**This is EXHIBIT "T" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**

  
\_\_\_\_\_  
**A Commissioner, etc.**

# Cash Store

FINANCIAL



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended December 31, 2011

(Restated)



## TABLE OF CONTENTS

<b>EXPLANATORY NOTE.....</b>	<b>4</b>
<b>RESTATEMENT OF PREVIOUSLY REPORTED RESULTS.....</b>	<b>4</b>
<b>BUSINESS PROFILE AND STRATEGY.....</b>	<b>6</b>
ACCELERATE DIRECT LENDING MODEL.....	6
INTRODUCE ADDITIONAL NEW PRODUCTS.....	6
CONTINUE TO GROW CANADIAN OPERATIONS.....	7
DEVELOP UK BRANCH NETWORK.....	7
CORPORATE SOCIAL RESPONSIBILITY.....	7
<b>OVERALL FINANCIAL PERFORMANCE.....</b>	<b>8</b>
FIRST QUARTER OF 2012.....	8
<b>SELECTED FINANCIAL INFORMATION.....</b>	<b>11</b>
<b>FINANCIAL ANALYSIS.....</b>	<b>12</b>
BRANCH COUNT.....	12
REVENUE.....	13
BRANCH OPERATING INCOME.....	14
EXPENSES (EXCLUDING RETENTION PAYMENTS, DEPRECIATION, AMORTIZATION AND CLASS ACTION SETTLEMENTS).....	14
RETENTION PAYMENTS.....	15
DEPRECIATION AND AMORTIZATION.....	15
INCOME TAXES.....	15
<b>LIQUIDITY AND CAPITAL RESOURCES.....</b>	<b>16</b>
CONSUMER LOANS RECEIVABLE.....	17
NORMAL COURSE ISSUER BID.....	17
<b>RELATED PARTY TRANSACTIONS (RESTATED).....</b>	<b>17</b>
<b>RISK FACTORS AFFECTING PERFORMANCE.....</b>	<b>18</b>
REGULATORY ENVIRONMENT.....	18
LEGAL PROCEEDINGS.....	19
THIRD PARTY LENDERS/RETENTION PAYMENTS.....	20
<b>CRITICAL ACCOUNTING ESTIMATES.....</b>	<b>21</b>
USE OF ESTIMATES.....	21
REVENUE RECOGNITION.....	22
RETENTION PAYMENTS.....	22
PROVISIONS FOR LOAN LOSSES.....	23
STOCK BASED COMPENSATION.....	23
CONSUMER LOANS RECEIVABLE.....	23
INCOME TAXES.....	24
FAIR VALUE OF FINANCIAL INSTRUMENTS.....	24
LONG-TERM INVESTMENTS.....	24
PROPERTY AND EQUIPMENT.....	24
GOODWILL.....	25
ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS.....	25
DEFERRED FINANCING COSTS.....	25



<b>CHANGES IN ACCOUNTING POLICIES AND PRACTICES.....</b>	<b>25</b>
<b>INTERNAL CONTROLS OVER FINANCIAL REPORTING.....</b>	<b>26</b>
<b>OUTSTANDING SHARE DATA .....</b>	<b>27</b>
<b>DIVIDENDS.....</b>	<b>27</b>
<b>SUMMARY OF QUARTERLY RESULTS.....</b>	<b>28</b>
EBITDA AND ADJUSTED EBITDA RECONCILIATION .....	29
<b>OTHER .....</b>	<b>29</b>
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION .....	29
NON-GAAP MEASURES .....	30

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EXPLANATORY NOTE

May 24, 2013

*The following discussion and analysis for the three months ended December 31, 2011 has been restated. This restated interim Management's Discussion and Analysis (MD&A) should be read in conjunction with the restated unaudited interim consolidated financial statements for the three months ended December 31, 2011 and the restated audited consolidated financial statements for the year ended September 30, 2011, together with our restated annual MD&A for the year ended September 30, 2011.*

All figures are presented in Canadian dollars and are reported in accordance with United States generally accepted accounting principles ("U.S. GAAP").

RESTATEMENT OF PREVIOUSLY REPORTED RESULTS

- a) The unaudited interim consolidated financial statements for the three months ended December 31, 2011 and 2010, as initially reported, have been amended and restated to correct for an error resulting from the misunderstanding of the settlement terms and conditions of the March 5, 2004 British Columbia Class Action claim, which resulted in the application of an accounting principle to measure and record the liability as at September 30, 2010 and subsequent reporting periods, that was not appropriate in the circumstances. The restatement impacts the year ended September 30, 2011 and the fifteen months ended September 30, 2010. The restatement resulted in a reduction in net income in the fifteen months ended September 30, 2010 of \$6.6 million and an increase in net income in the year ended September 30, 2011 of \$1.5 million.

The correction of the error will result in the previously disclosed maximum settlement exposure of \$18.8 million being expensed with the majority of the expense being recognized in the fifteen month period ended September 30, 2010. The correction had an impact on our Consolidated Statements of Operations and Comprehensive Income and resulted in an increase in diluted earnings per share of \$0.09 for the fiscal year ended September 30, 2011 and a decrease in the diluted earnings per share of \$0.38 for the fifteen months ended September 30, 2010. The correction had no impact on total revenues, operating margin, or cash position and had no impact on compliance with debt covenants in any periods presented.

As a result of the restatements, the previously filed consolidated financial statements of the Company for the year ended September 30, 2011 and the fifteen month period ended September 30, 2010, as well as, the interim unaudited consolidated financial statements for the period ended December 31, 2011 and the associated MD&A disclosure for the applicable periods should no longer be relied upon.



### Effects of the restatement

The effect of the restatement on the interim consolidated statement of operations and comprehensive income for the three months ended December 31, 2011 and 2010 is as follows:

	Three months ended					
	December 31 2010			December 31 2011		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
Interest expense	\$ -	\$ 145	\$ 145	\$ -	\$ 169	\$ 169
Class action settlements	-	367	367	-	(69)	(69)
INCOME BEFORE INCOME TAXES	5,038	(512)	4,526	1,434	(100)	1,334
PROVISION FOR INCOME TAXES - Deferred	290	(22)	268	618	(71)	547
NET INCOME AND COMPREHENSIVE INCOME	3,352	(490)	2,862	989	(29)	960
BASIC EARNINGS PER SHARE	\$ 0.20	\$ (0.03)	\$ 0.17	\$ 0.06	\$ -	\$ 0.06
DILUTED EARNINGS PER SHARE	0.19	(0.03)	0.16	0.06	(0.01)	0.05

The effect of the restatement on the interim consolidated balance sheets as at December 31, 2011 and 2010 is as follows:

	September 30 2011			December 31 2011		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
	Other receivables	\$ 12,575	\$ -	\$ 12,575	\$ 11,470	\$ 6,258
Deferred tax assets (current)	1,528	1,484	3,012	1,097	1,554	2,651
Long term receivable	681	-	681	2,769	(2,149)	620
Accrued liabilities	21,194	6,548	27,742	16,583	10,756	27,339
Retained earnings	37,019	(5,064)	31,955	35,916	(5,093)	30,823

The effect of the restatement on the interim consolidated statement of cash flows for the three months ended December 31, 2011 and 2010 is as follows:

	Three months ended					
	December 31 2010			December 31 2011		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
Net income	\$ 3,352	\$ (490)	\$ 2,862	\$ 989	\$ (29)	\$ 960
Deferred income taxes	290	(22)	268	618	(71)	547
Other receivables and long-term receivables	(4,182)	(800)	(4,982)	(983)	(4,109)	(5,092)
Accounts payable and accrued liabilities	(3,597)	1,312	(2,285)	(4,055)	4,209	154

- b) Independent of the restatement outlined in a) above, we have also restated Related Party Transactions - Third party Lenders, to disclose related party transactions with a privately held entity that raises capital and provides advances to the Company's customers (third-party lender). The privately held entity is controlled by the father of Cameron Schiffner, the Senior Vice President of Operations of the Company. The addition of this disclosure did not impact the previously reported financial position or results of operations of the Company.






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## BUSINESS PROFILE AND STRATEGY

This section contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information" located at the end of this MD&A.

Cash Store Financial is an alternative to traditional banks, providing short-term advances and other financial services, to serve the needs of everyday people in Canada through our two branch banners: Cash Store Financial and Instalozans. Cash Store Financial and Instalozans act as brokers and lenders to facilitate short-term advances and to provide other financial services to income-earning consumers. We also provide a range of financial products that are not supplied by traditional financial institutions. As of December 31, 2011, we owned and operated 596 branches in nine Canadian provinces, two Canadian territories and the United Kingdom (the "UK"). Our workforce is dynamic and we operate within a performance-based culture. We employ approximately 2,300 associates across Canada and the UK. Cash Store Financial is the only broker and lender of short-term advances and provider of other financial services in Canada that is publicly traded on both the Toronto and New York Stock Exchanges. Cash Store Financial trades under the symbol "CSF" on the Toronto Stock Exchange and under the symbol "CSFS" on the New York Stock Exchange.

Our business is based on the recognition that the needs of a segment of the Canadian and UK populations are not being properly serviced by traditional financial institutions. Our strategic objective is to establish Cash Store Financial and Instalozans as the provider of choice, in the jurisdictions in which we operate, for short-term advances and other financial services by offering a wide range of products, a high level of customer service, and convenient locations and hours of operation.

In addition to meeting our customers' needs by providing small, short-term loans which can be accessed quickly, we also offer bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing products and prepaid phone cards.

A key component of our long-term business strategy has been product diversification. This strategy has and should continue to assist us in offsetting downward pressure on revenue and earnings resulting from provincially regulated rate caps on payday loans. In the third quarter of 2010, through an agency agreement with DC Bank, a federally regulated Canadian Schedule I bank, we introduced a basic deposit account product. A new premium bank account product that features unlimited free cheque cashing and free on-line bill payments was introduced late in the second quarter of 2011. Both types of account are insured by the Canada Deposit Insurance Corporation.

Cash Store Financial's strategic priorities are:

***Accelerate Direct Lending Model***

- Reducing our cost of capital.

***Introduce Additional New Products***

- Growing existing product lines and implementing new product initiatives
- Accelerating revenue growth through further new product initiatives.



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***Continue to Grow Canadian Operations***

**Driving market penetration**

- Maximizing the potential of our expanding branch network;
- Continuing to focus on improving Branch Operating Income (“BOI”) margins for all our branches;
- Continuing to educate, motivate and improve the performance of our associates through an integrated communication and training strategy that includes Cash Store Financial College, Cash Store Financial TV and our annual President’s Forum with every branch manager; and
- Providing strong leadership through in-the-field, hands-on involvement of senior management and getting back to the basics throughout the company.

**New branch openings**

- Furthering our position in the Canadian alternative financial services industry through organic growth into underserved communities based on new branch profitability or via the acquisition of existing operators.

***Develop UK Branch Network***

***Corporate Social Responsibility***

Cash Store Financial has recognized its corporate responsibility to contribute to the communities in which we do business. In 2008, we partnered with the Alberta Diabetes Foundation to raise \$7.5 million for research to be undertaken at the Alberta Diabetes Institute, a globally-recognized centre of research excellence. In 2010 the Company was one of 16 companies recognized with a “Roll of Honour” award by the Alberta Association of Fund Raising Executives. The “Roll of Honour” award celebrates extraordinary commitment and contributions to the non-profit sector from corporate citizens and individuals around Alberta. In calendar 2012, Cash Store Financial plans to host 20 “freedom” runs across Canada.



## OVERALL FINANCIAL PERFORMANCE

### First Quarter of 2012

This section contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Information" located at the end of the MD&A.

Thousands of dollars, except for per share amounts	Three Months Ended	
	December 31 2010 (restated)	December 31 2011 (restated)
<b>Consolidated results</b>		
Revenue	\$ 47,734	\$ 45,848
Branch operating income	13,815	11,777
Earnings before interest, taxes, stock-based compensation, depreciation, amortization, class action expenses and effective interest component of retention payments	13,004	9,482
Earnings before interest, taxes, stock-based compensation, depreciation and amortization	7,132	4,160
Net income		
Net income and comprehensive income	2,862	960
Diluted earnings per share		
Net income and comprehensive income	\$ 0.16	\$ 0.05

Net income and comprehensive income for the first quarter ended December 31, 2011, was \$1.0 million, compared to \$2.9 million for the same quarter last year.

Diluted earnings per share were \$0.05 for the quarter, compared to \$0.16 for the same quarter last year. The lower than expected earnings during the quarter were a result of a decrease in loan fees related to regulatory changes as well as an increase in expenditures relating to expansion in the UK, additional infrastructure costs within our collections and new product development departments.

#### Significant factors impacting the first quarter earnings include:

- Loan fees were down 9.4% for the three months ended December 31, 2011, at \$32.9 million compared to \$36.3 million in the same quarter last year. Loan fees in Canada decreased by \$4.5 million as a result of lower volumes related to regulatory changes which increased our average loan term and decreased our average loan volumes per customer. The decrease in Canadian loan fees was partially offset by a \$1.1 million increase in loan fees in the UK;
- We experienced growth in other income of 13.5% to \$13.0 million for the three months ended December 31, 2011 when compared to the same quarter last year as a result of increases in the number of bank accounts. This growth was offset by a reduction in financial product insurance revenue as a result of regulatory changes in Ontario. As a percentage of total revenue, other income increased to 28.3% from 23.9% which is an 18.1% increase for the quarter;
- Loan volumes for the three months ended December 31, 2011 were down 7.7% to \$199.6 million namely as result of regulatory impacts in Canada, which were offset by an increase in UK loan volumes of \$5.9 million;

- Earnings decreased by \$1.9 million in the quarter as a result of reduced loan volumes, infrastructure enhancements, and a \$696,000 drag on earnings from branches open for less than one year;
- Retention payments decreased by \$632,000 for the three months ended December 31, 2011 compared to the same quarter last year;
- Branch SG&A, advertising and rent increased \$648,000 as a result of branch expansion in both Canada and the UK and a focused advertising campaign in relation to the pilot of the line of credit product;
- Regional expenses increased by \$540,000 related to increased collection related costs, overall enhancement to collection infrastructure, infrastructure additions in the UK, and a reorganization at the regional manager and divisional vice president levels;
- Corporate expenses increased by \$984,000 in the quarter due to UK expansion and increased corporate salary costs as a result of infrastructure additions in marketing, training and new product development. The increases in corporate expenses were offset by decreases in legal fees;
- The drag on earnings before taxes related to our UK operation increased by \$483,000 in the quarter when compared to the same quarter in the prior year; and
- Working capital increased by \$2.1 million in the quarter compared to last year.

On January 31, 2012, we issued, through private placement in Canada and the U.S. \$132.5 million of 11.5% Senior Secured Notes (“the Notes”). The Notes mature on January 31, 2017 and will bear interest from the date of issue at 11.5% per annum of which interest is payable on a semi-annually basis in equal installments on January and July of each year, commencing in July of 2012. The notes were issued at a price of 94.608%. The Company is using the proceeds of the Notes to purchase the loans receivable from our current third-party lenders’ who currently lend to the Company’s customers in the regulated provinces. This transaction will benefit us and will allow us to transition to a direct lending model. The financial flexibility offered by the Notes will provide us with a new source of funding to support future loan growth associated with the maturing of our branches and our expansion plans. We used the gross proceeds of the Offering to purchase loans receivable and related assets from our current third-party lenders’ who currently lend to our customers in the regulated provinces, for general corporate purposes and to pay fees and expenses related to the Offering.

Our EBITDA was \$4.2 million for the first quarter of fiscal 2012, compared to \$7.1 million for the first quarter of 2011. This decrease is due to reduced loan volumes in Canada, offset by increased loan volumes in the UK, increased costs in the UK related to new branches and infrastructure and increased regional and corporate infrastructure costs compared to the same quarter last year. The decreases in EBITDA were partially offset by increases in other income. EBITDA, adjusted to remove class action settlements and the effective interest component of retention payments, was \$9.5 million for the first quarter of 2012, compared to \$13.0 million in the same quarter last year.

In Canada, the implementation of provincial industry rate regulations commenced in August 2009 and continued through until January 2012. Regulations have been implemented in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia, which represent the markets in which 92% of our Canadian branches are located. Rate caps and certain operational



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restrictions in regulated provinces resulted in revenue compression relative to previous periods as well as decreased loan volumes. We continue to believe that industry regulation has been in the public interest. Regulations have protected consumers and validated the industry. This has enabled us to move to on-balance sheet lending at a lower fixed cost of capital. We will continue to work with the provinces on regulatory approaches that strike an appropriate balance between consumer and industry needs.

Product and revenue diversification initiatives have generated positive results year over year. Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) increased to \$13.0 million in the first quarter, up from \$11.4 million in the same quarter last year. We have made significant improvements in products and services which complement our existing product lines. We will continue to progress towards our objectives of diversifying our revenue stream with products which enhance and augment our core products, and increasing the value generated from our existing suite of products.

There has been a significant realignment of the regional and senior management structure of our operations group. We expect that these changes will lead to strong growth in future periods.


**SELECTED FINANCIAL INFORMATION**

<i>Thousands of dollars, except for per share amounts and branch figures</i>		<b>Three Months Ended</b>	
		<b>December 31 2010 (restated)</b>	<b>December 31 2011 (restated)</b>
<b>Consolidated results</b>			
<i>No. of branches</i>	Canada	566	573
	United Kingdom	4	23
		570	596
<b>Loan volumes</b>			
Loan fees included		\$ 216,293	\$ 199,611
<b>Revenue</b>			
Loan fees		\$ 36,315	\$ 32,892
Other income		11,419	12,956
		47,734	45,848
<b>Branch expenses</b>			
Salaries and benefits		14,382	14,397
Retention payments		7,189	6,557
Selling, general and administrative		4,194	4,408
Rent		4,405	4,723
Advertising and promotion		1,426	1,542
Provision for loan losses		663	668
Depreciation of property and equipment		1,660	1,776
		33,919	34,071
Branch operating income		13,815	11,777
Regional expenses		4,194	4,734
Corporate expenses		4,042	5,026
Interest expense		145	169
Other depreciation and amortization		541	583
Income before income taxes		4,893	1,265
Class action settlements		367	(69)
EBITDA *		7,132	4,160
Net income and comprehensive income		\$ 2,862	\$ 960
<b>Weighted average number of shares</b>			
outstanding - basic		17,098	17,420
- diluted		17,671	17,566
<b>Basic earnings per share</b>			
Net income and comprehensive income		\$ 0.17	\$ 0.06
<b>Diluted earnings per share</b>			
Net income and comprehensive income		\$ 0.16	\$ 0.05
<b>Consolidated Balance Sheet Information</b>			
Working capital		\$ 7,325	\$ 9,451
Total assets		114,625	131,656
Total long-term liabilities		9,743	18,270
Total liabilities		36,161	50,298
Shareholders' equity		\$ 78,464	\$ 81,358

\*EBITDA – earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.



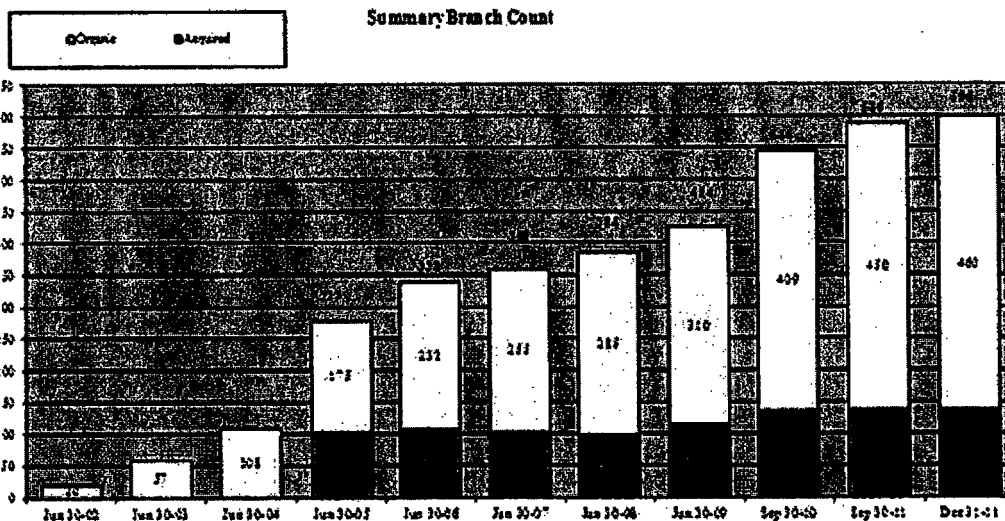
**FINANCIAL ANALYSIS**

This analysis provides an overview of our financial results for the three months ended December 31, 2011, compared to the three months ended December 31, 2010. Certain comparative figures have been reclassified in prior periods. Specifically, certain amounts that were previously recorded within SG&A expense have been reclassified to other income for the previous quarter presented.

**Branch Count**

This section contains forward-looking statements. See “Cautionary Statement Regarding Forward-Looking Information” located at the end of the MD&A.

At December 31, 2011 we had a total of 596 branches in operation, including 23 branches in the UK. This is an increase of 26 branches compared to 570 branches (Canada – 566 and UK – 4) at the end of the same quarter last year. During the quarter, 11 new branches were added in the UK and one branch was consolidated in Canada. Branch performance continues to be monitored and branch consolidations will occur when efficiencies can be achieved.



	Jan 30-02	Jan 30-03	Jan 30-04	Jan 30-05	Jan 30-06	Jan 30-07	Jan 30-08	Jan 30-09	Sep 30-10	Sep 30-11	Dec 31-11
Opening	20	37	103	277	331	338	331	334	424	344	359
Opened	17	37	31	67	61	20	37	31	104	44	11
Acquired	0	0	0	102	6	0	0	0	11	32	1
Consolidations	0	0	0	0	(6)	0	(11)	(9)	(9)	(9)	(11)
Closing	20	37	103	277	331	338	334	424	344	356	596

Material factors that determine the number of branch openings include the availability of suitable locations with suitable lease terms, branch performance in similar areas and favorable market rates. We will continue to assess growth in the UK as our current branches develop. We anticipate adding a minimal number of branches in Canada next year.



## Revenue

Revenues this quarter were down 3.9% to \$45.8 million compared to the same quarter last year of \$47.7 million, as a result of revenue in Canada decreasing by \$3.3 million which was offset by a \$1.4 million increase in overall revenue in the UK.

Loan fees for the quarter were down 9.4% to \$32.9 million compared to \$36.3 million for the same quarter last year. Loan fees in Canada decreased by \$4.5 million as a result of lower loan volumes related to regulatory changes which increased our average loan term and decreased our average loan volumes per customer partially offset by a \$1.1 million increase in loan fees in the UK given the increased number of UK branches.

Loan volumes were \$199.6 million for the quarter, down 7.7% from \$216.3 million for the first quarter of last year. The decrease in loan volumes can be attributed to regulatory impacts in Canada which was offset by an increase in UK loan volumes of \$5.9 million. We also believe restrictions within the Canadian regulatory framework have reduced overall industry loan volumes.

Set forth below is a breakdown of our revenue that can be attributed to payday loans which are segregated by loans internally originated and loans generated by third-party lenders'. The types of revenue that can be attributed to the generation of payday loans include brokerage and loan fees, interest income and default fees.

The following table summarizes the allocation of types of revenue segregated between internally originated loans and third-party funded loans:

For the quarter ended December 31, 2011:

(thousands of dollars)	Third Party Funded	Internally	Total
	Loan	Originated Loan	
Loan fees	30,656	2,236	32,892
Interest	-	277	277
Default fees	330	45	374

For the quarter ended December 31, 2010:

(thousands of dollars)	Third Party Funded	Internally	Total
	Loan	Originated Loan	
Loan fees	33,555	2,759	36,315
Interest	-	51	51
Default fees	830	151	981

Loan volumes related to internally originated loans increased to \$13.1 million in the first quarter of fiscal 2012 up from \$12.1 million in the same quarter last year.

The following table sets out the split between loan fees, agency fees, and other income:





(thousands of dollars)	Three	
	Months Ended	Months Ended
	December 31 2010	December 31 2011
Loan fees	\$ 36,315	\$ 32,892
Agency fees	9,373	11,286
Other revenue	2,046	1,670
<b>Total income</b>	<b>\$ 47,734</b>	<b>\$ 45,848</b>

Revenue from other services (including fees from bank accounts, financial product insurance, pre-paid master cards, debit cards, money transfers, cheque cashing and prepaid phone cards) for the quarter was \$13.0 million, up 13.5% from \$11.4 million for the same quarter of last year. Agency fee income has increased significantly as a result of the introduction of new products and other product enhancements, namely an increase in the number of bank accounts offset by a short-term drop in financial product insurance revenue as a result of regulatory changes in Ontario and decreases in other income. These new products and enhancements are part of our long-term strategy to diversify revenue streams by providing our customers with a broader suite of financial services and products.

The most significant components of "other" income were agency fees of \$11.3 million in the quarter compared to \$9.4 million, which represented 87.1% of "other" revenue for the quarter or a 20.4% increase over the same quarter last year. Agency fees include fees earned from the provision of debit and prepaid credit cards and all other agency fees we earn from financial product insurance, money transfers and prepaid phone cards. The largest contributor to the increase was the introduction of bank accounts being offered to our customers. The increase was offset by reductions in financial product insurance. For the current quarter, 97% of customers who secured a loan also purchased one or more of the following optional financial services: bank accounts, financial product insurance, pre-paid master cards, and/or debit cards.

In the quarter ended December 31, 2011, the average loan size was \$501 per loan compared to \$488 per loan for the same quarter last year.

### Branch Operating Income

BOI for the current quarter was \$11.8 million (25.7% of revenue), compared to \$13.8 million (28.9% of revenue) for the same quarter last year.

BOI was down as a result of reduced loan volumes related to regulatory changes which increased our average loan term, decreased our average loan volumes per customer and increases in expenses due to the opening of 26 new branches (11 of which were added in the UK adding to the drag on earnings) and a focused advertising campaign in relation to the pilot of the line of credit product offset by a reduction in retention payments. The decreased margins and increased expenses have been partially offset by positive trending in revenues from other services resulting from new product development.

### Expenses (excluding retention payments, depreciation, amortization and class action settlements)

Expenses for the first quarter of fiscal 2012 increased by \$2.2 million or 6.6% when compared to the first quarter of last year as a result of the addition of 26 new branches, costs associated with expanding into the UK, increased collection costs and infrastructure additions, an increase in regional and corporate infrastructure costs, and increases in advertising costs as a result of a



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focused advertising campaign in relation to the pilot of the line of credit product and other new product initiatives.

**Retention Payments**

Third-party lender retention payments for the first quarter of fiscal 2012 totalled \$6.6 million (3.3% of loans brokered), compared to \$7.2 million (3.3% of loans brokered) for the same quarter last year. The decrease is due to reductions in the effective interest component of retention payments compared to the same quarter last year.

**Depreciation and Amortization**

Depreciation of property and equipment and amortization of intangible assets for the quarter totalled \$2.4 million, compared to \$2.2 million in the first quarter of last year. Amortization increased for the quarter as compared to the same quarter last year as a result of opening 26 new branches and a large scale refresh program for our mature branches.

**Income Taxes**

Our effective tax rate was 28.0% in the quarter, compared to 36.8% for the first quarter last year which is down given decreases in federal tax rates.



## LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of cash have been cash generated from operating activities and the use of third party lenders' funds which were used to broker loans to our customers. We primarily use our cash to finance working capital and capital expenditures. Our third party lenders' have not put restrictions on funds that are available to lend to our customers. In the future, as described below, we will use the Notes and a carve-out for credit facilities as allowed under the Notes Offering, as it becomes available to us, to fund working capital and growth in our consumer loans receivable in the regulated provinces.

Our cash decreased by \$8.0 million to \$11.3 million at December 31, 2011 compared to \$19.3 million as of September 30, 2011. Our cash, excluding restricted cash, decreased by \$1.7 million compared to \$13.0 million as of September 30, 2011. Significant items impacting cash in the quarter ended December 31, 2011 included:

- Cash generated from operating activities, before non-cash working capital items, of \$4.7 million;
- A \$200,000 increase in accrued liabilities set aside for class action settlements. During the quarter, all funds segregated for the BC class action were transferred to a third party administrator;
- A \$5.1 million increase in other receivables and long-term receivables
- A \$1.8 million increase in consumer loans receivable
- A \$6.3 million decrease in cash restricted for class action facilitation
- Deferred financing costs paid during the quarter of \$1.0 million
- A \$1.5 million decrease in amounts due from third party lenders;
- Property and equipment and intangible asset expenditures of \$1.8 million;
- Cash required for on balance sheet lending of \$2.5 million; and
- Dividend payments of \$2.1 million.

At December 31, 2011, our working capital position totalled \$9.5 million compared to \$11.0 million as at September 30, 2011. We expect our cash to decrease in the future due to growth in our UK consumer loans receivable. We will use cash from operations in Canada to fund this growth.

We believe that the resources available to us, supplemented by credit facilities, will provide the needed capital to fund the anticipated expansion of the consumer loans receivable, investments in the UK and investments in operating infrastructure for the upcoming fiscal year.

On January 31, 2012, we issued, through private placement in Canada and the U.S. \$132.5 million of 11.5% Notes. This transaction will benefit us and will allow us to transition to a direct lending model. The financial flexibility offered by the Notes will provide us with a new source of funding to support future loan growth associated with the maturing of our branches and our expansion plans. We used the gross proceeds of the Offering to purchase loans receivable and related assets from our current third-party lenders' who currently lend to our customers in the regulated provinces, for general corporate purposes and to pay fees and expenses related to the Offering.



The Company has entered into a lease agreement for a new corporate head office. Under U.S. GAAP, the Company has determined that it is considered the owner of this asset during the construction period. As at December 31, 2011, \$9.6 million has been capitalized in property and equipment based on the total project costs incurred to date related to the construction.

#### **Consumer Loans Receivable**

During the quarter, we increased our overall consumer loans receivable balance to \$6.6 million from \$4.8 million at year-end. We funded all our loans in the UK internally. We expect amounts due from consumers will increase in the coming year in the UK.

#### **Normal Course Issuer Bid**

On January 9, 2012, we filed with the Toronto Stock Exchange ("TSX") a notice of our intention to make a normal course issuer bid for our common shares. The notice provides us the ability to purchase on the TSX up to 1,092,504 common shares, being approximately 10% of the public float of our common shares. As of the date of this MD&A, no common shares had been purchased.

#### **RELATED PARTY TRANSACTIONS (restated)**

We own 18.3% of the outstanding common shares of The Cash Store Australia Holdings Inc. ("AUC"). Included in other receivables as of September 30, 2011, was a \$64,000 (September 30, 2011 - \$16,000) receivable from AUC. We previously entered into an interim service agreement with AUC to provide ongoing services such as financial, accounting and HR support and contracts administrative services, and the use of our IT and telecommunication systems. Included in SG&A expenses is a recovery of \$95,000 (September 30, 2011 - \$363,000) related to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Certain employees, directors, and officers have an ownership in AUC.

We own 15.7% of the outstanding common shares of RTF Financial Holdings Inc. (RTF). We previously entered into an interim service agreement with RTF to provide ongoing services such as financial and accounting support and contracts administrative services. Included in SG&A expenses is a recovery of \$60,000 (September 30, 2011 - \$240,000) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. We have a \$234,000 (September 30, 2011 - \$45,000) receivable from RTF. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Certain employees, directors, and officers have an ownership in RTF.

A privately held entity that raises capital and provides advances to the Company's customers (third-party lender) is controlled by the father of Cameron Schiffner, the Senior Vice President of Operations of the Company. In addition, Cameron Schiffner's brother was a member of management of AUC and is a member of management of the third-party lender. The Company's relationship with the third-party lender predates Cameron Schiffner's employment with the Company. Included in retention payments are \$3.5 million for the three months ended December 31, 2011 respectively (three months ended December 31, 2010 - \$3.3 million) of amounts paid or payable directly to this third-party lender. As at December 31, 2011 included in accrued liabilities is \$3.3 million (September 30, 2011 - \$2.3 million) due to this third-party lender. The Company's contingent risk in this third-party lender's loan portfolio totalled \$44.1 million as at December 31, 2011 (September 30, 2011 - \$45.0 million).



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## RISK FACTORS AFFECTING PERFORMANCE

Our financial and operational performance has the potential of being affected by a number of factors including, but not limited to, changing consumer protection regulations, industry and company specific class action lawsuits, access to third-party lenders and other issues described in our most recent annual information form ("AIF") filed with the securities regulatory authorities on SEDAR ([www.sedar.com](http://www.sedar.com)). A more detailed discussion of our risk factors is also presented in our most recent AIF.

### Regulatory Environment

In May 2007, the Canadian federal government enacted a bill clarifying that the providers of certain payday loans were not governed by the criminal interest rate provisions of the *Criminal Code*, granting lenders (other than most federally-regulated financial institutions) an exemption from the criminal interest rate provisions of the *Criminal Code* if their loans fell within certain dollar amount and time frame maximums. In order for payday loan companies to rely on the exemption, the provincial governments are required to enact legislation, subject to approval by the federal government that includes a licensing regime for payday lenders, measures to protect consumers and maximum allowable limits on the total cost of borrowing.

Pursuant to the federal enactment, industry rate regulations and other industry specific measures to protect consumers have been implemented in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia, which represent the markets in which 92% of our Canadian branches are located. We believe that we are in compliance with applicable regulations related to short-term loan products in each of the above listed jurisdictions. In those jurisdictions without industry specific measures, we offer our loan products in compliance with the federal criminal interest rate provisions of the *Criminal Code* and with the general consumer protection regulations governing our products.

On January 24, 2012, the Company announced that the Board of Directors of the Company recently received a letter from a self-described short seller. The letter alleges that the Company is in violation of payday loan regulations in the Province of Ontario and that, as a result, the Company's existing public reports are not accurate. After reviewing the allegations, the Company believes that it is in compliance with applicable regulations in the Province of Ontario in all material respects. The Company suspects that the letter is the commencement of an opportunistic attack on the Company by a short seller, designed to disrupt the Company's previously announced Offering of Notes. The Company will vigorously defend itself against the short-seller's self-interested and misleading attacks.

In the UK, consumer lending is governed by the *Consumer Credit Act of 1974*, which was amended by the *Consumer Credit Act of 2006*, and related rules and regulations. Our subsidiaries in the UK must maintain licenses from the Office of Fair Trading, which is responsible for regulating consumer credit, competition and consumer protection. In response to public controversy regarding the potential impact of payday loans on low-income individuals, the Office of Fair Trading recently conducted and published a report containing a comprehensive analysis of the industry and its users. This report concluded that no case can be made at this time for rate caps in the UK on the basis that there is no clear evidence that rate caps enable consumers to avoid financial detriment. On January 26, 2010, the Government of the United Kingdom tabled in Parliament *The Financial Services Bill*, with the stated purpose of restructuring oversight of financial regulation, including enabling the transfer of responsibility for regulating consumer



credit from the Office of Fair Trading to the Financial Conduct Authority. It is not known at this time when or if the Bill will pass Parliament, the pace at which restructuring might occur and the potential impact on the payday lending sector.

### **Legal Proceedings**

#### *British Columbia (Restated)*

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified on his own behalf and on behalf of all persons who have borrowed money from the defendants, The Cash Store Financial and All Trans Credit Union Ltd. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada (the "Code"). On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the B.C. Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of the Company's customers' third-party lenders added to the claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others against The Cash Store Financial, Instalozans Inc., and others in respect of the business carried out under the name Instalozans since April 2005. Collectively, the above actions are referred to as the "British Columbia Related Actions".

On May 12, 2009, the Company settled the British Columbia Related Actions in principle and on February 28, 2010 the settlement was approved by the Court. Under the terms of the court approved settlement, the Company is to pay to the eligible class members who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full, or who met certain other eligibility criteria, a maximum estimated amount including legal expenses of \$18.8 million, consisting of \$9.4 million in cash and \$9.4 million in credit vouchers. The credit vouchers can be used to pay existing outstanding brokerage fees and interest, to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced, or can be redeemed for cash from January 1, 2014 to June 30, 2014. The credit vouchers are not transferable and have no expiry date. After approved legal expenses of \$6.4 million were paid in March 2010, the balance of the settlement amount remaining to be disbursed was \$12.4 million, consisting of \$6.2 million of cash and \$6.2 million of vouchers.

By September 30, 2010, the Company received approximately 6,300 individual claims representing total valid claims in excess of the settlement fund. As the valid claims exceed the balance of the remaining settlement fund, under the terms of the settlement agreement, the entire settlement fund of \$12.4 million will be disbursed to claimants on a pro-rata basis.

In arriving at the liability recorded at the balance sheet date, the voucher portion of the settlement fund of \$6.2 million has been discounted using a discount rate of 16.2%. During the three months ended December 31, 2011, the Company recorded accretion expense of \$169,000 in interest expense. The total liability related to the settlement at December 31, 2011 is \$10.8 Million (September 30, 2011 - \$10.6 million).



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*Alberta*

We have been served in prior fiscal periods with a Statement of Claim issued in Alberta alleging that we are in breach of s. 347 of the *Criminal Code of Canada* (the interest rate provision) and certain provincial consumer protection statutes.

On January 19, 2010, the plaintiffs in the Alberta action brought forward an application to have a related subsidiary, certain of our customers' third-party lenders, directors and officers added to the Claim.

We have agreed to a motion to certify the class action proceeding if the lender, officers and directors are removed as defendants. Class counsel has agreed to our proposal. Consequently, the certification motion was granted in November of 2011.

We believe that we conduct our business in accordance with applicable laws and are defending the action vigorously. As at December 31, 2011, a total of \$100,000 (September 30, 2011 - \$100,000) has been accrued related to this matter. However, the likelihood of loss, if any, is not determinable at this time.

*Manitoba*

On April 23, 2010, an action under the Manitoba Class Proceedings Act was commenced in the Manitoba Court of Queen's Bench by Scott Meeking against The Cash Store (Canada), Instalozans, and Cash Store Financial proposing that a class action be certified on his own behalf and on behalf of all persons in Manitoba and others outside the province who elect to claim in Manitoba and who obtained a payday loan from the Cash Store Financial or Instalozans. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the *Criminal Code of Canada*.

We believe that we conducted our business in accordance with applicable laws and are defending the action vigorously. Further it will be maintained that most of the proposed class members are bound by the judgment in the settlement of the Ontario class action in 2008, as approved by the Ontario Superior Court of Justice and that accordingly the action should be dismissed. However, the likelihood of loss, if any, is not determinable at this time.

*Other*

We are also involved in other claims related to the normal course of operations. Management believes that it has adequately provided for these claims.

**Third Party Lenders/Retention Payments**

Most funding of short-term advances is currently provided by independent third party lenders. As a result, our business was highly dependent on third party lenders who were willing to make significant funds available for lending to our customers. There are no assurances that the existing or new third party lenders will continue to make funds available. Any reduction or withdrawal of funds would have had a significant material adverse impact on our results of operations and financial condition.

To facilitate the short-term advance business, we have entered into written agreements with a number of third party lenders who are prepared to consider lending to our customers. Pursuant to these agreements, we provide services to the lenders related to the collection of documents and information as well as loan collection services. Material terms of our agreements with third-party lenders include ensuring that any proposed loan was applied for through an authorized outlet,



ensuring each potential customer meets the loan selection criteria as set forth by the third-party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing default realization services on behalf of the third party lender for all loans funded which are not paid in full by the due date, all while ensuring information system integrity is maintained. Losses suffered on account of uncollectible loans are not contractually the Company's responsibility as long as it has performed and fulfilled its duties under the terms of the third party lender agreements. In the event we do not properly perform our duties and the lenders make a claim as required under the agreement, we may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that we have a liability under the agreement.

Our board of directors regularly approves a resolution which authorizes us to pay a maximum amount of retention payments per quarter to third-party lenders as consideration to those lenders who continue to be willing to fund advances to our customers. While the third-party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to deflect the impact of the loan losses they experienced. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the board of directors.

During the quarter three lenders have provided funding for ten percent or more of loans: 367463 Alberta Ltd., Trimor Annuity Focus Limited Partnerships and Assistive Financial Corp.

#### CRITICAL ACCOUNTING ESTIMATES

Our accounting policies are integral to understanding and interpreting the financial results reported in this MD&A. The significant accounting policies used in preparing our consolidated financial statements are summarized in Note 1 to those statements which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain policies included in Note 1 are considered to be particularly important to the presentation of our 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 our business may also be discussed elsewhere in this MD&A.

##### *Use of Estimates*

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires us 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. Certain estimates, such as those related to the allowance for consumer loan losses, property and equipment, goodwill and intangible assets, income taxes, and accrued liabilities related to the class action lawsuits, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Actual results could differ from those estimates made by us.





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***Revenue Recognition***

Revenue arising from brokering short-term advances for customers is recognized once all services have been rendered, all advance amounts have been received by the customer, and the brokerage fee has been received by the Company. Revenue from this source is recorded in Loan fees in the statement of operations.

Revenue arising from direct lending of short-term advances to customers is recognized on a constant yield basis ratably over the term of the related loan.

Revenue from the Company's cheque cashing, money transfer, bill payment and other miscellaneous services is recognized when the transactions are completed at the point-of-sale in the branch and the related fee charged by the Company has been received. Revenue from banking and non-sufficient funds fees are recognized when collected. Revenue from each of these sources is recorded in other income in the statement of operations. Included in Other income is income whereby the Company acts as an agent on behalf of other third-party providers, which includes revenue from banking services, money transfers, bill payment services, and insurance products.

Direct loan origination costs are deferred and recognized as a reduction in the yield of the related loan over its life.

***Retention Payments***

When the Company acts as a broker on behalf of income earning consumers seeking short-term advances, the funding of short-term advances is provided by independent third party lenders. The advances provided by the third party lenders are repayable by the customer to the third party lenders and represent assets of the lenders; accordingly, they are not included on the Company's balance sheet.

To facilitate the short term advance business, the Company has entered into written agreements with third party lenders who are prepared to consider lending to the Company's customers. Pursuant to these agreements, the Company provides services to the lenders related to the collection of documents and information as well as loan collection services. Under the terms of the Company's agreements with third party lenders, responsibility for losses suffered on account of uncollectible loans rests with the third party lender, unless the Company has not properly performed its duties as set forth under the terms of the agreement. The significant duties under the terms of the agreements generally include ensuring that any proposed loan was applied for through an authorized outlet, ensuring each potential customer meets the loan selection criteria as set forth by the third party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing collection services on behalf of the third party lender for all loans funded which are not paid in full by the due date, all of which while ensuring information system integrity is maintained. In the event the Company does not properly perform its duties and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreement.

The Company's Board of Directors regularly approves a resolution which authorizes management to pay a maximum amount of retention payments per quarter to third party lenders as consideration to those lenders that continue to be willing to fund advances to the Company's



customers. While the third party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to lessen the impact of loan losses experienced by the third party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

#### ***Provisions for Loan Losses***

Loans in default consist of direct lending consumer loans originated by the Company which are past due. The Company defines a past due or delinquent account whereby payment has not been received in full from the customer on or before the maturity date of the loan. A provision for loan losses are recorded when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest. In determining whether the Company will be unable to collect all principal and interest payments due, the Company assesses relevant internal and external factors that affect loan collectability, including the amount of outstanding loans owed to the Company, historical percentages of loans written off, current collection patterns and other current economic trends. The provision for loan losses reduces the carrying amount of consumer loan receivables to their estimated realizable amounts. The provision is primarily based upon models that analyze specific portfolio statistics, and also reflect, to a lesser extent, management judgement regarding overall accuracy. The analytical model takes into account several factors, including the number of transactions customers complete and charge-off and recovery rate. The provision is reviewed monthly, and any additional provision as a result of historical loan performance, current and expected collection patterns and current economic trends is included in the provision for the loan losses at that time. If the loans remain past due for an extended period of time, an allowance for the entire amount of the loan is recorded and the loan is ultimately written off. The Company's policy for charging off uncollectible consumer loans is to write the loan off when a loan remains in default status for an extended period of time without any extended payment arrangements made, typically 210 days. Loans to customers who file for bankruptcy are written off upon receipt of the bankruptcy notice.

#### ***Stock Based Compensation***

The Company has a stock based compensation plan, which is described in Note 11 to the interim consolidated financial statements. The Company accounts for all stock based compensation payments that are settled by the issuance of equity in accordance with a fair value-based method of accounting. Stock based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, or as applicable, over the period to the date an employee is eligible to retire, whichever is shorter, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by the Company, together with the amount in additional paid-in capital associated with the exercised options, are credited to share capital.

#### ***Consumer Loans Receivable***

Unsecured short-term and longer-term advances that the Company originates on its own behalf are reflected on the balance sheet in consumer loans receivable. Consumer loans receivable are reported net of a provision as described in "Provision for Loan Losses". In regulated jurisdictions, interest is charged on consumer loans commencing upon default; however, it is not recorded as income until payment is received in full or partially from the consumer. In unregulated



jurisdictions, interest is charged on consumer loans over the period of the loan and is recorded in income as it is earned.

#### *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is recorded against any deferred income tax assets if it is more likely than not that the asset will not be realized.

#### *Fair Value of Financial Instruments*

The Company's financial instruments consist of cash, other receivables, consumer loans receivables less any allowance for loan losses, accounts payable and accrued liabilities, all of which are short-term in nature and their fair value approximates their carrying value. The fair value of obligations under capital leases carrying amounts are determined by estimating future cash flows on a borrowing-by-borrowing basis, and discounting these future cash flows using a rate which takes into account the Company's spread for credit risk at year-end for similar terms and types of debt arrangements.

#### *Long-term investments*

The Company has long-term investments in The Cash Store Australia Holdings Inc. and RTF Financial Holdings Inc. The Company accounts for its long-term investments under the equity method of accounting as it has significant influence over the strategic operating, investing and financing activities due to board representation and management involvement in day to day operations. The aggregate quoted market value of the Company's investment in the Cash Store Australia Holdings Inc. is \$600. No aggregate quoted market value of the Company's investment in RTF Financial Holdings Inc. exists as the company is not publicly traded. As at December 31, 2011, the carrying value of both investments were \$nil (September 30, 2011 - \$nil).

#### *Property and Equipment*

Property and Equipment are recorded at cost. Depreciation is recorded using the rates and methods outlined in the table below.

	<u>Rate</u>	<u>Method</u>
Computer hardware	25%	Straight-line
Computer software	20%	Straight-line
Fixtures, furniture, and equipment	20%	Straight-line
Signs	20%	Straight-line
Buildings	4%	Straight-line
Vehicles	20%	Straight-line

Leasehold improvements are depreciated based on the straight-line basis over the shorter of the lease term, including renewal options that are reasonably assured and the estimated useful life of the asset.



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***Goodwill***

Goodwill represents the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate it may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it were the purchase price.

When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

***Accounting for the Impairment of Long-Lived Assets***

Long-lived assets and identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of a group of assets to the sum of future undiscounted cash flows expected to be generated from the use and eventual disposition of the group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the group of assets exceeds the fair value of the group of assets. Any assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell. Such assets are not depreciated while they are classified as held-for-sale.

***Deferred financing costs***

Underwriting, legal and other direct costs incurred in connection with the issuance of debt not measured under the fair value option are presented as deferred financing costs. The deferred financing costs will be amortized over the term of the related debt using the effective interest method.

**CHANGES IN ACCOUNTING POLICIES AND PRACTICES**

The Accounting Standards Board of the Canadian Institute of Chartered Accountants previously announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. However, National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards* allows Securities and Exchange Commission ("SEC") registrants, such as us, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S.



GAAP. As such, we have decided to adopt U.S. GAAP instead of IFRS as its primary basis of financial reporting commencing in the current fiscal year. Comparative figures in our consolidated financial statements related to the quarter ended December 31, 2010 are presented in accordance with US GAAP and are the same amounts that were previously reported under Canadian GAAP from a recognition and measurement perspective.

The decision to adopt U.S. GAAP was also made to enhance communication with shareholders and improve the comparability of financial information reported with competitors and peer group.

#### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management has evaluated whether there were changes in Internal Controls over Financial Reporting (ICFR) as at and for the three months ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect ICFR. No changes were identified; however, two material weaknesses in ICFR, as described below, that were identified as part of the preparation of the Company's September 30, 2012 annual financial statements and March 31, 2013 interim financial statements were determined to exist as at December 31, 2011. The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of ICFR and Disclosure Controls and Procedures (DC&P) and determined that ICFR and DC&P were ineffective due to the material weaknesses described below.

The Company has two material weaknesses as at December 31, 2011. Each of these material weaknesses creates a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis.

- 1) During the preparation of the Company's September 30, 2012 annual financial statements, Management determined that the Company did not design and implement effective ICFR related to the identification, assessment and disclosure of related parties and related party transactions. Specifically, the Company did not design effective ICFR to regularly assess existing business relationships to identify, assess and disclose related parties and related party transactions in accordance with applicable accounting standards. As a result of these ineffective controls, the Company did not disclose related party transactions with a third party lender in its previously filed financial statements; however, it has now amended its disclosure of related party transaction in Note 14 of the December 31, 2011 restated interim financial statements to correct for this omission in disclosure. The disclosure that could reasonably be affected by this material weakness is the disclosure of related parties and related party transactions.
- 2) During the preparation of the Company's March 31, 2013 interim financial statements, Management determined that the Company did not design and implement effective ICFR related to the review and interpretation of complex legal agreements. Specifically, the Company's ICFR did not correctly interpret how the settlement terms and conditions of the March 5, 2004 British Columbia Class Action claim impacted the measurement of the associated liability as at September 30, 2010. As a result of these ineffective controls, the Company incorrectly measured and recorded the liability in its previously filed financial statements; however, it has now corrected for this error as described in Note 3 of the Company's December 31, 2011 restated interim financial statements. The accounts that could reasonably be affected by this material weakness are class action settlement expense, interest expense, income tax expense, other receivables (current and long term), deferred tax asset and accrued liabilities.



The Company has taken the following remedial actions:

- 1) In response to the first material weakness described above, in December 2012, management implemented processes and controls to identify all potential related party transactions identified as a result of Internal Audit's related party analysis, and provide disclosures required by applicable accounting standards.
- 2) In response to the second material weakness described above, in April 2013 management established a process to coordinate communications internally as well as regularly consult with legal counsel and the third party settlement administrator. This new control involves a review of the status of all litigation and claims at each reporting period in order to assess their impact on the Company's consolidated financial statements.

There have been significant improvements made to ICFR subsequent to December 31, 2011 in relation to the material weaknesses described above. The first material weakness has been remediated as at September 30, 2012. With respect to the second material weakness, management needs sufficient time to assess the effectiveness of the changes and to implement further improvements before it can conclude that the second material weakness has been remediated.

#### OUTSTANDING SHARE DATA

As at February 8, 2012, we had 17,425,880 common shares outstanding. There were also options to purchase 974,168 common shares, which if exercised, would provide us with proceeds of approximately \$9.2 million.

#### DIVIDENDS

On February 8, 2011, we declared a quarterly dividend of \$0.12 per common share. The dividend is payable on March 7, 2012, to shareholders of record on February 21, 2012.

Our dividend policy is in compliance with all covenants associated with the Notes.

The Company reviews its dividend distribution policy on a quarterly basis and evaluates its financial position, profitability, cash flow and other factors the board of directors considers relevant. Prior to August 31, 2007, we had not declared or paid a dividend on the common shares. We declared our first dividend on August 31, 2007, in the amount of \$.025 cents per common share. In total, dividends of \$3.6 million were paid to holders of common shares in fiscal 2008, \$5.3 million in fiscal 2009, \$9.1 million in the fifteen months of fiscal 2010 and \$7.9 million in fiscal 2011. The following table sets forth the quarterly dividends paid by the Company in the quarter ended December 31:

	2012	2011	2010	2009	2008
Dividend per share	\$ 0.120	\$ 0.120	\$ 0.100	\$0.065	\$0.025
Percentage increase	nil%	20%	54%	160%	



## SUMMARY OF QUARTERLY RESULTS

The financial results for the Company for each of the last eight quarters are summarized in the following table.

In general, more recent results have been negatively impacted by regulatory changes resulting in revenue rate compression and certain other restrictions in the regulated provinces; however the results have been partially offset by growth in other income. There was an increase in overall revenues over prior periods due to our strategy of diversifying our other income. Branch expenses and overall expenses have also steadily increased due to an increased number of branches in operation and costs associated with growth in the UK, adding infrastructure at the regional and corporate levels, increased professional and legal fees related to regulatory matters, class actions, and other lawsuits, and continued costs associated with the class action settlements.

Our quarterly results of operations are impacted by the number and timing of new branch openings.

		2010			2011			2012	
		Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q1
				(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
<b>Consolidated Results</b>									
<i>No. of branches</i>									
	Canada	489	523	542	566	573	574	574	573
	United Kingdom		2	2	4	6	8	12	23
		489	525	544	570	579	582	586	596
<b>Loan volumes</b>									
	Loan fees included	\$ 178,826	\$ 205,659	\$ 216,027	\$ 216,293	\$ 198,775	\$ 204,616	\$ 201,720	\$ 199,611
	Regulated definition (excluding loan fee upon regulation)	157,653	174,902	184,110	182,487	167,327	172,602	170,459	169,855
	Loan fees included in regulated provinces	\$ 149,357	\$ 172,043	\$ 181,071	\$ 182,487	\$ 167,327	\$ 172,602	\$ 170,459	\$ 169,855
<b>Revenue</b>									
	Loan fees	\$ 31,308	\$ 35,161	\$ 36,195	\$ 36,315	\$ 32,813	\$ 33,944	\$ 33,552	\$ 32,892
	Other income	9,351	11,699	13,084	11,419	13,246	14,983	13,629	12,956
		40,659	46,860	49,279	47,734	46,059	48,927	47,181	45,848
<b>Branch expenses</b>									
	Salaries and benefits	12,206	13,695	13,698	14,382	14,113	14,591	14,490	14,397
	Retention payments	5,300	5,833	6,934	7,189	6,578	6,774	6,245	6,557
	Selling, general and administrative	4,242	4,361	4,345	4,194	4,681	4,486	4,156	4,408
	Rent	3,480	3,780	4,219	4,405	4,566	4,589	4,656	4,723
	Advertising and promotion	1,023	1,170	1,223	1,426	1,303	1,313	1,398	1,542
	Provision for loan losses	86	200	454	663	654	662	580	668
	Depreciation of property and equipment	1,374	1,477	1,566	1,660	1,687	1,713	1,743	1,776
		27,711	30,516	32,639	33,919	33,582	34,128	33,268	34,071
	Branch operating income	12,948	16,344	16,640	13,815	12,477	14,799	13,913	11,777
	Regional expenses	2,864	3,173	2,358	4,194	3,863	4,169	4,523	4,734
	Corporate expenses	3,703	4,513	5,026	4,042	4,256	4,796	5,175	5,026
	Interest expense				145	151	157	163	169
	Other depreciation and amortization	279	405	13	541	547	455	570	583
	Net income before income taxes and class action settlements	6,102	8,253	9,243	4,893	3,660	5,222	3,482	1,265
	Class action settlements	2,715	100	8,770	367	1	-	-	(69)
	EBITDA*	5,273	10,326	2,362	7,132	6,259	7,752	6,209	4,160
	Net income and comprehensive income	\$ 2,197	\$ 5,477	\$ 1,081	\$ 2,862	\$ 2,387	\$ 3,416	\$ 1,914	\$ 960
<b>Basic earnings per share</b>									
	Before class action expenses net of normalized tax	\$ 0.23	\$ 0.33	\$ 0.44	\$ 0.20	\$ 0.15	\$ 0.19	\$ 0.12	\$ 0.06
	Net income and comprehensive income	0.13	0.32	0.06	0.17	0.14	0.20	0.11	0.06
<b>Diluted earnings per share</b>									
	Before class action expenses net of normalized tax	\$ 0.23	\$ 0.31	\$ 0.42	\$ 0.19	\$ 0.14	\$ 0.19	\$ 0.12	\$ 0.06
	Net income and comprehensive income	\$ 0.13	\$ 0.31	\$ 0.06	\$ 0.16	\$ 0.14	\$ 0.19	\$ 0.11	\$ 0.05

\*EBITDA – earnings from operations before interest, income taxes, stock-based compensation, depreciation of property and equipment and amortization of intangible assets.

Certain comparative figures have been reclassified in prior periods. Specifically, certain amounts that were previously recorded within SG&A expense have been reclassified to other income for the prior periods presented.

The following table provides a reconciliation of net income in accordance with GAAP to EBITDA and Adjusted EBITDA for the past eight quarters.

## EBITDA and Adjusted EBITDA Reconciliation

(Thousands of dollars)	2010			2011				2012
	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q1
			(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
<b>Consolidated Results</b>								
Net income and comprehensive income	\$ 2,197	\$ 5,477	\$ 1,081	\$ 2,862	\$ 2,387	\$ 3,416	\$ 1,914	\$ 960
Interest and other interest	29	44	51	188	187	191	196	274
Income tax	1,190	2,676	(608)	1,664	1,272	1,806	1,568	374
Stock-based compensation	205	247	260	217	180	171	218	193
Depreciation of property and equipment and amortization of intangible assets	1,652	1,882	1,578	2,201	2,233	2,168	2,313	2,359
EBITDA	\$ 5,273	\$ 10,326	\$ 2,362	\$ 7,132	\$ 6,259	\$ 7,752	\$ 6,209	\$ 4,160
<b>Adjustments:</b>								
Class action settlements	\$ 2,715	\$ 100	\$ 8,770	\$ 367	\$ 1	\$ -	\$ -	\$ (69)
Effective interest component of retention payments	4,400	4,895	5,344	5,505	5,561	5,107	5,112	5,391
Adjusted EBITDA	\$ 12,388	\$ 15,321	\$ 16,476	\$ 13,004	\$ 11,821	\$ 12,859	\$ 11,321	\$ 9,482

The sequential decline in Adjusted EBITDA compared to the quarter ended September 30, 2011 is primarily due to a decrease in overall revenue in Canada and increased costs associated with expansion in the United Kingdom. The year-over-year decline in Adjusted EBITDA is a result of lower loan volumes in Canada, costs associated with the United Kingdom expansion, additional investment in the collection system infrastructure and the roll-out of new credit products.

### OTHER

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store." Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

### Cautionary Statement Regarding Forward-looking Information

This MD&A contains "forward-looking information" and "forward looking statements" within the meaning of applicable Canadian and United States federal securities legislation which we refer to herein, collectively, as "forward-looking information". Forward-looking information includes, but is not limited to, information with respect to our objectives, strategies, operations and financial results, competition as well initiatives to grow revenue or reduce retention payments. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions, the availability of alternative transactions, shareholder, legal, regulatory and court approvals and third party consents, and other factors described in the our latest AIF filed on SEDAR at [www.sedar.com](http://www.sedar.com) under the heading "Risk Factors". Although we have attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could



differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.

#### **Non-GAAP Measures**

This MD&A refers to certain financial measures that are not determined in accordance with GAAP in the U.S. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although a measure such as 'Earnings Before Interest, Income Taxes, Stock-based Compensation, Depreciation of Property and Equipment and Amortization of Intangible Assets' (EBITDA) does not have a standardized meaning prescribed by GAAP, this measure is used herein or can be determined by reference to our financial statements. Adjusted EBITDA is not determined in accordance with U.S. GAAP or IFRS as issued by the International Accounting Standards Board, does not have a standardized meaning and may not be comparable to similar measures presented by other companies. Although Adjusted EBITDA, which we define as net income plus provision for income taxes, interest expense, amortization of capital assets/depreciation of property and equipment, amortization of intangible assets, stock based compensation, class action settlements and the annual return component of retention payments, does not have a standardized meaning prescribed by U.S. GAAP or IFRS, we believe it may be useful in assessing our operating performance and as an indicator of our ability to service or incur indebtedness, make capital expenditures and finance working capital requirements. The items excluded from Adjusted EBITDA are significant in assessing our operating results and liquidity. Therefore, Adjusted EBITDA should not be considered in isolation from or as an alternative to operating income, cash provided from operating activities or other income or cash flow data prepared in accordance with U.S. GAAP or IFRS. "Same branch revenues" is a non-GAAP measure tracked and reported by us and is generally used to compare the average revenue for a particular group of branches in a current period to that same particular group of branches in a prior period. This non-GAAP measure is a way to gauge the performance of a particular group of branches and is directly related to, and helps explain, changes in total revenue. Average revenue is defined as revenue for the period divided by the number of branches. "BOP" is a non-GAAP measure tracked and reported by us and is generally used to compare the performance at branch level and includes expenses which primarily relate to the operations of the branch network. "Regional expenses" is a non-GAAP measure which is used to gauge expenditures at the regional and divisional level and includes compensation of associates including centralized regional departments, Regional Managers, Divisional Vice Presidents and President, as well as other expenses related to the functions of these groups. These measures are discussed because management believes that they facilitate the understanding of our results relating to our operational and financial position.

**This is EXHIBIT "U" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
A Commissioner, etc.

Condensed Consolidated Interim Financial Statements

# **DCPayments™**

For the Three and Nine Months Ended September 30, 2013

**DirectCash Payments Inc.**  
**Condensed Consolidated Interim Statements of Financial Position**  
*Canadian dollar in thousands (unaudited)*

As at:	Notes	September 30, 2013	December 31, 2012
<b>Assets</b>			
<b>Current assets:</b>			
Cash in circulation		\$ 37,612	\$ 42,910
Restricted funds		5,448	6,942
Trade and other receivables		8,143	11,446
Inventories		9,078	9,421
Prepaid expenses		2,527	3,145
		<b>62,808</b>	<b>73,864</b>
<b>Non-current assets:</b>			
Other assets		2,037	2,902
Property and equipment		45,232	54,999
Intangible assets		120,114	154,185
Goodwill		150,092	148,585
Deferred tax asset		7,943	8,203
		<b>325,418</b>	<b>368,874</b>
		<b>\$ 388,226</b>	<b>\$ 442,738</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Bank overdraft		\$ 14,059	\$ 14,459
Restricted funds liability		5,448	6,942
Trade and other payables		26,056	35,304
Other current liabilities		10,644	2,976
Current portion of long-term debt	5	5,687	4,686
		<b>61,894</b>	<b>64,367</b>
<b>Non-current liabilities:</b>			
Other liabilities		1,168	1,063
Long-term debt	5	184,154	197,889
Deferred tax liability		30,444	35,801
		<b>215,766</b>	<b>234,753</b>
<b>Shareholders' equity:</b>			
Share capital	6	257,302	257,302
Shares held in trust by EPSP Trustee	6	(1,785)	(1,914)
Contributed surplus (current and unvested EPSP)		2,167	2,342
Foreign currency translation reserve		(18,761)	(1,794)
Deficit		(128,421)	(112,318)
<b>Equity attributable to common shareholders</b>		<b>110,502</b>	<b>143,618</b>
Non-controlling interests		64	-
<b>Total Shareholders' equity</b>		<b>110,566</b>	<b>143,618</b>
		<b>\$ 388,226</b>	<b>\$ 442,738</b>

See accompanying notes to the condensed consolidated interim financial statements  
 Subsequent events (Notes 5, 6, 9 and 13)  
 Legal Matters (Note 12)

**DirectCash Payments Inc.**  
**Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)**  
*Canadian dollar in thousands (except per share amounts) (unaudited)*

	Notes	For the three months ended		For the nine months ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Revenue</b>		<b>\$ 58,717</b>	<b>\$ 67,017</b>	<b>\$ 175,958</b>	<b>\$126,977</b>
<b>Expenses</b>					
Cost of sales		29,110	36,085	87,150	67,707
Personnel expenses		6,820	7,495	20,770	14,614
Other expenses		3,765	3,826	11,615	7,662
Vault cash rental costs	5	2,053	2,715	6,905	2,715
Realized gain on foreign exchange	9	(386)	(1,199)	(259)	(3,967)
<b>EBITDA</b>		<b>17,355</b>	<b>18,095</b>	<b>49,777</b>	<b>38,246</b>
Acquisition-related expenses		-	1,663	-	4,055
Depreciation of property and equipment		3,607	4,012	11,606	6,758
Amortization of intangible assets		8,417	9,505	26,468	16,013
Finance costs	5	5,020	5,303	14,420	6,191
Unrealized loss (gain) on foreign exchange	9	538	1,468	(2,848)	(149)
<b>Net income (loss) before income taxes</b>		<b>(227)</b>	<b>\$(3,856)</b>	<b>131</b>	<b>5,378</b>
Current income tax expense		1,978	982	4,644	1,256
Deferred income tax benefit		(2,013)	(2,370)	(5,866)	(534)
		(35)	(1,388)	(1,222)	722
<b>Net income (loss)</b>		<b>\$(192)</b>	<b>\$(2,468)</b>	<b>\$1,353</b>	<b>\$4,656</b>
<b>Other comprehensive loss</b>					
Foreign currency translation on investments in foreign operations		(49)	(4,419)	(16,967)	(4,243)
<b>Total comprehensive income (loss)</b>		<b>\$(241)</b>	<b>\$(6,887)</b>	<b>\$(15,614)</b>	<b>\$413</b>
<b>Net income (loss) attributable to:</b>					
Common shareholders of the Company		(205)	(2,096)	1,335	5,028
Non-controlling interests		13	(372)	18	(372)
<b>Net income (loss)</b>		<b>\$(192)</b>	<b>\$(2,468)</b>	<b>\$1,353</b>	<b>\$4,656</b>
<b>Net income (loss) per share attributable to common shareholders</b>					
Basic	6	\$(0.01)	\$(0.14)	\$0.08	\$0.35
Diluted	6	\$(0.01)	\$(0.14)	\$0.08	\$0.35

See accompanying notes to the condensed consolidated interim financial statements

**DirectCash Payments Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
*Canadian dollar in thousands (unaudited)*

<i>For the nine months ended:</i>	Note s	September 30, 2013	September 30, 2012
<b>Cash provided by (used in):</b>			
<b>Operations:</b>			
Net income		\$1,353	\$4,656
Add (deduct) items not involving cash:			
Income taxes		(1,222)	722
Unrealized gain on foreign exchange		(2,848)	(149)
Share-based compensation		1,153	1,182
Finance costs	5	14,420	6,191
Other		298	121
Depreciation and amortization		38,074	22,771
Changes in non-cash working capital	11	(5,315)	(4,030)
Paid to EPSP trustee	6	(1,200)	(812)
Income taxes paid, net		(875)	(1,963)
<b>Net cash generated from operating activities</b>		<b>43,838</b>	<b>28,689</b>
<b>Investing:</b>			
Acquisition of property and equipment		(2,218)	(6,305)
Acquisition of intangible assets		(517)	(203)
Business and asset acquisitions		(216)	(201,457)
<b>Net cash used in investing activities</b>		<b>(2,951)</b>	<b>(207,965)</b>
<b>Financing:</b>			
Proceeds on issue of common shares, net of share issue costs paid		-	61,469
Repayment of acquisition credit facility		-	(31,373)
Long-term debt repayment	5	(13,066)	-
Bridge and long-term debt advances		-	209,944
Repayment of debt assumed on acquisition		-	(42,988)
Financing fees paid and deferred		-	(12,285)
Interest paid	11	(15,311)	(3,864)
Dividends to shareholders	7	(17,222)	(14,646)
<b>Net cash generated from (used in) financing activities</b>		<b>(45,599)</b>	<b>166,257</b>
<b>Decrease in cash and cash equivalents</b>		<b>(4,712)</b>	<b>(13,019)</b>
Cash and cash equivalents, beginning of period		28,451	35,602
Cash acquired through acquisition		-	400
Foreign exchange gain (loss) on cash held in foreign currency		(186)	149
<b>Cash and cash equivalents, end of period</b>		<b>\$23,553</b>	<b>\$23,132</b>
Cash and cash equivalents is comprised of:			
Cash in circulation - cash in cassette		31,216	27,275
Cash in circulation - cash in transit		6,396	1,427
Revolving credit facility		-	(5,570)
Bank overdraft		(14,059)	-
		<b>\$23,553</b>	<b>\$23,132</b>

See accompanying notes to the condensed consolidated interim financial statements

**DirectCash Payments Inc.**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
*Canadian dollar in thousands (unaudited)*

	Notes	Share Capital	Shares held in trust by EPSP Trustee	Contributed surplus (current and unvested EPSP)	Foreign currency translation reserve	Deficit	Non controlling interest	Total
		\$	\$	\$	\$	\$	\$	\$
<b>As at December 31, 2012</b>		<b>257,302</b>	<b>(1,914)</b>	<b>2,342</b>	<b>(1,794)</b>	<b>(112,318)</b>	-	<b>143,618</b>
Net income		-	-	-	-	1,335	18	1,353
Foreign currency translation on investments in foreign operations		-	-	-	(16,967)	-	-	(16,967)
Share based payment transactions (EPSP)	6	-	129	(175)	-	-	-	(46)
Non-controlling interest		-	-	-	-	(216)	46	(170)
Dividends	7	-	-	-	-	(17,222)	-	(17,222)
<b>As at September 30, 2013</b>		<b>257,302</b>	<b>(1,785)</b>	<b>2,167</b>	<b>(18,761)</b>	<b>(128,421)</b>	<b>64</b>	<b>110,566</b>
<b>As at December 31, 2011</b>		<b>194,990</b>	<b>(1,817)</b>	<b>2,365</b>	<b>(406)</b>	<b>(108,246)</b>	-	<b>86,886</b>
Net income		-	-	-	-	5,028	(372)	4,656
Foreign currency translation on investments in foreign operations		-	-	-	(4,243)	-	-	(4,243)
Shares issued for cash		65,380	-	-	-	-	-	65,380
Share issue costs (net of tax)		(3,024)	-	-	-	-	-	(3,024)
Share based payment transactions (EPSP)	6	-	403	(279)	-	-	-	124
Dividends	7	-	-	-	-	(14,968)	-	(14,968)
<b>As at September 30, 2012</b>		<b>257,346</b>	<b>(1,414)</b>	<b>2,086</b>	<b>(4,649)</b>	<b>(118,186)</b>	<b>(372)</b>	<b>134,811</b>

See accompanying notes to the condensed consolidated interim financial statements

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**1. Corporate information**

DirectCash Payments Inc. ("DirectCash" or the "Company") is a publicly traded corporation and is incorporated and domiciled in Alberta, Canada. The condensed consolidated interim financial statements comprise those of DirectCash and its subsidiaries and wholly-owned limited and general partnerships. The Company's registered head office is located at #6, 1420 – 28 Street N.E., Calgary, Alberta.

DirectCash is a payments provider with a focus on building long term contracted recurring revenue through the deployment, transaction processing, operation and services of its automated banking machines ("ATMs"). The Company operates ATMs worldwide with operations in Canada, Australia, New Zealand, the United Kingdom, and Mexico. DirectCash is also a marketer of prepaid products such as prepaid debit and credit cards and resells prepaid telecommunication cards in Canada, Australia and the United Kingdom.

These condensed consolidated interim financial statements have been prepared by management from the historical records of DirectCash and its subsidiaries.

**2. Basis of presentation**

**Statement of compliance**

The condensed consolidated interim financial statements for the period ended September 30, 2013 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements as at and for the year ended December 31, 2012 which were prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on November 14, 2013.

**Basis of measurement**

These condensed consolidated interim financial statements are stated in Canadian dollars and were prepared on a going concern basis, under the historical cost basis, except for the interest rate swap and foreign exchange contracts which are measured at fair value.

**Additional GAAP Measure**

DirectCash has presented earnings before interest, taxes, depreciation and amortization ("EBITDA") as a subtotal in its condensed consolidated interim statement of operations. EBITDA is an important measure utilized by management in assessing the financial performance of the Company relative to its operating plans and budgets. It is also the primary measurement utilized by the holders of the Company's long-term debt, as described in note 5. The Company has presented EBITDA prior to the deduction for acquisition-related expenses. These expenses relate to the 2012 corporate acquisitions which resulted in the expansion of the Company into two new primary geographical segments and are non-recurring expenditures. The Company has also presented EBITDA prior to unrealized foreign exchange gains and losses which is consistent with the Company's financial covenants.



**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**Use of estimates and judgments**

The preparation of these condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2012.

**3. Significant accounting policies**

The condensed consolidated interim financial statements have been prepared following the same accounting policies as the audited consolidated financial statements for the year ended December 31, 2012, except as noted below. The accounting policies have been applied consistently by the Company to all periods presented in these condensed consolidated interim financial statements.

The Company has adopted the following relevant new and amended standards effective January 1, 2013:

- IFRS 10 *Consolidated Financial Statements* - the adoption of this standard resulted in no changes to the condensed consolidated interim financial statements or the notes thereto;
- IFRS 13 *Fair Value Measurement* - the adoption of this standard resulted in no changes to the condensed consolidated interim financial statements or the notes thereto;
- IFRS 7 *Disclosures Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* – the adoption of this standard resulted in changes in disclosure over financial assets and financial liabilities presented under note 5 and 9.

**4. Acquisition**

**DCPayments Pty Ltd. (formerly Customers Limited)**

On July 4, 2012, DirectCash acquired 100% of the outstanding shares of Customers Limited, a public company listed on the ASX (the "Customers acquisition") for consideration of approximately \$180.2 million (A\$173.1 million). DC Payments Pty Ltd. operates ATMs in Australia and New Zealand. A total of approximately 6,600 ATM sites and related contracts were acquired as well as the related business and staff.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2013 and 2012 (unaudited)  
(Tabular amounts in thousands of Canadian dollars, except as noted)

The following summarizes the Customers acquisition. The total purchase consideration was allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition:

	Cdn\$	A\$
Working capital deficiency <sup>(1)</sup>	\$(16,862)	\$(16,194)
Property and equipment	43,845	42,110
Intangible assets	134,616	129,289
Other long-term liabilities	(386)	(371)
Goodwill	105,917	101,725
Bank indebtedness	(42,988)	(41,287)
Income tax liabilities	(43,934)	(42,195)
<b>Total</b>	<b>\$180,208</b>	<b>\$173,077</b>

<sup>1</sup> The working capital deficiency is primarily attributable to assumed obligations related to a shareholder agreement to acquire the non-controlling interests in DCPayments NZ Limited (formerly New Zealand ATM Services Limited).

Subsequent to the disclosure made in the audited financial statements for the year ended December 31, 2012, the Company adjusted the purchase price allocation to goodwill by approximately \$9.0 million for adjustments to income tax liabilities related to finalization of pre-acquisition income tax filings and income tax contingencies.

## 5. Long-Term Debt

The Company's long-term debt consists of the following:

	Note	Principal	September 30, 2013	December 31, 2012
Term Loan, due June 28, 2017	5(a)	\$61.1m Cdn	\$61,128	\$72,250
	5(a)	\$10.4m A\$	9,953	12,660
Unsecured Senior Notes, due August 8, 2019	5(b)	\$125.0m Cdn	125,000	125,000
Minimum finance lease payments, due 2015-2016		£0.3m GBP	446	561
<b>Total</b>			<b>\$196,527</b>	<b>\$210,471</b>
Less: interest on finance leases			(45)	(69)
Unamortized transaction costs			(6,641)	(7,827)
			<b>\$189,841</b>	<b>\$202,575</b>
Current portion of long-term debt			(6,142)	(5,229)
Current portion of unamortized transaction costs			455	543
<b>Long-term debt</b>			<b>\$184,154</b>	<b>\$197,889</b>

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**a. Senior Secured Facilities**

In order to fund acquisition opportunities, DirectCash has established a credit facility with a syndicate of lenders. The facility includes a Revolving Facility and a Term Loan.

Under the credit facility dated July 23, 2012 and amended October 18, 2013, DirectCash is subject to certain financial covenants and has agreed that the ratio of consolidated funded debt to consolidated EBITDA (as defined in the credit facility) (the "Total Leverage Ratio") will not exceed 3.25 to 1.0, with the permitted ratio decreasing to 2.5 to 1.0 by July, 2015, and that the ratio of EBITDA (as defined in the credit facility) less unfunded capital expenditures, dividends and cash taxes to interest expense and scheduled principal payments on funded debt (as defined in the credit facility) (the "Fixed Charge Coverage Ratio") will equal or exceed 1.25 to 1.0. Consolidated funded debt, as defined, includes amounts outstanding under letters of credit. EBITDA, as defined, includes pro-forma adjustments related to business acquisitions that occur during the relevant calculation period and certain other non-cash charges.

On an annual basis, until such time as the ratio of consolidated funded debt to consolidated EBITDA is less than or equal to 2.75, the Company is required to repay outstanding advances to the extent of 50% of excess cash flow (as defined in the amended credit facility) for the previous year. As at September 30, 2013, DirectCash was in compliance with all applicable covenants and ratios under the facility.

The credit facility was further amended on November 14, 2013. The amendments provide the Company with additional operational flexibility and include approval for the Threshold Acquisition (Note 13), removal of the decreasing component of the Total Leverage Ratio as described above, and certain changes with respect to the definitions of consolidated funded debt, EBITDA and interest expense for purposes of the financial covenants. Pursuant to the amendment, DirectCash will be required to comply with the following financial covenants: (i) Senior Secured Debt Leverage (as defined in the amended credit facility) must be less than or equal to 2.25 times EBITDA (as defined in the credit facility), which steps down to 2.0 times on January 1, 2016; (ii) Total Debt Leverage (as defined in the amended credit facility) must be less than or equal to 3.5 times EBITDA (as defined in the credit facility); and (iii) Fixed Charge Coverage Ratio (as defined in the amended credit facility) must be greater than or equal to 1.25 times EBITDA (as defined in the credit facility), which steps up to 1.35 times on January 1, 2015. Amounts drawn and expenses paid on the Company's vault cash rental agreements are not considered debt, and therefore are not applicable in making the foregoing calculations.

Substantially all of the Company's assets, including the shares of its material subsidiaries (as defined in the credit facilities) and partnership interests are pledged to secure borrowings made under the senior facilities.

**Revolving Facility**

DirectCash has a \$115 million five-year revolving credit facility available for general corporate purposes, maturing June 28, 2017. As at September 30, 2013, the Company has posted letters of credit totalling approximately \$6.0 million (US\$ 5.3 million and A\$ 0.6 million) in connection with third-party contracts in Canada and Australia. These letters of credit reduce the Company's borrowing capacity under the revolving facility.

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

As at September 30, 2013 the Company had utilized \$6.0 million of the revolving credit facility (December 31, 2012: \$3.1 million). On October 21, 2013 the Company borrowed A\$ 10.0 million under the Australian tranche of this facility and concurrently repaid \$10.0 million on the Canadian tranche. The Australian borrowings bear interest at the BBSY rate plus 2.438%. On November 1, 2013 the Company utilized borrowings under the Canadian revolving credit facility to finance the Threshold Acquisition (Note 13).

**Term Loan**

During the nine months ended September 30, 2013, the Company repaid a total of \$11.1 million and A\$ 1.9 million on its term loan including the \$10.0 million of discretionary repayments on the term loan made on June 28, 2013. Under the terms of this facility, 50% of the loan amortizes over five years in escalating quarterly instalments commencing February 28, 2013 and matures on June 28, 2017. Concurrent with the repayment the lenders agreed to reduce the mandatory principal repayments due over the next four years by \$10.0 million under an amended loan amortization schedule.

**b. Unsecured Senior Notes**

DirectCash has \$125 million aggregate principal amount of seven year unsecured senior notes (the "Notes") outstanding, maturing on August 8, 2019. The Notes are direct senior unsecured obligations ranking pari passu with all other present and future senior unsecured indebtedness of DirectCash and bear interest at 8.125% per annum, payable semi-annually on February 8<sup>th</sup> and August 8<sup>th</sup>. The Notes contain no maintenance covenants. Pursuant to the terms of the indenture, the Company is limited on the amount of restricted payments, including dividends, which it can make, such restrictions being generally governed by a fixed charge coverage incurrence test and an overall restricted payments basket. The Notes are guaranteed by all of the Company's material subsidiaries and partnerships.

**c. Vault Cash Rental Agreements**

DirectCash has vault cash rental agreements for the supply of cash to ATMs owned by the Company in Australia and United Kingdom. Under these agreements, cash is owned by the vault cash provider who has contracts directly with transaction acquirers, settlement agents and armored car carriers. DirectCash does not have access to this cash; the only purpose is to load cash into ATMs governed under the agreement. The settlement of the cash asset and corresponding liability is through regulated clearing systems and as such a right of set-off exists. As a result of the above factors, such cash and the related obligations are not reflected in the consolidated financial statements. The amount of cash in circulation under these facilities was approximately \$133 million and \$199 million as of September 30, 2013 and December 31, 2012, respectively.

On November 1, 2013 the Company entered into two new unsecured vault cash rental agreements with a major Canadian financial institutional for up to \$100 million. The first agreement for up to \$40 million was completed as part of the Threshold Acquisition (Note 13). The second agreement for up to \$60 million is for use in the Company's existing Canadian ATM business. Over the next 60 days DirectCash expects to migrate its existing Canadian ATM full placement fleet to utilise the cash made available under the agreement.

Under these vault cash rental agreements, the vault cash provider has committed to provide DirectCash with vault cash to be used in its ATMs across Canada. Similar to the facilities in Australia and the

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2013 and 2012 (unaudited)

(Tabular amounts in thousands of Canadian dollars, except as noted)

United Kingdom, the Company will never have an ownership claim over the vault cash which is loaded into serviced ATMs by third party armoured car carriers. Ownership of the vault cash will remain with the vault cash provider. Under the agreements, DirectCash will pay a fee to the vault cash provider which is calculated using the total amount of vault cash in circulation at any given time and the number of notes supplied by the vault cash provider from time to time.

Historically, DirectCash has used its own cash or cash drawn from its revolving credit line to run its full placement Canadian ATM fleet. Once in place, the vault cash agreements will free up a significant amount of cash in circulation which will allow DirectCash to partially repay amounts drawn under the Company's credit facility.

### d. Finance costs

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2013	2012	2013	2012
Unsecured senior notes	\$2,560	\$1,503	\$7,596	\$1,503
Term facility	969	967	3,214	967
Revolving facility and acquisition line	408	622	937	1,510
Amortization of transaction costs	606	424	1,527	424
Bridge facilities	-	1,705	-	1,705
Realized loss on interest rate swaps	126	-	217	-
Unrealized loss (gain) on interest rate swaps	119	(130)	262	(130)
Other	232	212	667	212
	\$5,020	\$5,303	\$14,420	\$6,191

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**6. Share capital**

**a. Authorized shares**

DirectCash is authorized to issue (a) an unlimited number of common shares and (b) an unlimited number of preferred shares (issuable in series). As at September 30, 2013, only common shares have been issued.

**b. Issued and fully paid shares**

	Number of shares	Amount
Balance, September 30, 2013 and December 31, 2012	16,639,279	\$257,302

On October 28, 2013, DirectCash announced an offering of 950,000 common shares of the Company for cash proceeds of \$16.00 per common share less approximately \$0.9 million in underwriter fees, professional advisory fees and other costs related to the offering. The Company anticipates closing of the offering on November 15, 2013. The net proceeds from the offering will be used to partially repay amounts drawn under the Company's revolving credit facility in respect of the Threshold Acquisition (Note 13).

**c. Shares held in trust by EPSP Trustee**

The cumulative balance of shares held in trust by EPSP Trustee comprises the cost of common shares held by the Trustee under the employee profit sharing plan ("EPSP") that have not become vested to the participants.

<i>As at:</i>	September 30, 2013	December 31, 2012
Balance, January 1	\$1,914	\$1,817
EPSP vested	(1,329)	(1,215)
Shares purchased and held by Trustee – EPSP	1,200	1,312
	<b>\$1,785</b>	<b>\$1,914</b>
Number of shares held by EPSP Trustee	<b>76,673</b>	<b>89,457</b>

**d. Weighted average shares outstanding**

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	2013	2012
Issued common shares	16,639,279	15,421,887	16,639,279	14,370,665
Effect of EPSP shares held in trust by Trustee	(76,673)	(66,474)	(80,151)	(77,950)
Weighted average number of shares (basic)	<b>16,562,606</b>	<b>15,355,413</b>	<b>16,559,128</b>	<b>14,292,715</b>
Weighted average number of shares (diluted)	<b>16,639,279</b>	<b>15,421,887</b>	<b>16,639,279</b>	<b>14,370,665</b>

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**7. Dividends declared**

The following dividends were declared by DirectCash during the periods indicated.

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	2013	2012
11.5 cents monthly per qualifying common share	\$5,741	\$5,418	\$17,222	\$14,968

Subsequent to September 30, 2013, DirectCash declared dividends in the amount of \$1.9 million (11.5 cents per share) and paid dividends in the amount of \$1.9 million (11.5 cents per share).

DirectCash's policy is to pay dividends on or about the last day of each month to shareholders of record on the last business day of the preceding month.

**8. Related party transactions**

*DirectCash Bank*

DirectCash is party to various service and marketing agreements with DirectCash Bank ("DC Bank"), in which DirectCash provides transaction processing and technology services to DC Bank and DC Bank provides services and products to DirectCash or its customers for a fee. All contracts are negotiated at market terms and rates. DC Bank is indirectly owned by two of the original principals of DirectCash, who continue to maintain significant ownership in the Company. One of DC Bank's significant shareholders (indirectly through a holding corporation) is also DirectCash's President and CEO. Any transactions between DirectCash and DC Bank are approved by independent directors. DirectCash has agreed to indemnify DC Bank from certain losses/costs that DC Bank may incur as a result of DC Bank's involvement in issuing Prepaid Cards to the customers of Direct Cash.

During the three and nine months ended September 30, 2013, DirectCash paid approximately \$0.4 million and \$1.2 million (2012: \$0.4 million and \$1.1 million) of fees to DC Bank associated with various agreements with DC Bank. The related party balance payable to DC Bank at September 30, 2013 was approximately \$0.2 million (December 31, 2012: \$0.1 million).

**9. Financial instruments and risk management**

The Company's financial instruments include its cash in circulation, trade and other receivables, loans receivable, revolving credit facility, interest rate swaps, foreign exchange contracts, trade and other payables, other liabilities and long-term debt.

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**Fair value measurements for financial instruments**

The following table shows the comparison of the carrying and fair values of the Company's financial instruments:

	September 30, 2013		December 31, 2012	
	Carrying value	Fair Value	Carrying value	Fair Value
<b>Held for trading</b>				
Cash and cash equivalents	\$23,553	\$23,553	\$28,451	\$28,451
<b>Loans and receivables</b>				
Trade and other receivables	8,143	8,143	11,446	11,446
Loans receivable	271	271	468	468
<b>Fair value through profit and loss</b>				
Interest rate swaps, liability <sup>(1)</sup>	880	880	688	688
Foreign exchange contracts, asset <sup>(2)</sup>	42	42	-	-
<b>Other liabilities</b>				
Trade and other payables	26,056	26,056	35,304	35,304
Other liabilities	10,932	10,932	3,351	3,351
Long term debt	196,482	196,170	210,402	213,840

(1) Included in other non-current liabilities and the unrealized loss is reported in finance costs.

(2) Included in trade and other receivables and the unrealized gain is reported in unrealized gain on foreign exchange.

The fair values of financial instruments are determined with respect to the hierarchy that prioritizes the input to fair value measurement. In the absence of an active market, the Company determines fair value by using valuation techniques that refer to observable market data or estimated market process. Fair values are inherently judgmental, thus the estimated fair values do not necessarily reflect amounts that would be received or paid in case of immediate settlement of these instruments. The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts.

The carrying value of cash and cash equivalents, trade and other receivables, loan receivable, trade and other payables and other liabilities approximate their fair values due to the relatively short-term nature of these balances. The carrying amount of the long-term debt balance related to borrowings under the Company's term loan, unsecured senior notes and obligations under finance leases. The term loan carrying amount approximates fair value since borrowings are subject to short-term floating interest rates and the spread is consistent with the Company's current credit spreads. As at September 30, 2013, the fair value of the Company's unsecured senior notes was approximately \$124.7 million (December 31, 2012 - \$128.4 million) based on best available estimated quoted price. The fair value of the obligations under finance leases is determined by estimating future cash flows on a borrowing by borrowing basis, and discounting these future cash flows using the effective interest rate.



Notes to the Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2013 and 2012 (unaudited)  
 (Tabular amounts in thousands of Canadian dollars, except as noted)

As at September 30, 2013 the Company held the following Australian dollar foreign exchange contracts:

Type	Price	Australian dollar sell position			
		Q4 2013	Q1 2014	Q2 2014	Q3 2014
Barrier strike price on expiry: A\$1.03 <sup>(1)</sup>		\$2,000			
Fixed rate forward contract, month of settlement					
October to December, 2013 <sup>(2)</sup>	\$0.9420	\$1,500			
December, 2013	\$1.0240	\$1,465			
January to March, 2014 <sup>(2)</sup>	\$0.9342		\$4,014		
April to June, 2014 <sup>(2)</sup>	\$0.9308			\$1,504	
July, 2014	\$0.9286				\$269
Put/call option, month of settlement					
February, 2014	\$0.9125		\$125		
March, 2014	\$0.9125		\$250		
April, 2014	\$0.9100			\$250	
May, 2014	\$0.9100			\$250	
June, 2014	\$0.9050			\$300	
July, 2014	\$0.9050				\$375
Put option, month of expiry					
February, 2014	\$0.9125		\$125		
March, 2014	\$0.9125		\$250		
April, 2014	\$0.9100			\$250	
May, 2014	\$0.9100			\$250	
June, 2014	\$0.9050			\$300	
July, 2014	\$0.9050				\$375
<b>Total</b>		<b>\$4,965</b>	<b>\$4,764</b>	<b>\$3,104</b>	<b>\$1,019</b>

<sup>(1)</sup> If A\$ is trading at 1.05 or higher at 10 a.m. (New York) on December 23, 2013 (the expiry date), then the counterparty pays A\$1.03. Otherwise, the put is at A\$1.00 and the call is at A\$1.05.

<sup>(2)</sup> Represents weighted average settlement price for the period

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

Subsequent to September 30, 2013, the Company entered into the following additional Australian dollar foreign exchange contracts:

Type	Price	Australian dollar sell position		
		Q1 2014	Q2 2014	Q3 2014
<b>Fixed rate forward contract, month of settlement</b>				
March, 2014	\$0.9727	\$500		
May, 2014	\$0.9695		\$500	
June, 2014	\$0.9695		\$500	
August, 2014	\$0.9640			\$500
September, 2014	\$0.9625			\$500
<b>Put/call option, month of settlement</b>				
June, 2014	\$0.9435		\$250	
August, 2014	\$0.9385			\$125
<b>Put option, month of expiry</b>				
June, 2014	\$0.9435		\$250	
August, 2014	\$0.9385			\$125
<b>Total</b>		<b>\$500</b>	<b>\$1,500</b>	<b>\$1,250</b>

As at September 30, 2013 the Company held two interest rate swaps: October 31, 2012 to October 31, 2014 – A\$50 million at a 3.22% fixed BBSY rate and October 31, 2012 to October 31, 2015 – A\$50 million at a 3.28% fixed BBSY rate.

As at September 30, 2013, the fair value of the Company's interest rate swaps was a liability of approximately \$0.9 million and the fair value of the Company's foreign exchange contracts was an asset of approximately \$0.04 million. The fair value of the interest rate swaps and foreign exchange contracts are based on pricing models where the inputs include forward curves, volatility estimates and discount rates (level 2 fair values).

**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2013 and 2012 (unaudited)**  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

The following table discloses the Company's realized and unrealized losses, primarily attributed to Australian dollar transactions, for the periods indicated:

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	2013	2012
<b>Realized gain:</b>				
Australian dollar currency contracts	\$(148)	\$(1,199)	\$(217)	\$(3,967)
Repayment of debt denominated in Australia dollars <sup>(1)</sup>	(238)	-	(42)	-
	<b>(386)</b>	<b>(1,199)</b>	<b>(259)</b>	<b>(3,967)</b>
<b>Unrealized loss (gain):</b>				
Australian dollar currency contracts	357	-	(42)	-
Debt denominated in Australia dollars <sup>1</sup>	127	-	(2,763)	-
Other foreign currency assets and liabilities	54	1,468	(43)	(149)
	<b>\$538</b>	<b>\$1,468</b>	<b>\$(2,848)</b>	<b>\$(149)</b>

*(1) includes foreign exchange on both the Term Loan (Note b) and on intercompany balances between the Company and its Australian subsidiary which are designated as short term in nature and translated through net income (loss).*

## 10. Segment reporting

The Company's operations are segmented into the Americas (Canada and Mexico), Australasia (Australia and New Zealand) and Europe. Performance is measured based on revenues and gross profit. Cost of sales includes the costs of recurring services and products. Revenues and gross profits by geographic segment are as follows:

### Revenue and gross profit

<i>Three months ended September 30, 2013</i>	Americas	Australasia	Europe	Total
<b>Revenue</b>				
ATM	\$12,009	\$30,680	\$9,291	\$51,980
Prepaid and other	6,655	113	(31)	6,737
Revenue from external customers	18,664	30,793	9,260	58,717
<b>Cost of sales</b>				
ATM	5,114	14,843	6,366	26,323
Prepaid and other	2,795	18	(26)	2,787
Total cost of sales	7,909	14,861	6,340	29,110
<b>Gross profit</b>				
ATM	6,895	15,837	2,925	25,657
Prepaid and other	3,860	95	(5)	3,950
Total gross profit	\$10,755	\$15,932	\$2,920	\$29,607

**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2013 and 2012 (unaudited)**  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

<i>Three months ended September 30, 2012</i>	Americas	Australasia	Europe	Total
<b>Revenue</b>				
ATM	\$12,690	\$32,684	\$8,930	\$54,304
Prepaid and other	12,512	111	90	12,713
Revenue from external customers	25,202	32,795	9,020	67,017
<b>Cost of sales</b>				
ATM	5,942	16,931	6,466	29,339
Prepaid and other	6,569	61	116	6,746
Total cost of sales	12,511	16,992	6,582	36,085
<b>Gross profit</b>				
ATM	6,748	15,753	2,464	24,965
Prepaid and other	5,943	50	(26)	5,967
Total gross profit	\$12,691	\$15,803	\$2,438	\$30,932

<i>Nine months ended September 30, 2013</i>	Americas	Australasia	Europe	Total
<b>Revenue</b>				
ATM	\$34,564	\$94,560	\$24,164	\$153,288
Prepaid and other	22,186	403	81	22,670
Revenue from external customers	56,750	94,963	24,245	175,958
<b>Cost of sales</b>				
ATM	15,569	45,184	16,129	76,862
Prepaid and other	10,081	103	104	10,288
Total cost of sales	25,650	45,267	16,233	87,150
<b>Gross profit</b>				
ATM	18,995	49,396	8,035	76,426
Prepaid and other	12,105	300	(23)	12,382
Total gross profit	\$31,100	\$49,696	\$8,012	\$88,808

**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three and nine months ended September 30, 2013 and 2012 (unaudited)**  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

<i>Nine months ended September 30, 2012</i>	Americas	Australasia	Europe	Total
<b>Revenue</b>				
ATM	\$38,851	\$32,684	\$14,644	\$86,179
Prepaid and other	39,684	509	605	40,798
Revenue from external customers	78,535	33,193	15,249	126,977
<b>Cost of sales</b>				
ATM	18,882	16,931	10,518	46,331
Prepaid and other	20,522	210	644	21,376
Total cost of sales	39,404	17,141	11,162	67,707
<b>Gross profit</b>				
ATM	19,969	15,753	4,126	39,848
Prepaid and other	19,162	299	(39)	19,422
Total gross profit	\$39,131	\$16,052	\$4,087	\$59,270

**Depreciation and amortization expense**

	Americas	Australasia	Europe	Total
<i>Three months ended September 30, 2013</i>	\$2,638	\$7,245	\$2,141	\$12,024
<i>Three months ended September 30, 2012</i>	3,499	7,525	2,493	13,517
<i>Nine months ended September 30, 2013</i>	7,874	22,830	7,370	38,074
<i>Nine months ended September 30, 2012</i>	11,042	7,525	4,204	22,771

**Assets and liabilities**

<i>As at September 30, 2013</i>	Americas	Australasia	Europe	Total
Non-current assets, excluding goodwill	\$22,936	\$132,289	\$20,101	\$175,326
Goodwill	52,366	97,726	-	150,092
Total assets	123,976	241,963	22,287	388,226
Total liabilities, excluding corporate liabilities	31,144	49,606	7,470	88,220
Corporate liabilities (long-term debt)				189,440

<i>As at December 31, 2012</i>	Americas	Australasia	Europe	Total
Non-current assets, excluding goodwill	\$29,367	\$164,351	\$26,571	\$220,289
Goodwill	52,366	96,219	-	148,585
Total assets	140,775	273,439	28,524	442,738
Total liabilities, excluding corporate liabilities	38,055	47,264	11,718	97,037
Corporate liabilities (long-term debt)				202,083

Notes to the Condensed Consolidated Interim Financial Statements  
 For the three and nine months ended September 30, 2013 and 2012 (unaudited)  
 (Tabular amounts in thousands of Canadian dollars, except as noted)

**Reconciliation of segment gross profit to net income (loss) before taxes**

	For the three months ended September 30		For the nine months ended September 30	
	2013	2012	2013	2012
Gross profit	\$29,607	\$30,932	\$88,808	\$59,270
Personnel expenses	(6,820)	(7,495)	(20,770)	(14,614)
Other expenses	(3,765)	(3,826)	(11,615)	(7,662)
Vault cash rental costs	(2,053)	(2,715)	(6,905)	(2,715)
Realized gain on foreign exchange	386	1,199	259	3,967
EBITDA	17,355	18,095	49,777	38,246
Acquisition-related expenses	-	(1,663)	-	(4,055)
Depreciation of property and equipment	(3,607)	(4,012)	(11,606)	(6,758)
Amortization of intangible assets	(8,417)	(9,505)	(26,468)	(16,013)
Finance costs	(5,020)	(5,303)	(14,420)	(6,191)
Unrealized gain (loss) on foreign exchange	(538)	(1,468)	2,848	149
Net income (loss) before income taxes	\$( 227)	\$(3,856)	\$ 131	\$5,378

There is historic seasonality in processing transaction volumes, with the highest ATM transaction activity occurring in the summer months. As such, in Canada and the United Kingdom the second and third quarters of the year are traditionally DirectCash's strongest quarters in terms of processing transactions and gross profitability. In Mexico the first and fourth quarters include the tourist season and processing transaction volumes in Australia and New Zealand's peak in the third and fourth quarters. DirectCash has eliminated the impact of seasonal fluctuations in cash flows to shareholders by equalizing monthly cash dividends.

**11. Supplementary cash flow information**

**Changes in non-cash working capital:**

<i>Nine months ended September 30:</i>	2013	2012
Trade and other receivables	\$2,039	\$(2,803)
Inventories	(1,783)	495
Prepaid expenses	87	(95)
Trade and other payables	(5,729)	(1,853)
Other	71	226
	<b>\$(5,315)</b>	<b>\$(4,030)</b>

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
*(Tabular amounts in thousands of Canadian dollars, except as noted)*

**Interest paid:**

<i>Nine months ended September 30:</i>	<b>2013</b>	<b>2012</b>
Unsecured senior notes	<b>\$10,156</b>	\$-
Term facility	<b>3,577</b>	-
Revolving facility and acquisition line	<b>933</b>	1,503
Bridge facilities	-	1,705
Other	<b>645</b>	656
	<b>\$15,311</b>	<b>\$3,864</b>

**12. Legal matters**

Given the nature of DirectCash's business, DirectCash has entered into a large number of contracts. Given the number of contracts, there is a small (but constant) amount of litigation where DirectCash is required to enforce its contractual rights to ensure revenue continuity. Also, in rare cases it faces litigation where competitors have issued statements of claim alleging some sort of misconduct or breach in relation to customers lost to DirectCash. It is a necessary part of DirectCash's business to enforce its contracts and defend these claims. However, none of these law suits are material in amount.

On August 20, 2013, DirectCash and DC Bank were added as named parties to a class action lawsuit previously filed against The CashStore Financial Services Inc. ("CashStore") as it relates to payday loans and related fees in the province of Ontario. DirectCash is indemnified by CashStore and in turn has indemnified DC Bank. DirectCash has retained counsel on this matter.

On November 9, 2012, DirectCash in addition to CashStore and DC Bank were named in a class action lawsuit as it relates to payday loans and related fees in the province of Manitoba. DirectCash is indemnified by CashStore and in turn has indemnified DC Bank. DirectCash has retained counsel on this matter.

**13. Subsequent events**

**Threshold acquisition**

On November 1, 2013, DirectCash completed the acquisition of all of the issued and outstanding shares of Threshold Financial Technologies Inc. ("Threshold") for cash consideration of \$50 million, subject to customary closing purchase price adjustments (the "Threshold Acquisition").

Threshold has two primary business segments, one that caters to credit unions and other financial institutions (the "CUFI Business") and a non-bank ATM business (the "Non-Bank ATM Business").

Threshold provides switch and card and ATM transaction processing services and other managed services to credit unions and financial institutions across Canada. The end-to-end payment solutions provided by Threshold to these customers enables them to outsource their debit and ATM card processing and compete with services similar to those offered by larger banks. The CUFI Business services are broadly comprised of transaction switching services, card provisioning, payments

**Notes to the Condensed Consolidated Interim Financial Statements**  
*For the three and nine months ended September 30, 2013 and 2012 (unaudited)*  
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processing, reporting and settlement, fraud management, ATM cash management, ATM fleet management and project-based consulting services.

The Non-Bank ATM Business of Threshold consists of approximately 1,475 retail nonbank ATMs owned and operated under the "LaserCash" brand as well as ATMs managed on behalf of gaming and major retail clients in Canada. Similar to the Company's current operations, these ATMs operated under either a per transaction revenue structure or on a monthly management fees basis.

In conjunction with the Threshold Acquisition, the Company amended its credit facility [Note 5(a)], entered into two vault cash rental agreements [Note 5(c)] and completed an equity offering [Note 6(b)]. The Company also deposited \$2.0 million in escrow pending finalization of insurance coverage required under the vault cash agreement.




**This is EXHIBIT "V" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this <sup>5<sup>th</sup></sup> day of**

**February, 2014.**

A handwritten signature in black ink, appearing to read "J. [unclear]", written over a horizontal line.

***A Commissioner, etc.***

# The Loan EFT

## Preparing for Change



### 'Gear Up' Package

Operational Training  
Version Date: December 2010



# Gearing Up for the Loan EFT Change

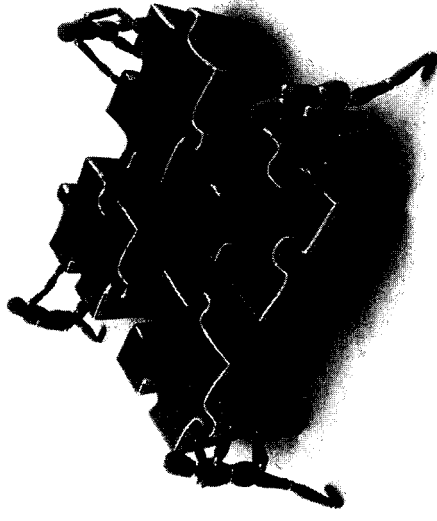
In regulated provinces, loan processing will change to comply with provincial regulations. The change is specific to how we process the upfront EFT in the Direct Cash website.

This change will be implemented on December 14<sup>th</sup>, 2010. This 'Gear Up' Information Package will help your branch and region to prepare for this adjustment.

- Read this guide
- Do the practice questions to test your knowledge
- Take the Cash Store College quiz titled "The Loan EFT"
- The quiz due date is **Monday December 13, 2010**



# About 'Gear Up'



What makes Cash Store Financial an industry leader is that we are constantly striving to improve and, we're doing it quickly. 'Gear Up' is a training program dedicated to preparing for business change.

This package provides information about the change, preparation requirements, tools and important dates you need to know about.

Your cooperation in implementing this change makes you part of the project team. So gear up and welcome aboard!



Financial Convenience.  
*Everyday People.*

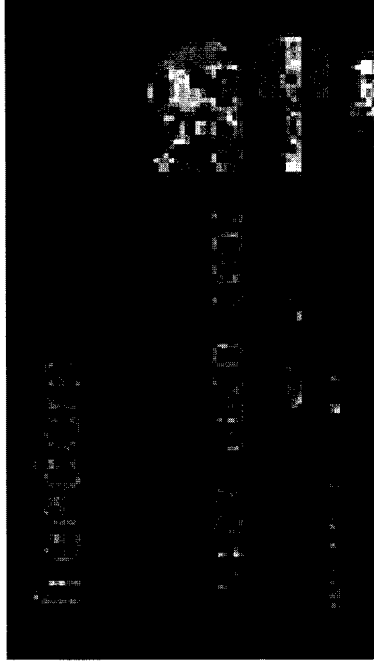


**This Gear Up Package Includes a Tool Kit:**

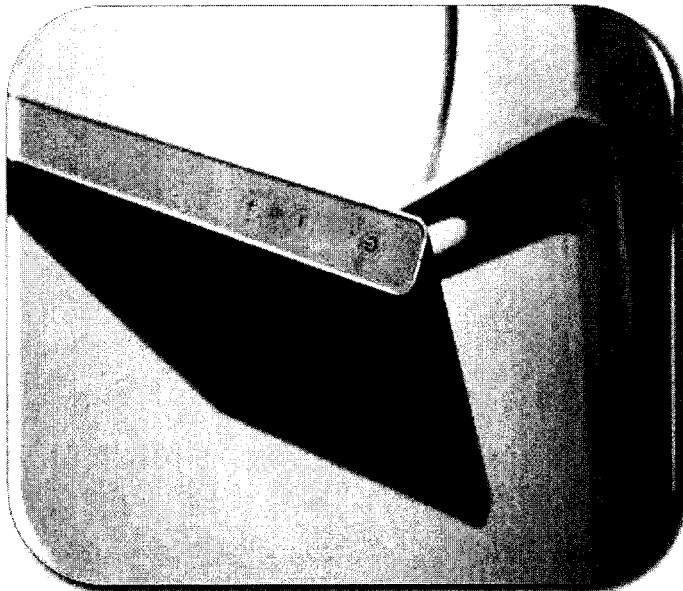
- This instruction guide
- BOA
- Support at [training@csfinancial.ca](mailto:training@csfinancial.ca)
- A quick link to a 'white board' video
- A practice quiz

# Learning Objectives

- Learn about the EFT change.
- Find out how to load cards on Direct Cash using the new process.
- Understand what tools you'll need to use.
- Know the important date for change.



# Changes to Expect



On December 14<sup>th</sup>, 2010, a new process for EFTing loan fees on the Direct Cash website will be implemented for provinces that are regulated (AB, BC, MB, NS and ON).

What does this mean to you?

Broker fees will no longer be EFTed for **Payday and Signature Loans.**

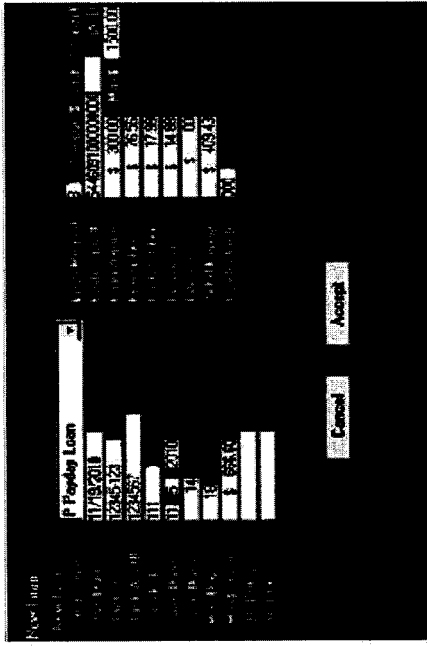


The only fees that will be EFTed are:  
Applicable card fees  
&  
Applicable PPP fees

*Click on 'Broker fees' above to be directed to its definition.*

# Finding the Advance Limit

The Advance Limit amount will change, as well as where to find this amount.



When you create a new loan for a client, only account for the amount that they wish to borrow. This becomes your new **load amount**.

In our example on the left, a client has requested a \$300.00 loan with no ATM or card fees added to the loan amount.

**If your client would like to also borrow the ATM and card fees, then add this amount to their loan amount.**

[Click here to be redirected to a “white board” video.](#)

When you are done watching the video, close the window to come back to the presentation.



# Finding the Advance Limit

Once the loan is processed, get your client's loan documents from the printer.

## Disclosure page

Loan Detail	Amount	Cheque Number 111
	██████████	Received by Mastercard, if applicable
Total Cost of Borrowing	\$76.56	Loan Date 11/05/2010
Total Amount to be repaid to the payday lender	\$409.43	Due on 11/19/2010
Loaded on Mastercard, if applicable	\$332.87	

Log into Direct Cash and prepare to load the client's card.

Look at the 'Disclosure' page. Keep in mind that in AB, BC and ON, this page is called the 'Promissory Note & Disclosure of All Costs' page. In NS, this page is called the 'Agreement Disclosure Statement' and in MB, this is the 'Statement of Disclosure' page.

## Direct Cash website

Load Amount (\$):	332.87
Fee Payment (\$):	0.00
Source of Funds:	<input type="text"/>
	<input type="button" value="LOAD"/> <input type="button" value="CANCEL"/>

Look at the 'Loan Amount' (or 'Principal Amount of Loan' line in MB). This is your new 'Load Amount'.

**If we follow our example, our 'Load Amount' is \$332.87. This amount would be entered in the Load Amount box on the Direct Cash website.**

# Finding the EFT Amount

The EFT amount can be found on the Customer Receipt' or 'Partial' page.

## Customer Receipt/Partial

Payment Detail (to Broker)  
NSF Fee  
Collection Fee  
Addl Fee  
Term Fee  
Cash Card Purchase \$17.99  
PPP Fee \$14.88

Payment Detail (to Lender)  
Principal  
Total of \$32.87  
Received by EFT  
Receipt # 100011  
Employee Initials: A C /  
Balance owed to Lender: ~~\$109.43~~  
Amount Paid by EFT: \$32.87

The specific line you are looking for is the 'Amount Paid by EFT'.

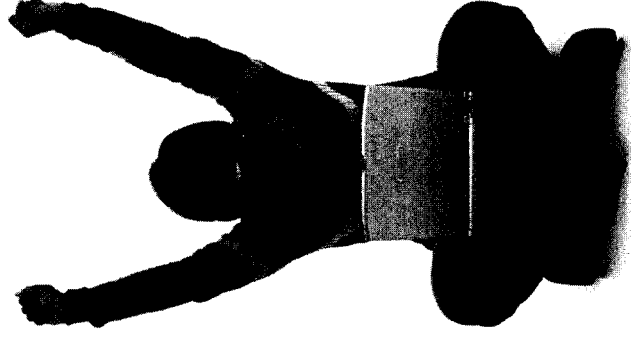
The 'Amount Paid by EFT' is the sum of any applicable card fees and PPP fees. If there are no card or PPP fees, a 'Customer Receipt' or 'Partial' page will not print. In this case, your 'Fee Payment' amount will be \$0.00.

## Direct Cash Website

Load Amount (\$)   
Fee Payment (\$)   
Source of Funds:

In the example on the left:  
The 'Amount Paid by EFT' is \$32.87. This is the combined total of the Cash Card Purchase (\$17.99) and the PPP Fee (\$14.88). Enter this amount in the Fee Payment box on Direct Cash, select your 'Source of Funds' and click 'Load'.

# Direct Cash Reconciliation

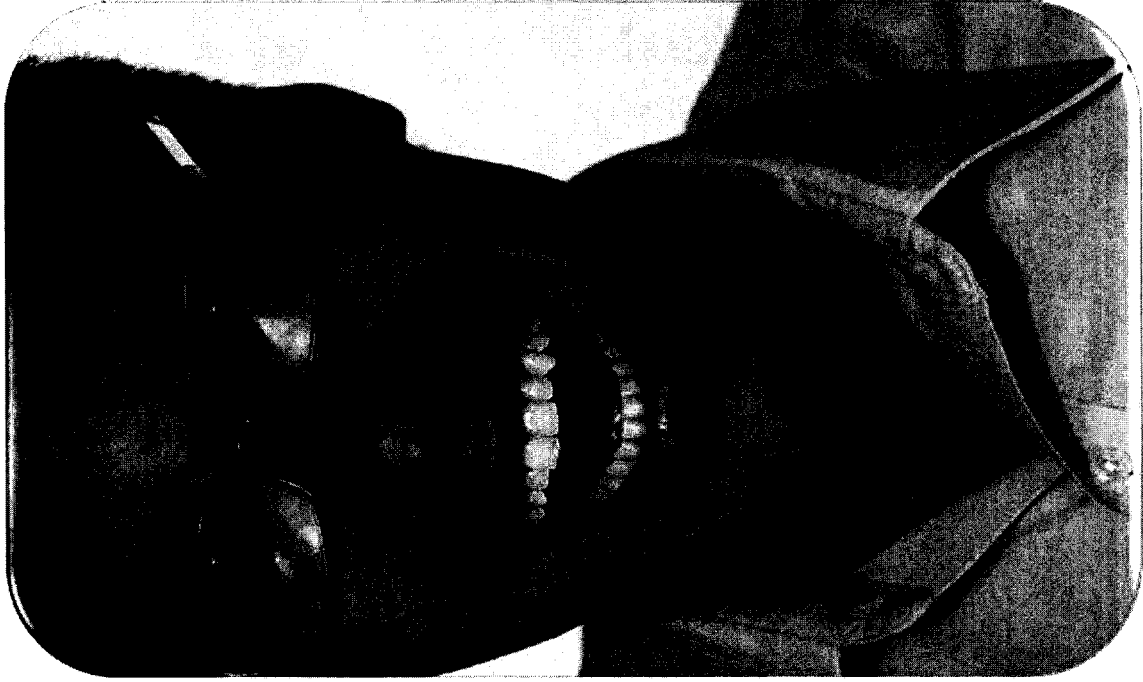


The EFT change will change your [Direct Cash Reconciliation](#) process. The Direct Cash Reconciliation spreadsheet will have a new section.

The CAH600 portion of your Daily Loan Transactions (DTLs) will be changing. Watch for the update.

Finance will be sending out an updated version of the Direct Cash Reconciliation spreadsheet.

# Important Notes



The new process only applies to: **Payday and Signature Loans. Micro Loans will not be affected by the change.**

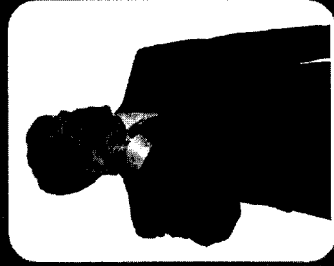
Broker fees are no longer part of the card load and EFT amounts. This means that you can no longer use the Principal loan amount to load cards.

Your branch revenue will not be affected by the change.

Always double check your load amount before loading the client's card to avoid costly errors.

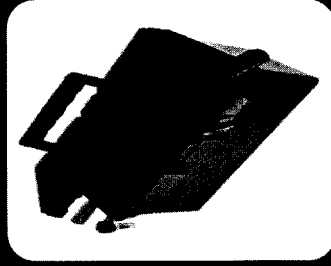
The Direct Cash cardholder statements will say 'Fee Payment' for PPP and card EFTs instead of 'Broker Fee'.

# Ready?



## Questions

- Talk to your Regional Manager
- 
- 



## Tool Box

- Know your Gear Up support tools as listed at the beginning of this guide.

*Click on 'EFT Change Big Book of Answers' above to be directed to SharePoint.*

*Click "Thanks" to be directed to  
Cash Store College to take your quiz.*



**Thanks!**

# Glossary of Terms

Term	Description
<u>EFI</u>	is short term for an electronic funds transfer. It is when we take back funds as a fee for our services.
<u>Broker Fees</u>	is a charge for a service that is provided.
<u>Provincial Regulation</u>	are rules put in place by provincial governments to protect consumers.
<u>Direct Cash Reconciliation</u>	also known as Card Cap Rec (CCR). This is a spreadsheet that is used in the branch to balance all transactions that occur from day to day.

*Click on the definition that you looked up to return to the previous screen.*

**This is EXHIBIT "W" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**



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*A Commissioner, etc.*



# Loan Payments

Branch Procedures



**Reference Guide**

Training

Version Date: September 2011



## Table of Contents

<u>Overview</u>	3
<u>Loan Payments</u>	4
<u>Cash</u>	5
<u>Interac</u>	6
<u>Split Payments</u>	7-8
<u>Certified Cheque &amp; Bank Collect</u>	9
<u>Cheque, Money Order &amp; Bank Draft</u>	10
<u>PPP Approved Claims</u>	11
<u>Pre-Authorized Debits</u>	12
<u>Vouchers (Ontario Only)</u>	13
<u>Payment at Another Store &amp; Payment for Another Store</u>	14
<u>Coming Soon</u>	15
<u>Notes</u>	16

## Overview

This module outlines the procedures for Loan Payments.

### How to Complete This Course

1. Print this manual from your Cash Store College course notes.
2. Complete the Cash Store College Quiz Titled: "Loan Payments".
3. Practice transactions in the Cashstor Test Store Program.
4. Keep the printed manual and tip sheets handy for when you need them.

### Learning Objectives

1. Demonstrate the different tenders accepted in the Cashstor System.
2. Know and understand how to post different tender types in the Cashstor System.
3. Recognize how and when to post different tender types.

### Get More Information

Learn more about Loan Payments:

[Policies and Procedures Manual](#)

### Where to Get Support/Key Contacts

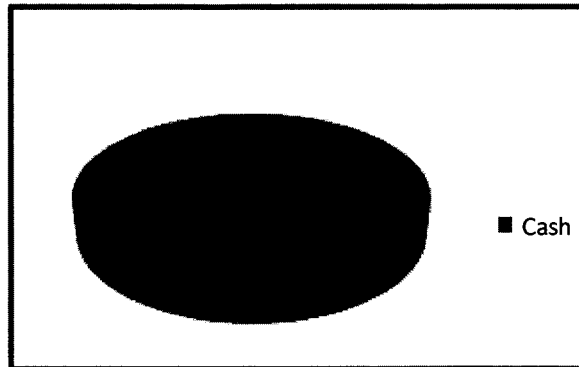
**Training**

training@csfinancial.ca

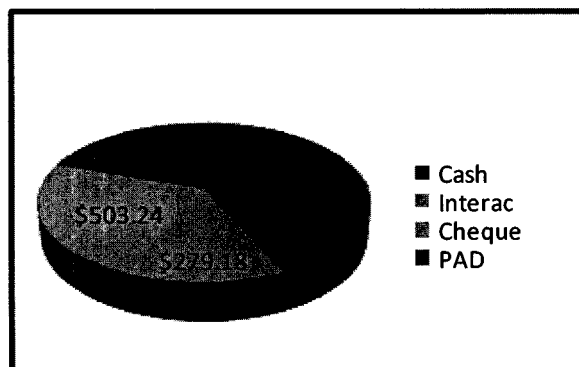
## Cash Management

Every time a payment is received by the following tender types, it has an affect on the deposit. The diagram below illustrates what happens to your deposit as payments are taken.

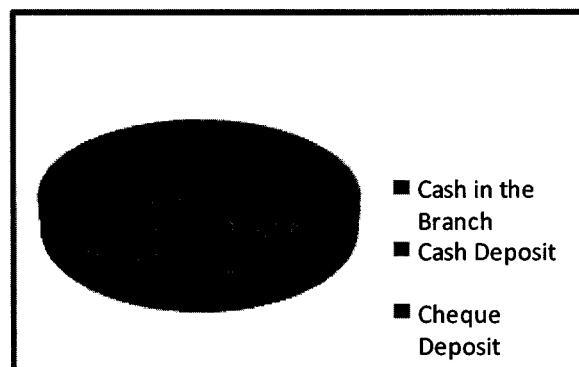
When you open the branch in the morning, your float should contain \$150.00 in cash and nothing else.



Throughout the day, payments are made and change is given. This changes the amount of each tender type as each tender type is received.



When the branch is closed, the amount of money left in the float should return to \$150.00 and the deposit should be kept separate.



Any payments that can not be physically deposited, such as Interac, payments made at another branch, or bank drafts, will show on your end of night reports as balanced as long as the system was closed out properly that night.

# Cash

## How to Process

To make a payment by cash, there are ten important steps that you need to follow.

### Open the Cashstor System.

1 Click on 'Cust Search'				
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.

2 Click on 'Existing Loan' and enter your associate number and password.	
Remember	Select the loan that the client is paying. Click on 'OK'. When asked if you are paying out the client's loan, select the appropriate response.

3 Collect payment. Count the payment in front of the client.	
--------------------------------------------------------------	--

4 Double count the payment to ensure that you have the correct amount.	
Remember	If the client has not given enough money for their payment, count the payment out loud to the client and request the remaining payment amount owing. If the client has given too much money for their payment, count the payment out loud to the client and return any extra money necessary to complete their payment.

5 The 'Loan Display' screen will pop up.			
Remember	In the 'Amount to Pay' field, enter the amount that the client is paying. Click on 'Pay'.	When asked how the payment was paid, click on 'Cash'.	Enter the amount of payment that the client gave you and click 'Tab'. The screen will tell you how much change to give to the client if applicable. Hit 'Enter' and print two receipts.

6 Take the client's payment and put it with the branch deposit.	
-----------------------------------------------------------------	--

7 Go to the printer and gather the receipts. Look at one of the receipts and get the client's change (if applicable).	
-----------------------------------------------------------------------------------------------------------------------	--

8 Give the client their change (if applicable) and count it back to them.	
---------------------------------------------------------------------------	--

9 Get the client to sign one of the receipts for their file. Once signed, give the client the other receipt for their records.	
--------------------------------------------------------------------------------------------------------------------------------	--

10 File the client's receipt. If this is the end of the transaction, thank the client for coming in.	
------------------------------------------------------------------------------------------------------	--

**By following the steps listed above, you can prevent balancing issues related to cash payments. Make sure you double check that you have taken the correct payment from your client and issued the correct change in return.**

# Interac

## How to Process

To make a payment by Interac, there are twelve important steps that you need to follow.

Open the Cashstor System.

1 Click on 'Cust Search'				
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.

2 Click on 'Existing Loan' and enter your associate number and password.	
Remember	Select the loan that the client is paying. Click on 'OK'.

3 The 'Loan Display' screen will pop up.	
Remember	When asked if you are paying out the client's loan, select the appropriate response. In the 'Amount to Pay' field, enter the amount that the client is paying.

4 Go to the Interac (POS) machine and swipe the client's Interac card with the black stripe pointing to the left.

5 Enter the amount that the client is paying on the terminal and pass the pin pad to the client. Give them time to complete the transaction.

6 When the receipt prints, the machine will ask you if you want to print a customer receipt. Push 'Yes'.

7 Look at the bottom of the 'Merchant Copy' Interac slip that printed. Check that the slip reads 'Approved'. If it does, put the 'Merchant Copy' with the float and continue to the next step. If not, you must inform the client that the transaction was declined and ask the client if they would like to try again or pay using a different method.

8 Go back to your computer. Look at the 'Loan Display' screen.		
Remember	Confirm that the amount of the payment in the 'Amount to Pay' field matches the Interac slip. If it doesn't, change it to reflect the receipt.	Click on 'Pay'. When asked how the payment was paid, click on 'Interac'. Print two receipts.

9 Go to the printer and gather the receipts.

10 Get the client to sign one of the receipts for their file.

11 Once signed, give the client the other receipt for their records with the 'Customer Copy' of the Interac slip stapled to the top left corner.

12 File the client's receipt. If this is the end of the transaction, thank the client for coming in.

To help keep track of each Interac receipt, write the client's first initial and last name on the bottom of the 'Merchant Copy' Interac receipt.

# Split Payments

## Different Types

Split payments occur when client's make payments using two different tender types. They are:

1. Cash and Interac
2. Cash and Another Store
3. Interac and Another Store

## Cash and Interac

To make a split payment by Cash & Interac, there are ten important steps that you need to follow.

Open the Cashstor System.					
1	Click on 'Cust Search'.				
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.	
2					
Click on 'Existing Loan' and enter your Associate number and password.					
Remember	Select the loan that the client is paying.		Click on 'OK'.		
3					
The 'Loan Display' screen will pop up.					
Remember	When asked if you are paying out the client's loan, select the appropriate response.		In the 'Amount to Pay' field, enter the amount that the client is paying.		
4					
Determine how much the client is going to pay by cash and Interac. Follow steps 6 to 9 on page 6 to complete the Interac portion of the payment.					
5					
Go back to your computer. Look at the 'Loan Display' screen.					
Remember	Confirm that the amount of the payment in the 'Amount to Pay' is the amount that the client is paying.	Click on 'Pay'.	When asked how the payment was paid, click on 'Cash and Interac'.	Enter the amount paid by Interac. Hit 'Tab'. Enter the amount paid by Cash. Hit 'Tab'.	The screen will tell you how much change to give to the client if applicable. Hit 'Enter' and print two receipts.
6					
Take the client's cash portion of their payment and put it with the branch deposit.					
7					
Go to the printer and gather the receipts.					
8					
Get the client to sign one of the receipts for their file.					
9					
Once signed, give the client the other receipt for their records with the 'Customer Copy' of the Interac slip stapled to the top left corner.					
10					
File the client's receipt. If this is the end of the transaction, thank the client for coming in.					

# Split Payments

## Cash/Interac & Another Store

To make a split payment by Cash & Another Store or by Interac & Another Store, there are eleven important steps that you need to follow.

Open the Cashstor System.					
1	Click on 'Cust Search'.				
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.	
2	Click on 'Existing Loan' and enter your Associate number and password.				
Remember	Select the loan that the client is paying.		Click on 'OK'.		
3	The 'Loan Display' screen will pop up.				
Remember	When asked if you are paying out the client's loan, select the appropriate response.		In the 'Amount to Pay' field, enter the amount that the client is paying.		
4	Determine how much the client is going to pay in person and how much is being paid at another store.				
5	Go back to your computer. Look at the 'Loan Display' screen.				
Remember	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	If the client in your branch is paying by cash, click on 'Cash and Another Store'.	If the client in your branch is paying by Interac, click on 'Interac and Another Store'.	Enter the other branch's information in the 'Enter Payment Store Information' screen using the 'Tab' button to navigate.
6	The 'Cash/Other Split Payment' screen will pop up.				
Remember	Enter the 'Amount Charged at Other Store'. Hit 'Tab'.	Enter the cash/Interac payment. Hit 'Tab'.		The screen will tell you how much change to give to the client if applicable. Hit 'Enter' and print two receipts.	
7	Take the client's cash portion of their payment and put it with the branch deposit, if applicable.				
8	Go to the printer and gather the receipts.				
9	Get the client to sign one of the receipts for their file.				
10	Once signed, give the client the other receipt for their records with the 'Customer Copy' of the Interac slip stapled to the top left corner, if applicable.				
11	File the client's receipt. If this is the end of the transaction, thank the client for coming in.				



# Certified Cheques & Bank Collect

## How to Process

To make a payment by Certified Cheque or Bank Collect, there are ten important steps that you need to follow.

Open the Cashstor System.

1 Click on 'Cust Search'				
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.

2 Click on 'Existing Loan' and enter your Associate number and password.	
Remember	Select the loan that the payment is being applied to. Click on 'OK'.

3 The 'Loan Display' screen will pop up.	
Remember	When asked if you are paying out the client's loan, select the appropriate response. In the 'Amount to Pay' field, enter the amount that is being paid toward the account.

4 For payments made by Certified Cheque, go to step 5. For payments made by Bank Collect, go to step 6.

5 Look at the 'Loan Display' screen.					
Remember	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	When asked how the payment was paid, click on 'Certified Cheque'.	Enter the cheque number. Hit 'Tab'.	Print two receipts.

6 Look at the 'Loan Display' screen.					
Remember	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	When asked how the payment was paid, click on 'Bank Collect'.	Enter the name of the bank. Click 'Tab'. Enter the date of clearance notification. Click 'Tab'.	Print two receipts.

7 Go to the printer and gather the receipts. If the client is in the branch, go to step 8. If the client is not in the branch, go to step 9.

8 Get the client to sign one of the receipts for their file. Once signed, give the client the other receipt for their records.

9 If the client is not in the branch, file both copies of the receipt in the client's physical file in case they request a receipt of the transaction.

10 If this is the end of the transaction and the client is in the branch, thank the client for coming in.

# Cheque, Money Order & Bank Draft

## How to Process

To make a payment by Cheque, Money Order or Bank Draft there are seven important steps that you need to follow.

**Open the Cashstor System.**

<b>1</b>	<b>Click on 'Cust Search'</b>			
<b>Remember</b>	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.

<b>2</b>	<b>Click on 'Existing Loan' and enter your Associate number and password.</b>			
<b>Remember</b>	Select the loan that the payment is being applied to.		Click on 'OK'.	

<b>3</b>	<b>The 'Loan Display' screen will pop up.</b>			
<b>Remember</b>	When asked if you are paying out the client's loan, select the appropriate response.		In the 'Amount to Pay' field, enter the amount that is being paid toward the account.	

<b>4</b>	<b>Look at the 'Loan Display' screen.</b>				
<b>Remember</b>	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	When asked how the payment was paid, click on 'Cheque'. <b>Choose this option for cheques, money orders and bank drafts.</b>	Enter the cheque number.	Print two receipts.

**5**      **Go to the printer and gather the receipts.**

**6**      **Get the client to sign one of the receipts for their file. Once signed, give the client the other receipt for their records.**

**7**      **If this is the end of the transaction and the client is in the branch, thank the client for coming in.**

# Pre-Authorized Debits

## How to Post

A PAD can only be applied to a client's account upon receipt of a confirmation email from Corporate Office or with the approval of your Regional Manager if the PAD needs to be posted early. Make sure to follow the Pre-Authorized Debits (PADs) policy (18) in the Policies and Procedures Manual. The email will contain a list of PADs that can be applied as payment. To post a PAD payment to a client's account, follow the steps outlined below.

Print the confirmation email containing the PAD payments specific to your branch.

1	Open the Cashstor System. Click on 'Cust Search'.			
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.
2	Click on 'Existing Loan' and enter your associate number and password.			
Remember	Select the loan that the payment is being applied to.		Click on 'OK'. When asked if you are paying out the client's loan, select the appropriate response.	
3	The 'Loan Display' screen will pop up.			
Remember	When asked if you are paying out the loan by PAD, click 'Yes'.			
4	A yellow pop up box will appear. Enter the effective date of the PAD in the PAD Payment date field. *			
Remember	The effective date of the PAD in the Direct Cash PAD website needs to be prior to the posting date in the Cashstor System.			
5	Follow the on screen prompts			
6	The 'Loan Display' screen will pop up.			
Remember	In the 'Amount to Pay' field, enter the amount from the confirmation email. Click on 'Pay'.	When asked how the payment was paid, click on 'PAD'.	Enter the name of the bank. Hit 'Tab'.	Enter the date of notification. Hit 'Tab'.
7	Get the client to sign one of the receipts for their file. Put the signed copy in the client's file.			
8	If the client is not in the branch, write 'client's copy' on the receipt and put it in the client's file.			
9	Make sure that the 'branch copy' remains in the client's file and that the client signs it when they come in for their next visit.			
10	If this is the end of the transaction, thank the client for coming in, if applicable.			
<p><b>By following the steps listed above, you can prevent balancing issues related to PAD payments. Make sure you double check that you have applied the correct payment to the correct account if you receive more than one PAD payment in your confirmation email.</b></p>				

\* This will remove any interest that was accrued from the effective date to the date the PAD was posted in the Cashstor System.

# PPP Approved Claims

## How to Process

PPP Claim payments are only applied when a representative from the Finance department calls your branch. To make a payment for an approved PPP Claim there are eight important steps that you need to follow.

Open the Cashstor System.

Click on 'Cust Search'.					
1	Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.

2		Click on 'Existing Loan' and enter your Associate number and password.		
Remember	Select the loan that the payment is being applied to.		Click on 'OK'.	

3		The 'Loan Display' screen will pop up.		
Remember	When asked if you are paying out the client's loan, select the appropriate response.		In the 'Amount to Pay' field, enter the amount that is being paid toward the account.	

4							Look at the 'Loan Display' screen.		
Remember	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	You will be prompted for a password from the Finance department.	Provide the requested information to the Finance representative. Enter the password provided. Hit 'Tab'.	Enter the representative's initials. Hit 'Tab'.	Click 'OK'. Print two receipts.			

5

Go to the printer and gather the receipts.

6

Get the client to sign one of the receipts for their file. Once signed, give the client the other receipt for their records.

7

If this is the end of the transaction and the client is in the branch, thank the client for coming in.

8

Scan the signed receipt by fax or email to the Finance representative as per their instructions.

**In order to post a PPP payment, the PPP Flag must be set in the Cashstor System before the payment can be applied. See the Payment Protection Plan: Processing Claims User Guide on SharePoint for more information.**

# Vouchers (Ontario only)

## How to Process

To make a payment by Voucher there are seven important steps that you need to follow.

**Open the Cashstor System.**

<b>1 Click on 'Cust Search'.</b>				
<b>Remember</b>	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.

<b>2 Click on 'Existing Loan' and enter your Associate Number and password.</b>	
<b>Remember</b>	Select the loan that the payment is being applied to. <span style="float: right;">Click on 'OK'.</span>

<b>3 The 'Loan Display' screen will pop up.</b>	
<b>Remember</b>	When asked if you are paying out the client's loan, select the appropriate response. <span style="float: right;">In the 'Amount to Pay' field, enter the amount that is being paid toward the account.</span>

<b>4 Look at the 'Loan Display' screen.</b>								
<b>Remember</b>	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	When asked how the payment was made, click on 'Voucher'.	You will receive a confirmation screen asking you if you want to process the voucher. Click on 'Yes'.	Enter the voucher number. Click 'Tab'.	Enter the amount of the payment being applied. Click 'Tab'.	You will be asked to verify the amount of the payment being applied. Click 'Yes'.	Print two receipts.

**5 Go to the printer and gather the receipts.**

**6 Get the client to sign one of the receipts for their file. Once signed, give the client the other receipt for their records.**

**7 If this is the end of the transaction and the client is in the branch, thank the client for coming in.**

# Payment at Another Store & Payment for Another Store

## Payment at Another Store (PAAS)

This is used when clients are making a payment at another branch. To process a PAAS, there are four important steps that you need to follow.

Open the Cashstor System.					
1	Wait for the PFAS receipt from the other branch. This will be sent either by email or fax.				
2	Click on 'Cust Search'.				
Remember	Enter the client's first and last name in all capital letters.	Click on 'Search...'	Locate the client's name. Click on the line that contains the client's information.	Click on 'OK'.	
3	Click on 'Existing Loan' and enter your Associate Number and password.				
Remember	Select the loan that the payment is being applied to.		Click on 'OK'.		
4	The 'Loan Display' screen will pop up.				
Remember	When asked if you are paying out the client's loan, select the appropriate response.		In the 'Amount to Pay' field, enter the amount that is being paid toward the account.		
5	Look at the 'Loan Display' screen.				
Remember	Confirm that the amount of the payment in the 'Amount to Pay' is the correct amount.	Click on 'Pay'.	When asked how the payment was paid, click on 'Another Store'.	Enter the other branch's information in the 'Enter Payment Store Information' screen.	Print two receipts.

## Payment for Another Store (PFAS)

This is used when client's are at another branch making a payment for your branch. To process a PFAS there are two important steps that you need to follow.

1	Click on 'Misc. Controls', select 'Payment for Another Store' and enter your Associate Number and password.				
Remember	Enter the client's first and last name in all capital letters.	Enter the payment amount being made for the other branch.	Enter the other branch's store number and associate initials.	Enter any comments regarding the client or the payment. Click on 'OK'.	
2	Select the appropriate method of payment and print two receipts.				
3	Make sure that you send a receipt to the branch immediately after posting the payment. Send this by either fax or email.				

After processing either a PAAS or a PFAS, follow the steps below.

1	Go to the printer and gather the receipts.
2	Get the client to sign one of the receipts. Once signed, give the client the other receipt for their records.
3	If this is the end of the transaction and the client is in the branch, thank the client for coming in.

## Coming Soon

### Additional Payment Modules

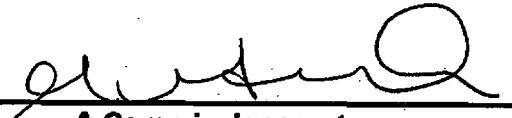
We are currently working on providing you with the following payment modules.

<b>Module</b>	<b>Short Description</b>
Pre-Authorized Debit	<p>How to:</p> <ul style="list-style-type: none"> <li>• Set up a PAD in the Direct Cash website</li> <li>• Modify PADs</li> <li>• Review PADs that have already been set</li> <li>• Post a successful PAD</li> <li>• Issue a new loan with a PAD override</li> </ul>
NSF Payments	<p>How to post:</p> <ul style="list-style-type: none"> <li>• An NSF PAD</li> <li>• An NSF Cheque</li> </ul>
Voiding Payments	<p>How to:</p> <ul style="list-style-type: none"> <li>• Void loan payments</li> <li>• Reverse transactions for alternative services</li> </ul>
Rescinds	<p>How to rescind by:</p> <ul style="list-style-type: none"> <li>• Cash</li> <li>• Interac</li> <li>• Split payment of Cash &amp; Interac</li> <li>• Cancelled MasterCards</li> </ul>
Interest Overrides & Payment Allocation	<p>How to:</p> <ul style="list-style-type: none"> <li>• Override late interest</li> <li>• Make a late interest adjustment</li> <li>• Explain payment allocation</li> </ul>





**This is EXHIBIT "X" referred to in the  
Affidavit of Sarah A. Bowden  
sworn before me, this 5<sup>th</sup> day of  
February, 2014.**

  
\_\_\_\_\_  
*A Commissioner, etc.*



**THE CASH STORE FINANCIAL SERVICES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended June 30, 2012**

**(unaudited) (restated)**


**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

(in thousands, except share and per share amounts)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	June 2011	June 2012	June 2011	June 2012
	Restated Note 3	Restated Note 3	Restated Note 3	Restated Note 3
<b>REVENUE</b>				
Loan fees	\$ 33,944	\$ 36,204	\$ 103,071	\$ 99,641
Other income - Note 7	14,985	12,454	39,651	36,954
	48,929	48,658	142,722	136,595
<b>OPERATING EXPENSES</b>				
Salaries and benefits	17,002	16,493	50,033	51,021
Retention payments	6,775	554	20,542	9,382
Selling, general and administrative	6,128	5,725	18,065	18,620
Rent	4,647	4,719	13,722	14,396
Advertising and promotion	1,367	1,212	4,448	3,965
Provision for loan losses - Note 6	662	10,104	1,979	21,370
Depreciation of property and equipment	1,710	1,675	5,058	5,236
	38,291	40,482	113,847	124,190
<b>OPERATING MARGIN</b>	10,638	8,176	28,875	12,405
<b>CORPORATE AND OTHER EXPENSES</b>				
Corporate expenses	4,803	5,394	13,103	17,046
Interest expense	157	4,536	453	7,773
Depreciation of property and equipment	193	100	857	687
Amortization of intangible assets	263	1,670	687	3,170
Branch closure costs - Note 8	-	908	-	908
Impairment of property and equipment - Note 9	-	-	-	3,017
Class action settlements	-	-	368	(69)
Premium paid to acquire the loan portfolio - Note 4	-	-	-	36,820
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	5,222	(4,432)	13,407	(56,947)
<b>PROVISION FOR INCOME TAXES - NOTE 13</b>				
Current (recovery)	1,952	(226)	4,700	(796)
Deferred (recovery)	(146)	(635)	42	(12,380)
	1,806	(861)	4,742	(13,176)
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)</b>	\$ 3,416	\$ (3,571)	\$ 8,665	\$ (43,771)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - Note 16</b>				
Basic	17,338,749	17,430,880	17,207,307	17,426,276
Diluted	17,677,463	17,430,880	17,630,413	17,426,276
<b>BASIC EARNINGS (LOSS) PER SHARE</b>				
Net income (loss) and comprehensive income (loss)	\$ 0.20	\$ (0.20)	\$ 0.50	\$ (2.51)
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>				
Net income (loss) and comprehensive income (loss)	\$ 0.19	\$ (0.20)	\$ 0.49	\$ (2.51)

See accompanying notes to the interim consolidated financial statements



## INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian Dollars)

(unaudited)

	September 30 2011	June 30 2012
	Restated Note 3	Restated Note 3
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash - Note 5	\$ 19,291	\$ 17,210
Consumer loans receivable, net - Note 6	4,781	45,484
Other receivables - Note 7	12,575	22,728
Prepaid expenses and other assets	3,318	2,622
Income taxes receivable	-	1,693
Deferred tax assets	3,012	14,069
	<u>42,977</u>	<u>103,806</u>
Long term receivable - Note 7	681	520
Deposits and other assets	857	1,068
Deferred tax assets	2,424	682
Deferred financing costs	1,052	7,806
Property and equipment, net of accumulated depreciation of \$30,216 and \$34,074 - Note 9	25,589	33,728
Intangible assets, net of accumulated amortization of \$2,908 and \$5,858 - Note 10	10,578	39,888
Goodwill	39,133	39,685
	<u>\$ 123,291</u>	<u>\$ 227,183</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable	\$ 1,795	\$ 848
Accrued liabilities - Note 11 and 12	27,742	43,909
Income taxes payable	138	6
Current portion of deferred revenue	1,194	1,000
Current portion of deferred lease inducements	490	527
Current portion of obligations under capital leases	659	775
	<u>32,018</u>	<u>47,065</u>
Deferred revenue	4,917	4,167
Deferred lease inducements	1,082	998
Obligations under capital leases	636	1,063
Long term debt - Note 14	-	137,581
Deferred tax liabilities	2,356	2,378
	<u>41,009</u>	<u>193,252</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital - Note 15	46,149	46,257
Additional paid-in capital	4,178	4,712
Retained earnings (deficit)	31,955	(17,038)
	<u>82,282</u>	<u>33,931</u>
	<u>\$ 123,291</u>	<u>\$ 227,183</u>

Contingencies - Note 17

Subsequent event - Note 20

See accompanying notes to the interim consolidated financial statements



## INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of Canadian Dollars)

(unaudited) (restated)

	Common Shares	Additional Paid- in Capital	Retained Earnings (Deficit) Restated Note 3	Total Shareholders' Equity Restated Note 3
<b>Balance, September 30, 2010</b>	\$ 43,468	\$ 3,981	\$ 29,305	\$ 76,754
Net income and comprehensive income	-	-	10,579	10,579
Dividends to common shareholders	-	-	(7,929)	(7,929)
Issuance of common shares	2,681	(589)	-	2,092
Stock-based compensation expense	-	786	-	786
Total of other equity movements	2,681	197	(7,929)	(5,051)
<b>Balance, September 30, 2011</b>	\$ 46,149	\$ 4,178	\$ 31,955	\$ 82,282
<b>Net loss and comprehensive loss</b>	-	-	(43,771)	(43,771)
Dividends to common shareholders	-	-	(5,222)	(5,222)
Issuance of common shares	108	(41)	-	67
Stock-based compensation expense	-	575	-	575
Total of other equity movements	108	534	(5,222)	(4,580)
<b>Balance, June 30, 2012</b>	\$ 46,257	\$ 4,712	\$ (17,038)	\$ 33,931

See accompanying notes to the interim consolidated financial statements


**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(in thousands of Canadian Dollars)  
(unaudited)*

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
	Restated Note 3	Restated Note 3	Restated Note 3	Restated Note 3
<b>Cash provided by (used in):</b>				
<b>OPERATING ACTIVITIES</b>				
Net income (loss)	\$ 3,416	\$ (3,571)	\$ 8,665	\$ (43,771)
Items not affecting cash:				
Depreciation of property and equipment	1,906	1,775	5,914	5,923
Amortization of intangible assets	263	1,670	687	3,170
Impairment of assets - Note 9	-	-	-	3,017
Provision for loan losses - Note 6	662	10,104	1,979	21,570
Premium paid to acquire the loan portfolio - Note 4	-	-	-	36,820
Stock-based compensation	173	189	570	575
Accretion of long-term debt discount and amortization of deferred financing costs	-	545	-	898
Deferred income taxes	(146)	(635)	42	(12,380)
Change in non-cash working capital:				
Consumer loans receivable since acquisition, net - Note 6	(68)	(13,123)	(1,671)	(12,258)
Other receivables and long-term receivables	(632)	(3,067)	(3,357)	(9,993)
Prepaid expenses, deposits and other assets	39	(188)	(86)	485
Income taxes receivable	-	(198)	2,136	(1,693)
Accounts payable and accrued liabilities	(726)	12,950	(2,610)	14,747
Income taxes payable	1,330	(1)	(2,116)	(132)
Deferred revenue	(283)	(250)	(792)	(944)
Deferred lease inducements	(44)	(185)	161	(47)
	5,890	6,015	9,522	5,987
<b>INVESTING ACTIVITIES</b>				
Purchase of consumer loans portfolio - Note 4	-	-	-	(27,235)
Premium paid to acquire the loan portfolio - Note 4	-	-	-	(36,820)
Business acquisitions	-	-	(25)	-
Cash restricted for class action facilitation and other - Note 5	-	-	-	3,157
Purchase of intangible assets	(52)	(95)	(595)	(29,955)
Purchase of property and equipment	(1,492)	(332)	(5,417)	(2,766)
	(1,544)	(427)	(6,037)	(93,619)
<b>FINANCING ACTIVITIES</b>				
Repayment of obligations under capital leases	(164)	(26)	(477)	(440)
Proceeds from issuance of senior secured notes - Note 14	-	-	-	102,577
Deferred financing costs	-	(902)	-	(8,274)
Dividends paid on common shares	(2,084)	(1,040)	(5,856)	(5,222)
Issuance of common shares	1,381	17	2,048	67
	(867)	(1,951)	(4,285)	88,708
<b>INCREASE (DECREASE) IN UNRESTRICTED CASH</b>	3,479	3,637	(800)	1,076
<b>UNRESTRICTED CASH, BEGINNING OF PERIOD</b>	15,360	10,473	19,639	13,034
<b>UNRESTRICTED CASH, END OF PERIOD</b>	\$ 18,839	\$ 14,110	\$ 18,839	\$ 14,110
<b>Supplemental cash flow information:</b>				
Interest paid	\$ 42	\$ 36	\$ 120	\$ 169
Interest received	9	1	22	4
Income taxes paid (inclusive of tax refunds)	616	30	4,671	1,086
<b>Non-cash investing and financing activities:</b>				
Addition of capital lease obligations	\$ 90	\$ 344	\$ 355	\$ 982
Addition of consumer loans portfolio in exchange for senior secured notes	-	-	-	22,779
Addition of property and equipment by means of asset construction - Note 14	-	622	-	11,810

See accompanying notes to the interim consolidated financial statements



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

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**Explanatory Note**

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These interim consolidated financial statements as initially reported have been amended and restated to correct for certain errors. Refer to Note 3 for a description of the nature and amount of the restatement adjustments.

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**Nature of Business**

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The Cash Store Financial Services Inc. (the "Company") operates under two branch banners: Cash Store Financial and Instalozans, who act as brokers and lenders to facilitate short-term advances and provide other financial services, to income-earning consumers. As at June 30, 2012, the Company operated 529 branches in Canada and 25 branches in the United Kingdom for a total of 554 (June 30, 2011 – 582) branches. The Company has operations in Canada and the United Kingdom.

The Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store." The Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

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**Note 1 – Summary of Significant Accounting Policies**

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**(a) Basis of Presentation**

As a Canadian-based company, the Company historically prepared its consolidated financial statements in conformity with accounting principles generally accepted in Canada ("CGAAP") and also provided reconciliation to United States generally accepted accounting principles ("U.S. GAAP") under Item 18 of Form 20-F.

The Accounting Standards Board of the Canadian Institute of Chartered Accountants previously announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. However, National Instrument 52-107 allows Securities and Exchange Commission ("SEC") registrants, such as the Company, to file financial statements with Canadian securities regulators that are prepared in accordance with U.S. GAAP. As such, the Company has decided to adopt U.S. GAAP instead of IFRS as its primary basis of financial reporting commencing in the current fiscal year.

The decision to adopt U.S. GAAP was also made to enhance communication with shareholders and improve the comparability of financial information reported with competitors and peer group. The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with U.S. GAAP. All comparative financial information contained herein has been revised to reflect the Company's results as if they had been historically reported in accordance with U.S. GAAP. These interim consolidated financial statements do not include all information and footnotes required by U.S. GAAP for annual financial statements and should be read in conjunction with the Company's audited restated consolidated financial statements for the year ended September 30, 2011 filed with Canadian securities regulators and the Company's restated Annual Report on Form 40-F/A for the fiscal year ended September 30, 2011 filed with the SEC. In prior periods, consolidated financial statements were prepared in accordance with CGAAP and reconciled to U.S. GAAP under Item 18 of Form 20-F.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

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**Note 1 – Summary of Significant Accounting Policies (continued)**

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**(a) Basis of Presentation (continued)**

As disclosed in Note 28 of the audited restated consolidated financial statements for the year ended September 30, 2011, there were no recognition and measurement differences between CGAAP and U.S. GAAP.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the three months ended June 30, 2012 are not necessarily indicative of the results that may be expected for a full fiscal year.

All figures are presented in Canadian dollars, unless otherwise disclosed.

**(b) Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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. Certain estimates, such as those related to the allowance for consumer loan losses, valuation of acquired loans, property and equipment, impairment of property and equipment, goodwill and intangible assets, income taxes, and accrued liabilities related to the class action lawsuits, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Actual results could differ from those estimates made by management.

**(c) Revenue Recognition**

Revenue arising from direct lending of short-term advances to customers is recognized on a constant yield basis ratably over the term of the related loan. Direct loan origination costs are deferred and recognized as a reduction in the yield of the related loan over its life. For loans the Company originates on its own behalf, the Company charges interest on loans until they are determined to be in default status by management.

Revenue from the Company's cheque cashing, money transfer, bill payment and other miscellaneous services is recognized when the transactions are completed at the point-of-sale in the branch and the related fee charged by the Company has been received. Revenue from banking and non-sufficient funds fees are recognized when collected. Revenue from each of these sources is recorded in other income in the statement of operations. Included in other income is income whereby the Company acts as an agent on behalf of other third-party providers, which includes revenue from banking services, money transfers, bill payment services, and insurance products.

Revenue arising from brokering short-term advances for customers is recognized once all services have been rendered, all advance amounts have been received by the customer, and the brokerage fee has been received by the Company. Revenue from this source is recorded in loan fees in the statement of operations.





NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

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Note 1 – Summary of Significant Accounting Policies (continued)

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(d) Retention Payments

When the Company acts as a broker on behalf of income earning consumers seeking short-term advances, the funding of short-term advances is provided by independent third-party lenders. The advances provided by the third-party lenders are repayable by the customer to the third-party lenders and represent assets of the lenders; accordingly, they are not included on the Company's balance sheet.

To facilitate the short term advance business, the Company has entered into agreements with third-party lenders who are prepared to consider lending to the Company's customers. Pursuant to these agreements, the Company provides services to the lenders related to the collection of documents and information as well as loan collection services. Under the terms of the Company's agreements with third party lenders, responsibility for losses suffered on account of uncollectible loans rests with the third-party lender, unless the Company has not properly performed its duties as set forth under the terms of the agreement. The significant duties under the terms of the agreements generally include ensuring that any proposed loan was applied for through an authorized outlet, ensuring each potential customer meets the loan selection criteria as set forth by the third-party lender prior to approval and release of funding, satisfying the documentation requirements in a full and timely manner, providing loan management services throughout the term of the loan, and providing collection services on behalf of the third-party lender for all loans funded which are not paid in full by the due date, all of which while ensuring information system integrity is maintained. In the event the Company does not properly perform its duties and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreement.

The Company's board of directors ("Board of Directors") regularly approves a resolution which authorizes management to pay a maximum amount of retention payments per quarter to third-party lenders as consideration to those lenders that continue to be willing to fund advances to the Company's customers. While the third-party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to lessen the impact of loan losses experienced by the third-party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

(e) Provision for Loan Losses

Loans in default consist of direct lending consumer loans originated by the Company which are past due. The Company defines a past due or delinquent account whereby payment has not been received in full from the customer on or before the maturity date of the loan. A provision for loan losses is recorded when the Company no longer has reasonable assurance of timely collection of the full amount of principal and interest. In determining whether the Company will be unable to collect all principal and interest payments due, the Company assesses relevant internal and external factors that affect loan collectability, including the amount of outstanding loans owed to the Company, historical percentages of loans written off, current collection patterns and other current economic trends. The provision for loan losses reduces the carrying amount of consumer loan receivables to their estimated realizable amounts. The provision is reviewed monthly, and any additional provision as a result of historical loan performance, current and expected collection patterns and current economic trends is included in the provision for the loan losses at that time. If the loans remain past due for an extended period of time, an allowance for the entire amount of the loan is recorded and the loan is ultimately written off. The Company's policy for charging off uncollectible consumer loans is to write the loan off when a loan remains in default status for an extended period of time without any extended payment arrangements made. Loans to customers who file for bankruptcy are written off upon receipt of the bankruptcy notice. Recoveries on previous amounts written off are credited against the allowance for consumer loan losses.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
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**Note 1 – Summary of Significant Accounting Policies (continued)**

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**(f) Stock Based Compensation**

The Company has a stock based compensation plan, which is described in Note 15. The Company accounts for all stock based compensation payments that are settled by the issuance of equity in accordance with a fair value-based method of accounting. Stock based compensation awards are recognized in the financial statements over the period in which the related services are rendered, which is usually the vesting period of the option, or as applicable, over the period to the date an employee is eligible to retire, whichever is shorter, with a corresponding increase recorded in contributed surplus. The fair value is calculated using the Black-Scholes option-pricing model. When options are exercised, the proceeds received by the Company, together with the amount in additional paid-in capital associated with the exercised options, are credited to share capital.

**(g) Earnings Per Share**

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during each reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised, and that proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

**(h) Consumer Loans Receivable**

Unsecured short-term and longer-term advances that the Company originates on its own behalf are reflected on the balance sheet in consumer loans receivable. Consumer loans receivable are reported net of a provision as described in "Provision for Loan Losses".

**(i) Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantive enactment date. A valuation allowance is recorded against any deferred income tax assets if it is more likely than not that the asset will not be realized.

**(j) Fair Value of Financial Instruments**

The Company's financial instruments consist of cash, other receivables, consumer loans receivables less any allowance for loan losses, accounts payable and accrued liabilities, all of which are short-term in nature and their fair value (a level 2 measurement) approximates their carrying value. The fair value of obligations under capital leases and secured senior notes are determined by estimating future cash flows on a borrowing-by-borrowing basis,



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 1 – Summary of Significant Accounting Policies (continued)**

**(j) Fair Value of Financial Instruments (continued)**

and discounting these future cash flows using a rate which takes into account the Company's spread for credit risk for similar terms and types of debt arrangements.

**(k) Long Term Investments**

The Company has long-term investments in The Cash Store Australia Holdings Inc. and RTF Financial Holdings Inc. The Company accounts for its long-term investments under the equity method of accounting as it has significant influence over the strategic operating, investing and financing activities due to board representation and management involvement in day to day operations. The aggregate quoted market value of the Company's investment in the Cash Store Australia Holdings Inc. is \$660. No aggregate quoted market value of the Company's investment in RTF Financial Holdings Inc. exists as the company is not publicly traded. As at June 30, 2012, the carrying value of both investments were \$nil (June 30, 2011 - \$nil). The amounts receivable related to these investee corporations is discussed in Note 7.

**(l) Property and Equipment**

Property and Equipment are recorded at cost. Depreciation is recorded using the rates and methods outlined in the table below.

	<u>Rate</u>	<u>Method</u>
Computer hardware	25%	Straight-line
Computer software	20%	Straight-line
Fixtures, furniture, and equipment	20%	Straight-line
Signs	20%	Straight-line
Buildings	4%	Straight-line
Vehicles	20%	Straight-line

Leasehold improvements are depreciated based on the straight-line basis over the shorter of the lease term, including renewal options that are reasonably assured and the estimated useful life of the asset.

**(m) 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 fair values.

Both internal and external costs incurred to purchase and develop computer software are capitalized after the preliminary project stage is completed and management authorizes the computer software project.

Intangible assets with finite useful lives are amortized over their estimated useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually on July 1<sup>st</sup> of each year, or more frequently if events or changes in circumstances indicate that such assets might be impaired.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 1 – Summary of Significant Accounting Policies (continued)**

**(m) Intangible Assets (continued)**

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
Computer software	Straight-line – 5 years
Non-compete agreements	Term of the agreements
Supplier relationships	Straight-line – 7 years
Brand name	Indefinite life

**(n) Goodwill**

Goodwill represents the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the business combination. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortized and is tested for impairment annually on July 1st of each year, or more frequently if events or changes in circumstances indicate it may be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it were the purchase price.

When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

**(o) Accounting for the Impairment of Long-Lived Assets**

Long-lived assets and identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of a group of assets to the sum of future undiscounted cash flows expected to be generated from the use and eventual disposition of the group of assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the group of assets exceeds the fair value of the group of assets. Any assets to be disposed of by sale are reported at the lower of carrying amount or fair value less costs to sell. Such assets are not depreciated while they are classified as held-for-sale.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

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**Note 1 – Summary of Significant Accounting Policies (continued)**

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**(p) Deferred Financing Costs**

Underwriting, legal and other direct costs incurred in connection with the issuance of debt not measured under the fair value option are presented as deferred financing costs. The deferred financing costs is amortized over the term of the related debt using the effective interest method and is included as interest expense.

**(q) Operating Expenses**

The direct costs incurred in operating the Company's business have been classified as operating expenses. These costs include salaries and benefits of store and regional employees, retention payments, rent expense, provision for loan losses, advertising, depreciation of store property and equipment, and other costs incurred by the stores. Corporate expenses incurred by the Company are excluded from operating expenses, and include salaries and benefits of corporate employees, professional fees and legal costs.

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**Note 2 – Changes in Accounting Policies and Practices**

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The following Standards were adopted for the nine month period ended June 30, 2012:

In 2010, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-13, "Effect of Denominating the Exercise Price of a Share-Based Award in the Currency of the Market in Which the Underlying Equity Security Trades a consensus of the FASB Emerging Issues Task Force (Issue No. 09-J)." The Task Force reached a consensus that an employee share-based payment with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade should be considered an equity classified award assuming all other criteria for equity classification are met. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning, on or after December 15, 2010. The adoption of the provisions of ASU No. 2010-13 did not have a material impact on the Company's consolidated financial statements.

In December 2010, FASB issued ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts". The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. This ASU is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2010. The adoption of the provisions of ASU No. 2010-28 did not have a material impact on the Company's financial statements.

In December 2010, FASB issued ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations". The objective of this is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The Task Force reached a consensus that if an entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. This ASU is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of the provisions of ASU No. 2010-29 did not have a material impact on the Company's financial statements.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 2 – Changes in Accounting Policies and Practices (continued)**

In May 2011, FASB issued ASU No. 2011-04 “Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs.” This ASU was issued concurrently with IFRS 13, Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. The Company is required to apply the ASU prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that result from applying the ASU and to quantify the total effect, if practicable. The adoption of the provisions of ASU 2011-04 did not have a material impact on the Company’s financial statements.

**Recent Accounting Pronouncements Not Yet Adopted**

In June 2011, FASB issued ASU No. 2011-05 “Comprehensive Income: Presentation of Comprehensive Income.” This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. An entity should apply the ASU retrospectively. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is evaluating the impact of the adoption of the provisions of ASU No. 2011-05 on its consolidated financial statements.

In September 2011, FASB issued ASU No. 2011-08 “Intangibles – Goodwill and Other”. This ASU will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This guidance will be effective for the Company’s fiscal year ending September 30, 2012, with early adoption permitted. The Company is evaluating the impact of the adoption of the provisions of ASU No. 2011-08 on its consolidated financial statements.

In January 2012, FASB issued ASU No. 2011-12 “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU No. 2011-05.” This ASU defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income under ASU No. 2011-05. The deferral is temporary until FASB reconsiders the operational concerns and needs of financial statement users. No timetable has been established for this reconsideration. Entities are still required to present reclassification adjustments within other comprehensive income either on the face of the statement that reports other comprehensive income or in the notes to the financial statements. The Company is evaluating the impact of the adoption of the provisions of ASU No. 2011-12 on its consolidated financial statements.

In July 2012, FASB issued ASU No. 2012-02 “Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment”. This ASU attempts to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with “Intangibles – Goodwill and Other – General Intangibles Other than Goodwill (Subtopic 350-30)”. The Company is evaluating the impact of the adoption of the provisions of ASU No. 2012-02 on its consolidated financial statements.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 3 – Restatement of Previously Reported Results**

The interim unaudited consolidated financial statements for the three and nine months ended June 30, 2012 as initially reported have been amended and restated to correct for the following errors:

**A. Restatement 1 (originally filed on December 28, 2012)**

**(a) Allocation of the total consideration paid for the acquisition of the portfolio of consumer loans from third-party lenders:**

- i. The computation of collection rates used as a basis to estimate expected future cash flows of the acquired loans contained errors. The correction of these errors resulted in an acquisition date fair value of the portfolio of loans acquired of \$50,014 as compared to \$70,334 as originally reported.
- ii. The previously disclosed fair value of intangible assets acquired of \$49,936 has been amended to \$32,024 as a result of a re-allocation of consideration in excess of the fair value of intangible assets to the premium paid to acquire the portfolio of loans.
- iii. The Company has recognized \$36,820 of the total consideration paid as a premium paid to acquire the portfolio of loans. In accordance with GAAP the Company determined that this portion of the transaction settled pre-existing relationships between the Company and third-party lenders. Accordingly, the premium paid to acquire the portfolio of loans was measured at its fair value and recorded as an expense in the consolidated statement of operations as part of the acquisition transaction.
- iv. The resulting deferred tax liability recorded on acquisition has been amended to \$2,524 from \$3,936.

The corrected purchase price allocation is disclosed in Note 4.

**(b) Provision for loan losses:**

The Company determined that its provision for loan losses was understated as a result of an error. Accordingly, the Company has recorded an additional expense of \$3,691 and \$7,002 respectively for the three and nine months ended June 30, 2012.

**(c) Other amounts:**

The Company has corrected other immaterial errors for the three and nine months ended June 30, 2012.

The Company originally filed its interim unaudited consolidated financial statements for the three and nine months ended June 30, 2012 on August 13, 2012. As a result of the errors described above, the Company restated its interim unaudited consolidated financial statements for the three and nine months ended June 30, 2012, and these were originally filed on December 28, 2012.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

Note 3 – Restatement of Previously Reported Results (continued)

B. Restatement 2

- a) The financial statements have been amended and restated to correct for an error resulting from the misunderstanding of the settlement terms and conditions of the March 5, 2004 British Columbia Class Action claim, which resulted in the application of an accounting principle to measure and record the liability as at September 30, 2010 and subsequent reporting periods, that was not appropriate in the circumstances. The restatement impacts the year ended September 30, 2011 and the fifteen months ended September 30, 2010. The restatement resulted in a reduction in net income in the fifteen months ended September 30, 2010 of \$6,601 and an increase in net income in the year ended September 30, 2011 of \$1,537.
- b) Independent of the restatement outlined in Note 3 B. a) above, we have also restated Note 18(c) Related Party and Other Transactions - Third party Lenders, to reflect updated related party transactions for related parties previously identified and disclosed.
- c) Independent of the restatement outlined in Note 3 B. a) above, we have also restated Note 20(c) Subsequent Events - Special Investigation, to reflect an update to a previously disclosed subsequent event and added Note 20(b)(vi) to disclose a subsequent event.

Effects of the restatements

The tables below present the effect of the financial statement adjustments related to the restatement of our previously reported financial statements as of and for the three and nine month periods ended June 30, 2012.

The effect of the restatement on the interim consolidated statement of operations and comprehensive income (loss) for the three and nine months ended June 30, 2012 is as follows:

	Three Months Ended June 30 2012				Nine Months Ended June 30 2012			
	Originally Reported	Adjustments for restatement 1	Adjustments for restatement 2	Restated	Originally Reported	Adjustments for restatement 1	Adjustments for restatement 2	Restated
Other income	\$ 12,183	\$ 271	\$ -	\$ 12,454	\$ 38,701	\$ (1,747)	\$ -	\$ 36,954
Selling, general and administrative	6,200	(475)	-	5,725	19,581	(961)	-	18,620
Provision for loan losses	6,413	3,691	-	10,104	14,568	7,002	-	21,570
OPERATING MARGIN (LOSS)	11,121	(2,945)	-	8,176	20,193	(7,788)	-	12,405
Corporate expenses	5,427	(33)	-	5,394	16,828	218	-	17,046
Interest expense	4,355	-	181	4,536	7,247	-	526	7,773
Amortization of intangible assets	2,766	(1,096)	-	1,670	4,470	(1,300)	-	3,170
Class action settlements	-	-	-	-	-	-	(69)	(69)
Premium paid to acquire the loan portfolio	-	-	-	-	-	36,820	-	36,820
INCOME (LOSS) BEFORE INCOME TAXES	(2,435)	(1,816)	(181)	(4,432)	(12,964)	(43,526)	(457)	(56,947)
PROVISION FOR INCOME TAXES - Current (recovery)	1,325	(1,551)	-	(226)	1,800	(2,596)	-	(796)
PROVISION FOR INCOME TAXES - Deferred (recovery)	(1,774)	1,187	(48)	(635)	(3,389)	(8,826)	(165)	(12,380)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(1,986)	(1,452)	(133)	(3,571)	(11,375)	(32,104)	(292)	(43,771)
BASIC EARNINGS PER SHARE	\$ (0.11)	\$ (0.09)	\$ -	\$ (0.20)	\$ (0.65)	\$ (1.84)	\$ (0.02)	\$ (2.51)
DILUTED EARNINGS PER SHARE	(0.11)	(0.09)	-	(0.20)	(0.65)	(1.84)	(0.02)	(2.51)





**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 3 – Restatement of Previously Reported Results (continued)**

The effect of the restatement on the interim consolidated statement of operations and comprehensive income (loss) for the three and nine months ended June 30, 2011 is as follows:

	Three Months Ended June 30 2011			Nine Months Ended June 30 2011		
	Originally Reported	Adjustments for restatement 2	Restated	Originally Reported	Adjustments for restatement 2	Restated
Interest expense	\$ -	\$ 157	\$ 157	\$ -	\$ 453	\$ 453
Class action settlements	3,206	(3,206)	-	3,206	(2,838)	368
INCOME (LOSS) BEFORE INCOME TAXES	2,173	3,049	5,222	11,022	2,385	13,407
PROVISION FOR INCOME TAXES - Current	1,952	-	1,952	4,700	-	4,700
PROVISION FOR INCOME TAXES - Deferred (recovery)	(934)	788	(146)	(685)	727	42
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	1,155	2,261	3,416	7,007	1,658	8,665
BASIC EARNINGS PER SHARE	\$ 0.07	\$ 0.13	\$ 0.20	\$ 0.41	\$ 0.09	\$ 0.50
DILUTED EARNINGS PER SHARE	0.07	0.12	0.19	0.40	0.09	0.49

The effect of the restatement on the interim consolidated balance sheet as at June 30, 2012 and September 30, 2011 is as follows:

	September 30 2011				June 30 2012			
	Originally Reported	Adjustments for restatement 1	Adjustments for restatement 2	Restated	Originally Reported	Adjustments for restatement 1	Adjustments for restatement 2	Restated
Consumer loans receivable, net	\$ 4,781	\$ -	\$ -	\$ 4,781	\$ 73,051	\$ (27,567)	\$ -	\$ 45,484
Other receivables	12,575	-	-	12,575	17,230	3,349	2,149	22,728
Income tax receivable	-	-	-	-	-	1,693	-	1,693
Deferred tax assets (current)	1,528	-	1,484	3,012	4,123	8,297	1,649	14,069
Long term receivable	681	-	-	681	2,669	-	(2,149)	520
Deferred tax assets (non-current)	2,424	-	-	2,424	71	611	-	682
Intangible assets	10,578	-	-	10,578	56,500	(16,612)	-	39,888
Accrued liabilities	21,194	-	6,548	27,742	32,795	4,109	7,005	43,909
Income taxes payable	138	-	-	138	909	(903)	-	6
Deferred tax liabilities (non-current)	2,356	-	-	2,356	3,709	(1,331)	-	2,378
Retained earnings (deficit)	37,019	-	(3,064)	31,955	20,422	(32,104)	(5,356)	(17,038)

The effect of the restatement on the interim consolidated statement of cash flows for the three and nine months ended June 30, 2012 is as follows:

	Three Months Ended June 30 2012				Nine Months Ended June 30 2012			
	Originally Reported	Adjustments for restatement 1	Adjustments for restatement 2	Restated	Originally Reported	Adjustments for restatement 1	Adjustments for restatement 2	Restated
Net loss	\$ (1,986)	\$ (1,452)	\$ (133)	\$ (3,571)	\$ (11,375)	\$ (32,104)	\$ (292)	\$ (43,771)
Amortization of intangible assets	2,766	(1,096)	-	1,670	4,470	(1,300)	-	3,170
Provision for loan losses	6,413	3,691	-	10,104	14,568	7,002	-	21,570
Premium paid to acquire the loan portfolio (operating)	-	-	-	-	-	36,820	-	36,820
Deferred income taxes (recovery)	(1,772)	1,185	(48)	(635)	(3,388)	(8,827)	(165)	(12,380)
Consumer loans receivable since acquisition, net	-	(13,123)	-	(13,123)	-	(12,258)	-	(12,258)
Other receivables and long-term receivables	(3,132)	65	-	(3,067)	(6,643)	(3,350)	-	(9,993)
Income taxes receivable	656	(854)	-	(198)	-	(1,693)	-	(1,693)
Accounts payable and accrued liabilities	12,769	-	181	12,950	10,179	4,111	457	14,747
Income taxes payable	696	(697)	-	(1)	771	(903)	-	(132)
Purchase of consumer loans portfolio	(2,281)	2,281	-	-	(82,837)	55,602	-	(27,235)
Premium paid to acquire the loan portfolio (investing)	-	-	-	-	-	(36,820)	-	(36,820)
Purchase of intangible assets	(10,095)	10,000	-	(95)	(46,455)	16,500	-	(29,955)
Proceeds from issuance of senior secured notes (financing)	-	-	-	-	125,356	(22,779)	-	102,577



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**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 3 – Restatement of Previously Reported Results (continued)**

The effect of the restatement on the interim consolidated statement of cash flows for the three and nine months ended June 30 2011 is as follows:

	Three Months Ended June 30 2011			Nine Months Ended June 30 2011		
	Originally Reported	Adjustments for restatement 2	Restated	Originally Reported	Adjustments for restatement 2	Restated
Net income (loss)	\$ 1,155	\$ 2,261	\$ 3,416	\$ 7,007	\$ 1,658	\$ 8,665
Deferred income taxes (recovery)	(934)	788	(146)	(685)	727	42
Other receivables and long-term receivables	(632)	-	(632)	(2,557)	(800)	(3,357)
Accounts payable and accrued liabilities	2,323	(3,049)	(726)	(1,025)	(1,585)	(2,610)

Note 7(a), 11, 12(a), and 13 have been restated to reflect the related note disclosures.

**Note 4 – Acquisition of Consumer Loans Portfolio**

On January 31, 2012, the Company acquired a portfolio of consumer loans from third-party lenders for total consideration of \$116,334. At the date of acquisition, the gross contractual principal and income of the acquired loan portfolio was \$319,906.

The total consideration paid to third-party lenders was allocated to consumer loans receivable, intangible assets and the premium to acquire the portfolio of loans based on the fair value of each component. The determination of fair value of each component of the transaction was subject to management judgment and estimates of future cash flows, collection rates, forecasts and assumptions that a market participant would use in pricing the components. In accordance with U.S. GAAP the Company determined that the premium paid to acquire the loan portfolio settled pre-existing relationships between the Company and third-party lenders. Accordingly, the premium paid to acquire the loan portfolio was measured at its fair value and recorded as an expense in the consolidated statement of operations as part of the acquisition transaction. The total consideration was allocated as set forth below:

	Restated Note 3
Consumer loan portfolio	\$ 50,014
Non-compete agreement	15,524
Favorable supplier relationships	14,220
Proprietary knowledge	2,280
Premium paid to acquire the loan portfolio	36,820
Deferred tax liability	(2,524)
<b>Total consideration</b>	<b>\$ 116,334</b>

Note 6 and Note 10 separately disclose the June 30, 2012 carrying amount of the acquired loan portfolio and related intangible assets respectively.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

Note 5 – Cash

The significant components of cash are as follows:

	September 30 2011	June 30 2012
Cash	\$ 13,034	\$ 14,110
Restricted cash	6,257	3,100
	\$ 19,291	\$ 17,210

As at June 30, 2012, restricted cash includes \$3,100 of funds held by a vendor as security related to agency arrangements. As at September 30, 2011, restricted cash included \$6,257 in funds to facilitate claims related to the British Columbia class action lawsuit settlement (Note 12 (a)).

Approximately \$1,221 (September 30, 2011 - \$3,611) of cash was in transit as a result of pre-authorized debit, facilitated by a third-party.

Note 6 – Consumer Loans Receivable

	September 30 2011	June 30 2012
		Restated Note 3
Short-term advances receivable	\$ 6,799	\$ 68,096
Term loans receivable	765	581
Line of credit receivable	-	534
Allowance for consumer loan losses	(2,783)	(23,727)
	\$ 4,781	\$ 45,484

Acquired Loans

Acquired loans from the Company's third-party lenders are initially recorded as of the acquisition date at fair value. At the date of purchase, the undiscounted contractual cash flows of the acquired loan portfolio totaled \$319.9 million and the undiscounted expected cash flows totaled \$51.5 million. The Company recorded the discounted cash flows of \$50.0 million as the carrying value of the acquired loans as of the acquisition date as outlined in Note 3. After collections and accretion of \$41.9 million, the remaining carrying value of the acquired loan balance as of June 30, 2012 is \$8.1 million.

Loans purchased with evidence of credit deterioration since origination for which it is probable that all contractually required payments will not be collected are accounted for under ASC 310-30, *Receivables-Loans and Debt Securities Acquired with Deteriorated Credit Quality*. Under ASC 310-30, the excess of the expected cash flows at acquisition over the recorded investment is considered to be the accretable yield and is recognized as fee income over the life of the loan or pool. The excess of the contractual cash flows over the expected cash flows is considered to be the nonaccretable difference.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 6 – Consumer Loans Receivable (continued)**

**Acquired Loans (continued)**

Subsequent to the acquisition date, any increases in cash flow over those expected at the purchase date in excess of the fair value that are significant and probable are recorded as an adjustment to the accretible difference on a prospective basis. Any subsequent decreases in cash flow over those expected at the purchase date that are significant and probable are recognized by recording an allowance for loan losses. As of June 30, 2012, there have been no changes in expected cash flows of the acquired loans since the date of purchase.

The following table presents an analysis of the aging of consumer loans receivable as at June 30, 2012.

	September 30 2011	June 30 2012
		Restated Note 3
Consumer loans receivable		
Current	\$ 2,176	\$ 37,466
1-30 days past due date	856	6,065
31-60 days past due date	531	4,644
61-90 days past due date	417	4,507
Greater than 90 days past due date	3,584	8,416
Allowance for consumer loan losses	(2,783)	(23,727)
Consumer loans receivable	4,781	37,371
Acquired loan portfolio	-	8,113
	\$ 4,781	\$ 45,484

The Company provides short-term advances and other financial services to customers as an alternative to traditional banks. The Company acts as a broker and a lender to facilitate short-term advances and to provide other financial services to income-earning consumers. The Company utilizes a variety of underwriting criteria, monitors collection activities, overall portfolio performance and maintains an allowance for losses on consumer loans receivables at a level estimated to be adequate to absorb credit losses.

The following table presents a summary of the activity related to the Company's allowance for consumer loan losses.

	September 30 2011	June 30 2012
		Restated Note 3
Balance, beginning of period	\$ 511	\$ 2,783
Provisions made for loan losses	2,559	21,570
Recoveries	-	70
Charge-offs	(287)	(755)
Effect of foreign exchange translation	-	59
Balance, end of period	\$ 2,783	\$ 23,727



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
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Note 7 – Other Receivables and Other Income

(a) Other Receivables

	September 30 2011	June 30 2012
	Restated Note 3	Restated Note 3
Due from investee corporations	\$ 61	\$ 72
Due from vendors	11,143	16,126
Other	2,052	7,050
	<b>\$ 13,256</b>	<b>\$ 23,248</b>
Long term portion:		
Other	681	520
	<b>\$ 12,575</b>	<b>\$ 22,728</b>

Due from Vendors

Due from vendors includes \$16,126 (September 30, 2011 - \$11,143) of short term receivables from our vendors, with which we have agency arrangements, that provide bank accounts, debit and prepaid mastercard and insurance products that have occurred in the normal course of business. Included in this amount is a due from DirectCash Payments Inc. in the amount of \$14,625 (September 30, 2011 - \$10,091). Subsequent to quarter end, the Company received \$5,600 of this outstanding amount.

Other

Amounts included in Other are amounts due from the third-party administrator of the British Columbia class action settlement funds, amounts from the sale of a business and amounts due in the normal course of business.

(b) Other Income

	Three Months Ended		Nine Months Ended	
	June 30 2011	June 30 2012	June 30 2011	June 30 2012
		Restated Note 3		Restated Note 3
Agency fee income	\$ 13,607	\$ 9,643	\$ 34,501	\$ 30,989
Other income	1,378	2,811	5,150	5,965
	<b>\$ 14,985</b>	<b>\$ 12,454</b>	<b>\$ 39,651</b>	<b>\$ 36,954</b>

Note 8 – Branch Closure Costs

The Company closed 40 branches in the quarter ended June 30, 2012. The expenses related to branch closures include any lease cancellation costs, severance payments and miscellaneous costs. In the current quarter, the Company recorded \$769 related to lease buy-out costs and associated rent, \$69 in severance costs, and \$70 in miscellaneous costs.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

**Note 9 – Impairment of Property and Equipment**

During the previous quarter ended, with better clarity regarding regulations and its market impact, the Company, reassessed its locations and distributions of branches in its network. The Company has recorded an impairment of property and equipment in the amount of \$nil for the three months ended June 30, 2012 and \$3.0 million for the nine months ended June 30, 2012. The Company determined that the carrying amount of these assets exceeds their recoverable amount and as such has recorded the impairment to reduce their carrying value to fair value.

**Note 10 – Intangible Assets**

The following table reflects the components of intangible assets:

	Cost	June 30 2012 Restated - Note 3 Accumulated Amortization	Net Book Value
Customer contracts, relationships, lists and other	\$ 3,236	\$ 1,498	\$ 1,738
Favorable supplier relationships	14,220	710	13,510
Non-compete agreements	16,035	1,324	14,711
Computer software	6,955	2,326	4,629
Brand name	5,300	-	5,300
	\$ 45,746	\$ 5,858	\$ 39,888

	Cost	September 30 2011 Accumulated Amortization	Net Book Value
Customer contracts, relationships, lists and other	\$ 962	\$ 917	\$ 45
Favorable supplier relationships	-	-	-
Non-compete agreements	507	249	258
Computer software	6,717	1,742	4,975
Brand name	5,300	-	5,300
	\$ 13,486	\$ 2,908	\$ 10,578



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 11 – Accrued Liabilities**

	September 30 2011	June 30 2012
	Restated Note 3	Restated Note 3
Class action settlements - Note 12 (a), (b), and (c)	\$ 10,733	\$ 11,259
Accrued salaries and benefits	2,808	4,243
Amounts due to third party lenders	8,487	11,614
Interest accrued on long-term debt - Note 14	-	6,365
Other accruals	5,714	10,428
	<b>\$ 27,742</b>	<b>\$ 43,909</b>

The amounts due to third-party lenders reflects funds made available by lenders but not yet advanced to customers, any liability under the lending agreement, including any un-paid retention payments, as well as loan repayments and interest amounts collected from customers. Amounts due to third-party lenders are non-interest bearing, unsecured and have no specified repayment terms.

**Note 12 – Class Action Settlements**

**(a) British Columbia (restated – Note 3)**

On March 5, 2004, an action under the Class Proceedings Act was commenced in the Supreme Court of British Columbia by Andrew Bodnar and others proposing that a class action be certified on his own behalf and on behalf of all persons who have borrowed money from the defendants, The Cash Store Financial and All Trans Credit Union Ltd. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Criminal Code of Canada (the "Code"). On May 25, 2006, the claim in British Columbia was affirmed as a certified class proceeding of Canada by the B.C. Court of Appeal. In fiscal 2007, the plaintiffs in the British Columbia action brought forward an application to have certain of the Company's customers' third-party lenders added to the claim. On March 18, 2008, another action commenced in the Supreme Court of British Columbia by David Wournell and others against The Cash Store Financial, Instaloes Inc., and others in respect of the business carried out under the name Instaloes since April 2005. Collectively, the above actions are referred to as the "British Columbia Related Actions".

On May 12, 2009, the Company settled the British Columbia Related Actions in principle and on February 28, 2010 the settlement was approved by the Court. Under the terms of the court approved settlement, the Company is to pay to the eligible class members who were advanced funds under a loan agreement and who repaid the payday loan plus brokerage fees and interest in full, or who met certain other eligibility criteria, a maximum estimated amount including legal expenses of \$18,800, consisting of \$9,400 in cash and \$9,400 in credit vouchers. The credit vouchers can be used to pay existing outstanding brokerage fees and interest, to pay a portion of brokerage fees and interest which may arise in the future through new loans advanced, or can be redeemed for cash from January 1, 2014 to June 30, 2014. The credit vouchers are not transferable and have no expiry date. After approved legal expenses of \$6,438 were paid in March 2010, the balance of the settlement amount remaining to be disbursed was \$12,362, consisting of \$6,181 of cash and \$6,181 of vouchers.

By September 30, 2010, the Company received approximately 6,300 individual claims representing total valid claims in excess of the settlement fund. As the valid claims exceed the balance of the remaining settlement fund,



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
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**Note 12 – Class Action Settlements (continued)**

**(a) British Columbia (restated – Note 3) (continued)**

under the terms of the settlement agreement, the entire settlement fund of \$12,362 will be disbursed to claimants on a pro-rata basis.

In arriving at the liability recorded at the balance sheet date, the voucher portion of the settlement fund of \$6,181 has been discounted using a discount rate of 16.2%. During the three and nine months ended June 30, 2012, the Company recorded accretion expense of \$181 and \$526 respectively (three and nine months ended June 30, 2011 - \$157 and \$453) in interest expense. The total liability related to the settlement at June 30, 2012 is \$11,113 (September 30, 2011 - \$10,587).

**(b) Alberta**

The Company has been served in prior fiscal periods with a Statement of Claim issued in Alberta alleging that we are in breach of s. 347 of the Code (the interest rate provision) and certain provincial consumer protection statutes.

On January 19, 2010, the plaintiffs in the Alberta action brought forward an application to have a related subsidiary, as well as certain of our customers' third-party lenders, directors and officers added to the claim.

The Company has agreed to a motion to certify the class proceeding if the third party lenders, officers and directors are removed as defendants. Class counsel has agreed to the Company's proposal. Consequently, the certification motion was granted in November of 2011.

The Company believes that it conducted its business in accordance with applicable laws and is defending the action vigorously. As at June 30, 2012, a total of \$100 (September 30, 2011 - \$100) has been accrued related to this matter. However, the likelihood of loss, if any, is not determinable at this time.

**(c) Manitoba**

On April 23, 2010, an action under the Manitoba Class Proceedings Act was commenced in the Manitoba Court of Queen's Bench by Scott Meeking against The Cash Store Financial and Instalozans Inc. proposing that a class action be certified on his own behalf and on behalf of all persons in Manitoba and others outside the province who elect to claim in Manitoba and who obtained a payday loan from The Cash Store Financial or Instalozans Inc. The action stems from the allegations that all payday loan fees collected by the defendants constitute interest and therefore violate s. 347 of the Code.

The Company conducts business in accordance with applicable laws and is defending the action vigorously. Further it will be maintained that most of the proposed class members are bound by the judgment in the settlement of the Ontario class action in 2008, as approved by the Ontario Superior Court of Justice and that accordingly the action should be dismissed. However, the likelihood of loss, if any, is not determinable at this time.

**Note 13 – Income Taxes (restated)**

The effective income tax rate as a percentage of income (loss) before income taxes was 19.4% and 34.6% for the three months ended June 30, 2012 and 2011, respectively. For the nine months ended June 30, 2012 and 2011, the effective income tax rate as a percentage of income (loss) before income taxes was 23.1% and 35.4% respectively.





NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

Note 13 – Income Taxes (restated) (continued)

The effective tax rate differs from the Company's statutory tax rate primarily due to a valuation allowance which has been recorded against losses generated in the United Kingdom during the current period.

As at June 30, 2012, the Company has a tax loss carry forward in the amount of \$7,099 (September 30, 2011 - \$689).

The Company's tax positions for 2008 to present in Canada remain subject to examination by tax authorities. The Company's tax position for the current fiscal year in the United Kingdom remains subject to examination by tax authorities.

Note 14 – Long Term Debt

	September 30 2011	June 30 2012
11.5% senior secured notes	\$ -	\$ 125,771
Corporate head office lease	-	11,810
	\$ -	\$ 137,581

(a) 11.5% senior secured notes

On January 31, 2012, the Company issued, through a private placement in Canada and the U.S., \$132.5 million of 11.5% Senior Secured Notes due 2017 (the "Notes"). The Notes mature on January 31, 2017 and bear interest on the aggregate principal amount from the date of issue at 11.5% per annum payable on a semi-annual basis in equal installments on January 31 and July 31 of each year, commencing in July of 2012. The notes were issued at a price of 94.608%. The Company used the proceeds of the Notes to purchase the loans receivable and related assets from our third-party lenders who previously lent to the Company's customers in the regulated provinces as outlined in Notes 4 and 6 above.

The Notes are guaranteed, jointly and severally, on a senior secured basis, by each of our existing and future restricted subsidiaries that guarantee our indebtedness or indebtedness of any subsidiary guarantor under any carve-out for credit facility. The Notes are secured on a second-priority basis by liens on all of the Company's and its restricted subsidiaries' existing and future property subject to specified permitted liens and exceptions. Any future credit facility as well as certain other future debt will be secured by a first-priority lien on this collateral.

The Notes are redeemable at the option of the Company, in whole or in part, at any time on or after July 31, 2014 at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, to, but excluding, the redemption date if redeemed during the periods set forth below.

For the period below	Percentage
On or after July 31, 2014.....	103.084%
On or after January 31, 2015.....	102.091%
On or after July 31, 2015.....	101.127%
On or after January 31, 2016.....	101.194%
On or after July 31, 2016.....	100.000%



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

Note 14 – Long Term Debt (continued)

Prior to July 31, 2014, the Company is entitled at its option on one or more occasions to redeem up to 35% of the aggregate principal amount of the Notes originally issued under a trust indenture (the "Trust Indenture") at a redemption price of 111.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date if:

- such redemption is made with the proceeds of one or more Equity Offerings as defined in the Trust Indenture;
- at least 65% of the aggregate principal amount of the Notes (including Additional Notes) originally issued under the Trust Indenture remain outstanding immediately after the occurrence of such redemption (excluding Notes held by the Company or any of its subsidiaries); and
- the redemption occurs within 90 days of such Equity Offering.

If a change in control occurs, the holders of the Notes will have the right to require the Company to purchase all or a portion of the Notes, at a purchase price in cash equal to 101% of the principal amount of the Notes offered for repurchase plus accrued interest to the date of purchase.

(b) Corporate head office lease

The Company has entered into a lease for a new corporate head office as a lessee. The Company has determined that it is considered the owner of this asset during the construction period. As at June 30, 2012, \$13,495 has been capitalized in property and equipment, of which \$11,810 (net of \$1,685 of leasehold improvements) has been included in long term debt. This amount is based on the total project costs incurred to date related to the construction.

Note 15 – Share Capital

(a) Issued share capital

	September 30 2011		June 30 2012	
	Number of Shares	Amount	Number of Shares	Amount
Authorized:				
Unlimited common shares with no par value				
Issued:				
Balance, beginning of period	17,085,727	\$ 43,468	17,419,214	\$ 46,149
Transfer from contributed surplus for stock options exercised	-	572	-	41
Options exercised	183,487	939	16,666	67
Warrants exercised	150,000	1,170	-	-
Balance, end of period	17,419,214	\$ 46,149	17,435,880	\$ 46,257

On January 9, 2012, the Company filed with the Toronto Stock Exchange ("TSX") a notice of its intention to make a normal course issuer bid for its common shares. The notice provides the Company with the ability to purchase on the TSX up to 1,092,504 common shares, being approximately 10% of the public float of its common shares. For the three and nine months ended June 30, 2012, the Company did not purchase and subsequently cancel any common shares.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

Note 15 – Share Capital (continued)

(b) Options to Employees and Directors

The Company has an incentive stock option plan for certain employees, officers and directors. Options issued under the plan have vesting terms that vary depending on date granted and other factors. All stock options must be exercised over specified periods not to exceed five years from the date granted.

	September 30 2011		June 30 2012	
	Total Options for Shares	Weighted Average Price	Total Options for Shares	Weighted Average Price
Outstanding, beginning of year	1,019,322	\$ 8.07	979,168	\$ 9.42
Granted	155,000	12.96	105,000	5.87
Exercised	(183,487)	5.12	(16,666)	3.93
Expired	(10,000)	5.52	-	-
Forfeited	(1,667)	8.80	(7,500)	8.80
Outstanding, end of year	979,168	9.42	1,060,002	9.16
Exercisable, end of year	505,832	\$ 6.84	657,508	\$ 8.09

At June 30, 2012, the range of exercise prices, the weighted average exercise price, and weighted average remaining contractual life are as follows:

Fiscal Year Granted	Number Outstanding	Weighted Average Remaining Term	Weighted Average Exercise Price	Number Exercisable
2008	223,600	5 mos.	\$ 3.84	223,600
2009	169,733	21 mos.	6.65	169,733
2010	406,669	31 mos.	12.53	264,175
2011	155,000	49 mos.	12.96	-
2012	105,000	79 mos.	5.87	-
	1,060,002	31 mos.	\$ 9.16	657,508

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

	September 30 2011	June 30 2012
Risk free interest rate	1.6%	1.6%
Expected life (years)	3	7
Expected volatility	39.0%	53.8%
Expected dividends	3.7%	7.9%

The weighted average grant-date fair value of options granted was estimated at \$1.40 (September 30, 2011 - \$2.72) per option.

The Company is authorized to issue an additional 1,851,501 equity share options under its existing stock option plan.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

Note 15 – Share Capital (continued)

(b) Options to Employees and Directors (continued)

A summary of the status of the Company's nonvested share options as of June 30, 2012, and the changes during the twelve months ended September 30, 2011, is presented below:

	September 30 2011		June 30 2012	
	Total Options for Shares	Weighted Average Price	Total Options for Shares	Weighted Average Price
Nonvested, beginning of period	697,678	\$ 9.48	473,336	\$ 12.17
Granted	155,000	12.96	105,000	5.87
Vested	(377,675)	7.53	(173,342)	11.35
Forfeited	(1,667)	8.80	(2,500)	8.80
Nonvested, end of period	473,336	\$ 12.17	402,494	\$ 10.91

The total intrinsic value of options exercised during the nine months ended June 30, 2012, was \$46 (September 30, 2011 - \$1,593). The total fair value of options that vested during the nine months ended June 30, 2012, was \$579 (September 30, 2011 - \$1,053).

As at June 30, 2012, and September 30, 2011, the aggregate intrinsic value of options outstanding was \$590 and \$1,610, respectively, while the aggregate intrinsic value of the options that are currently exercisable was \$560 and \$1,521, respectively.

As at June 30, 2012, there was \$685 of total unrecognized compensation costs related to non-vested stock options. The Company expects to recognize this expense over a weighted average period of 1.9 years.

For the three months ended June 30, 2012, the total cash received for stock options exercised totaled \$67 (\$939 for the twelve months ended September 30, 2011).

Note 16 – Per Share Amounts

The following table presents the reconciliations of the denominators of the basic and diluted per share computations. Net income attributable to common shares equaled diluted income attributable to common shares for all periods presented.

	Three Months Ended		Nine Months Ended	
	June 30 2011	June 30 2012	June 30 2011	June 30 2012
Basic total weighted average common shares outstanding	17,338,749	17,430,880	17,207,307	17,426,276
Effect of dilutive securities				
Share option awards	314,098		360,018	
Warrants	24,616		63,088	
Diluted total weighted average common shares outstanding	17,677,463	17,430,880	17,630,413	17,426,276

For the nine months ended June 30, 2012, there were 840,554 stock options which were anti-dilutive and therefore were not considered in computing diluted earnings per share.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 17 – Contingencies**

**(a) Third-Party Lenders**

In addition to direct lending, the Company acts as a broker on behalf of consumers seeking short term advances. The funding of the advances is provided directly to the customers by third party lenders. The Company has entered into written business arrangements with a number of third party lenders that are prepared to consider lending to customers. Pursuant to these agreements, services related to the collection of documents and information as well as loan collection services are provided to the third party lenders. The agreements also provide that the third party lenders are responsible for losses suffered as a result of uncollectible loans provided the required duties under the terms of the agreements have been properly performed by the Company. In the event the duties are not properly performed and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. The Company's contingent risk is the balance of the third-party lender's loan portfolio which totalled \$10,631 as at June 30, 2012 (September 30, 2011 - \$104,112).

To date, no claims have been made by the third party lenders and no payments have been made or accrued by the Company pursuant to this clause in the agreements. Risk is managed through compliance with the loan limits, procedures and selection criteria established by the lenders.

**(b) British Columbia Compliance Order**

On March 23, 2012, the Company was issued a compliance order (the "Order") and administrative penalty from Consumer Protection BC. The Order directs the Company to refund to all borrowers with loan agreements negotiated with the Company or its subsidiaries between November 1, 2009 and the date of the order, the amount of any issuance fee charged, required or accepted for or in relation to the issuance of a cash card. The Order also directed the Company to pay an administrative penalty of \$25 in addition to costs. The Company has agreed to abide by the Order. On November 30, 2012, Consumer protection BC issued a supplementary compliance order directing that unclaimed refund amounts to a maximum of \$1.1 million be deposited into a consumer protection fund. The company is appealing the supplementary compliance order. The estimated exposure with respect to this order is between \$248 and \$1.1 million including penalties, legal costs and additional costs. The Company has accrued \$248 related to the Order.

**Note 18 – Related Party and Other Transactions**

**(a) The Cash Store Australia Holdings Inc.**

The Company has a services agreement with AUC to provide ongoing services such as financial and accounting support, administrative services, and the use of the Company's information technology and telecommunication systems. Included in selling, general, and administrative expenses for the three and nine months ended June 30, 2012 are recoveries of \$95 and \$284 (2011 - \$90 and \$270) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. At June 30, 2012 the Company had a \$57 (September 30, 2011 - \$16) receivable from AUC. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 18 – Related Party and Other Transactions (continued)**

**(b) RTF Financial Holdings Inc.**

The Company has a services agreement with RTF to provide ongoing services such as financial and accounting support and contracts administrative services. Included in selling, general, and administrative expenses for the three and nine months ended June 30, 2012 are recoveries of \$30 and \$140 (2011 - \$60 and \$180) relating to these services. These transactions were subject to normal trade terms and were measured at the actual exchange amount. At June 30, 2012 the Company had a \$47 (September 30, 2011 - \$45) receivable from RTF. Amounts due are non-interest bearing, unsecured and have no specified terms of repayment.

**(c) Third-party Lenders (restated)**

- (i) A privately held entity that raises capital and provides advances to the Company's customers (third-party lender) is controlled by the father of Cameron Schiffner, the Senior Vice President of Operations of the Company. In addition, Cameron Schiffner's brother was a member of management of AUC and is a member of management of the third-party lender. The Company's relationship with the third-party lender predates Cameron Schiffner's employment with the Company. Included in retention payments are \$263 and \$3,990 for the three and nine months ended June 30, 2012 (three and nine months ended June 30, 2011 - \$2,712 and \$9,090) of amounts paid or payable directly to this third-party lender. As at June 30, 2012, included in accrued liabilities is \$4,766 (September 30, 2011 - \$2,281) due to this third-party lender. The Company's contingent risk in this third-party lender's loan portfolio totalled \$3,221 as at June 30, 2012 (September 30, 2011 - \$44,967).

As part of the acquisition of the short-term advances portfolio on January 31, 2012 as described in Note 4, \$45,520 of the total purchase consideration was paid to this third-party lender, of which \$14,407 is an estimate of this third-party lender's proportionate share of the expense to settle pre-existing relationships, which was approximated based on the proportion of the consideration paid to each third-party lender. The acquisition agreement was signed on behalf of the third-party lender by Cameron Schiffner's brother.

- (ii) An immediate family member of Michael Shaw, a Director of the Company, advanced funds to a privately held syndicate that raised capital and provided loans to the Company's customers (third-party lender) and acted as a third-party lender prior to the acquisition of the consumer loans portfolio on January 31, 2012. The Company's relationship with the third-party lender predates Michael Shaw's directorship with the Company. Bruce Hull, who is a director of AUC, also advanced funds to this third-party lender. There have been no transactions between the Company and this third-party lender subsequent to January 31, 2012. Included in retention payments are \$nil and \$1,377 for the three and nine months ended June 30, 2012 (three and nine months ended June 30, 2011 - \$1,237 and \$3,768) of amounts paid or payable directly to this third-party lender. As at June 30, 2012, included in accrued liabilities is \$nil (September 30, 2011 - \$1,257) due to this third-party lender. The Company's contingent risk in this third-party lender's loan portfolio totalled \$nil as at June 30, 2012 (September 30, 2011 - \$19,166).

As part of the acquisition of the short-term advances portfolio on January 31, 2012 as described in Note 4, \$23,944 of the total purchase consideration was paid to this third-party lender of which \$12,885 was settled by the issuance of the Notes. \$7,578 is an estimate of this third-party lender's proportionate share in the expense to settle pre-existing relationships which was approximated based on the proportion of the consideration paid to each third-party lender.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 18 – Related Party and Other Transactions (continued)**

**(c) Third-party Lenders (restated) (continued)**

- (iii) A privately held entity that began acting as a third-party lender after January 31, 2012 is controlled by Bruce Hull. Included in retention payments are \$15 and \$20 for the three and nine months ended June 30, 2012 (three and nine months ended June 30, 2011 - \$nil and \$nil) of amounts paid or payable directly to this third-party lender. As at June 30, 2012, included in accrued liabilities is \$174 (September 30, 2011 - \$nil) due to this third-party lender. The Company's contingent risk in this third-party lender's loan portfolio totalled \$145 as at June 30, 2012 (September 30, 2011 - \$nil).

**Note 19 – Financial Instruments**

**(a) Classification of Financial Instruments**

The Company has made the following classifications: cash as held-for-trading, other receivables and consumer loans receivable as loans and receivables, and accounts payable and accrued liabilities and obligations under capital leases as other financial liabilities.

**(b) Fair Values**

The fair values of financial instruments are determined with respect to the hierarchy that prioritizes the input to fair value measurement. In the absence of an active market, the Company determines fair value by using valuation techniques that refer to observable market data or estimated market prices. Fair values are inherently judgmental, thus the estimated fair values do not necessarily reflect amounts that would be received or paid in case of immediate settlement of these instruments. The use of different estimations, methodologies and assumptions could have a material effect on the estimated fair value amounts. The carrying value of other receivables, consumer loans receivable net, accounts payable and accrued liabilities approximate their fair values (Level 2 measurements) due to the relatively short-term nature of these balances. The fair value of obligations under capital leases and long term debt are determined by estimating future cash flows on a borrowing-by-borrowing basis, and discounting these future cash flows using a rate which takes into account the Company's spread for credit risk for similar terms and types of arrangements. Based on estimates, the fair values (a Level 2 measurement) of the Company's obligation under capital lease and long term debt as at June 30, 2012 and 2011 are not significantly different than their carrying value.

The fair value hierarchy establishes these levels to classify the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs used in a valuation technique are not based on observable market data in determining fair values of these instruments.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 19 – Financial Instruments (continued)**

**(b) Fair Values (continued)**

The Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. Cash is the only financial instruments valued using Level 1 inputs (quoted market prices). There were no financial instruments categorized in Level 2 (valuation techniques using observable market inputs) and Level 3 (valuation techniques using non-observable market inputs) as at June 30, 2012.

**Note 20 – Subsequent Events**

**(a) Dividends Declared**

On August 10, 2012, the Company declared a quarterly dividend of \$0.06 per common share. The dividend is payable on September 7, 2012 to shareholders of records on August 24, 2012.

**(b) Litigation and Claims**

**(i) British Columbia**

On September 11, 2012, an action under the British Columbia Class Proceedings Act was commenced in the Supreme Court of British Columbia by Roberta Stewart against the Cash Store Financial and Instalozans Inc. claiming on behalf of the plaintiff and class members who, on or after November 1, 2009 borrowed a loan from the Company, and that the Company charged, required or accepted an amount that is in excess of 23% amount loaned of the principal which is contrary to s. 17(1) of the Payday Loans Regulation and s. 112.02(2) of the Business Practices Consumer Protection Act (“BPCPA”) and charged, required or accepted an amount in relation to each cash card issued to a class member which is contrary to s. 112.04(1)(f) of the BPCPA; made the provision of each payday loan contingent on class members purchasing a cash card and services related thereto, contrary to s. 19(1) of the Payday Loans Regulation and s. 112.08(1)(m) of the BPCPA; and discounted the amount in the payday loan agreement to be the loan amount borrowed, by deducting and withholding from the loan advance an amount representing a portion of the total costs of credit, contrary to s.112.08(1)(e) of the BPCPA.

The class members, in an order pursuant to s. 112.10(2) and s. 172(3)(a) of the BPCPA are seeking that the Company refund all monies paid in excess of the loan principal of each payday loan, including the cash card fee amounts, the loan fees, and any other fees or charges collected by the Company in relation to the payday loan, damages and interest pursuant to the Court Order Interest Act at the rate of 30% compounded annually, as set out in the payday loan agreements or such other rate as the Court considers appropriate.

The Company believes that it has conducted its business in accordance with applicable laws and is defending the action vigorously. The likelihood of loss, if any, is not determinable at this time.





**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

**Note 20 – Subsequent Events (continued)**

**(b) Litigation and Claims (continued)**

**(ii) Alberta**

On September 18, 2012, an action under the Alberta Class Proceedings Act was commenced in the Alberta Court of Queen’s Bench by Kostas Efthimiou against the Cash Store Financial and Instalozans Inc. on behalf of all persons who, on or after March 1, 2010, borrowed a loan from the Company that met the definition of a “payday loan” proposing that the Company has violated s. 11 and 12 of the Payday Loan Regulations in that all amounts charged to and collected from the plaintiff and class members by the Company in relation to the payday loans advanced in excess of the loan principal are unlawful charges under the Payday Loan Regulation and therefore seek restitution of damages for unlawful charges paid by the plaintiff and class members, repayment of unlawful charges paid by the plaintiff and class members, damages, interest on all amounts found to be owing and any such associated legal costs.

The Company believes that it has conducted business in accordance with applicable laws and will defend the action vigorously. The likelihood of loss, if any, is not determinable at this time.

**(iii) Saskatchewan**

On October 9, 2012, an action under the Saskatchewan Class Actions Act was commenced in the Saskatchewan Court of Queen’s Bench by John Ironbow against the Cash Store Financial and Instalozans Inc. on behalf of all persons who, on or after January 1, 2012, borrowed a loan from the Company that met the definition of a “payday loan” proposing that the Company has violated s. 11 and 12 of the Payday Loan Regulations in that all amounts charged to and collected from the plaintiff and class members by the Company in relation to the payday loans advanced in excess of the loan principal are unlawful charges under the Payday Loan Regulation and therefore seek restitution of damages for unlawful charges paid by the plaintiff and class members, repayment of unlawful charges paid by the plaintiff and class members, damages, interest on all amounts found to be owing and any such associated legal costs.

The Company believes that it has conducted business in accordance with applicable laws and will defend the action vigorously. The likelihood of loss, if any, is not determinable at this time.

**(iv) Manitoba**

On November 1, 2012, an action was commenced in Manitoba under The Class Proceedings Act by Sheri Rehill against The Cash Store Financial Services Inc., The Cash Store Inc., Instalozans Inc. and other defendants, on behalf of all persons who, on or after October 18, 2010, borrowed a loan from the Company in Manitoba where that loan met the definition of a “payday loan” as defined by the Payday Loans Act, S.S. 2007, c. P-4.3. The action alleges that the Company charged amounts in excess of the maximum allowable limit on the total cost of credit permitted by the Consumer Protection Act, R.S.M. 1987, c. C-200, as am., and the Payday Loan Regulation, Man. Reg. 99/2007, as am. The plaintiff pleads for restitution and repayment of all amounts paid by borrowers as a cost of credit for their payday loans, damages for an alleged conspiracy, and interest on all amounts alleged to be owing.

The Company believes that it has conducted business in accordance with applicable laws and will defend the action vigorously. The likelihood of loss, if any, is not determinable at this time.



NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011

(in thousands, except share and per share amounts)  
(unaudited)

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Note 20 – Subsequent Events (continued)

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(b) Litigation and Claims (continued)

(v) Ontario

On August 1, 2012, an action under the Ontario Class Proceedings Act was commenced in the Ontario Supreme Court of Justice by Timothy Yeoman against the Cash Store Financial and Instaloans Inc. claiming on behalf of the plaintiff and class members who entered into payday loan transactions with the Company in Ontario between September 1, 2011 and the date of judgment, that the Company operated an unlawful business model as the Company did not provide borrowers with the option to take their payday loan in an immediate liquid form and thereby misrepresenting the total cost of borrowing as the cost of additional services and devices should have been included.

The class members plead entitlement to damages and costs of investigation and prosecution pursuant to s. 36 of the Competition Act inclusive of the fees, interest and other amounts that the Company charged to the class members.

The Company believes that it has conducted business in accordance with applicable laws and is defending the action vigorously. The likelihood of loss, if any, is not determinable at this time.

(vi) New York

On May 20, 2013, Globis Capital Partners, L.P. filed a civil claim against the Company and Gordon J. Reykdal, our Chief Executive Officer, in the United States District Court of the Southern District of New York for alleged violations of Sections 10(a) and 20(a) of the Securities Exchange Act of 1934 claiming unspecified damages. The likelihood of loss, if any, is not determinable at this time.

(c) Special Investigation (restated)

The Company's Audit Committee was made aware of written communications that contained questions about the acquisition of the consumer loan portfolio from third-party lenders in late January 2012 (the "Transaction") and included allegations regarding the existence of undisclosed related party transactions in connection with the Transaction. In response to this allegation, legal counsel to a special committee of independent directors of the Company (the "Special Committee") retained an independent accounting firm to conduct a special investigation. The investigation followed a review conducted by the Company's internal auditor under the direction of the Audit Committee of the Board, and the restatement by the Company in December 2012 of its unaudited interim quarterly financial statements and MD&A for periods ended March 31, 2012 and June 30, 2012.

The investigation covered the period from December 1, 2010 to January 15, 2013 and was carried out over four months. It involved interviews of current and former officers, directors, employees and advisors of the Company and a review of relevant documents and agreements as well as electronically stored information obtained from Company computers and those of employees, former employees and directors most likely to have information relevant to the investigation.

On May 13, 2013, the Special Committee reported its findings on the allegations to the Board of Directors and, consistent with the recommendation made to the Board of Directors by the Special Committee, the Board has determined that no further corrections or restatements of previously reported financial statements and other public disclosures are required related to the Transaction.



**NOTES TO THE INTERIM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2012, AND 2011**

(in thousands, except share and per share amounts)  
(unaudited)

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**Note 21 – Comparative Figures**

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

**This is EXHIBIT "Y" referred to in the**

**Affidavit of Sarah A. Bowden**

**sworn before me, this 5<sup>th</sup> day of**

**February, 2014.**



***A Commissioner, etc.***

Court File No.: 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

**BETWEEN:**

**TIMOTHY YEOMAN**

**Plaintiff**

**- and -**

**THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP**

**Defendants**

**PLAINTIFF'S LITIGATION PLAN**

**(pursuant to Section 5(1)(e)(ii) of the *Class Proceedings Act, 1992*)**

**COMMUNICATION WITH PUTATIVE CLASS MEMBERS:**

1. Information will be made available online at [www.harrisonpensa.com](http://www.harrisonpensa.com) for this proposed class proceeding. Current information on the status of this action will be posted on the site and will be updated as the matter progresses. Court documents, notices and other documents regarding the action will be accessible from the website. The telephone number and e-mail contact information for Class Counsel will also be made available.

**PLEADINGS:**

2. The defendants shall deliver their Statements of Defence immediately following the certification order in the event that they were not delivered at an earlier time. Any reply by the plaintiff will follow within the time frame prescribed in the *Rules of Civil Procedure, R.R.O. 1990, Reg. 194*.

**DOCUMENTARY DISCOVERY AND PRODUCTION:**

3. The plaintiff proposes that the parties should work together to establish a documentary discovery plan and timetable. Failing agreement, the parties will seek a case conference to settle these issues.
4. The plaintiff shall seek an accounting of the defendants' books and records in order to acquire production of the identity and contact information of class members and the particulars of their loan transactions. The plaintiff seeks this accounting to support an aggregate assessment of damages.
5. The plaintiff will request that delivery of Affidavits of Documents and production of documents take place no later than 60 days following service of the Statements of Defence.
6. Counsel for the plaintiff will arrange and deliver their productions using document management software. All productions will be organized and produced electronically. The plaintiff proposes that the defendants similarly organize and produce all of their productions electronically.

**EXAMINATIONS FOR DISCOVERY:**

7. The plaintiff will request that examinations for discovery take place within 60 days from the date that documentary production has been completed.
8. The plaintiff anticipates that the examination for discovery of all parties will take a maximum of 10 days subject to refusals and undertakings.

9. The plaintiff proposes that all answers to undertakings be provided within 60 days of the conclusion of the examinations for discovery.

**NOTICE TO CLASS MEMBERS AND OPT-OUT PROCEDURE:**

10. As indicated above, Class Counsel will ask the defendants to produce the names, contact particulars and other identifying information of the class members. Class Counsel will use this contact information for the purpose of giving notice.
11. If this action is certified as a class proceeding, the plaintiff will ask the Court to:
- (a) settle the form and content of the notice after the certification decision is released (the "Notice of Certification");
  - (b) settle the means by which the Notice of Certification shall be disseminated to class members (the "Notice Plan"); and
  - (c) set a date for the expiry of the opt-out period of 60 days following the commencement of the Notice Program.
12. The plaintiff will request that the Notice of Certification be distributed via the following media:
- (a) by Press Release on Canada Newswire;
  - (b) sent by direct mail to each class member whose name and address is disclosed by the defendants;
  - (c) sent by e-mail blast to credit counseling organizations and advisors who may represent the interests of potential class members;
  - (d) posted on the websites of the defendants;
  - (e) published through media notices which generally reflect the geographical location of class members;
  - (f) posted on the website of Class Counsel at [www.harrisonpensa.com](http://www.harrisonpensa.com);
  - (g) posted through various forms of social media, including a dedicated webpage on Facebook and; and

- (h) provided by Class Counsel to any person who requests it or any person who has previously contacted Class Counsel.
13. The plaintiff proposes the following opt-out procedure:
- (a) a person may opt-out of the class proceeding by sending a written election to opt-out to a person designated by the Court before a date fixed by the Court; and
  - (b) no member of the Class may opt out of the class proceeding after the expiration of the opt-out period set by the Court except by Court order.
14. The plaintiff will ask the Court to appoint Harrison Pensa LLP to receive the written elections to opt-out of the class action and, within thirty (30) days after the expiration of the opt-out period, to deliver to the Court an affidavit providing information respecting the number of persons who have opted out of this class action.
15. The plaintiff will ask the Court to order the defendants to pay the costs of the Notice Program.

#### **PRIVACY AND CONFIDENTIALITY FOR CLASS MEMBER DATA:**

16. The plaintiff proposes that the parties work together to construct a privacy and confidentiality protection protocol for the handling of any data connected to class members and their loan transactions. That protocol will include a privacy and confidentiality protection Order made by the Court.

#### **CASE MANAGEMENT**

17. The plaintiff proposes to advance the matter in a fair and expeditious manner utilizing the case management tools contained in the *Class Proceedings Act*, 1992, SO. 1992, c.6.



- (c) Discovery Read-Ins;
- (d) Request to Admit and Notices;
- (e) List of Anticipated Witnesses;
- (f) Written Opening Briefs;
- (g) Trial Schedule;
- (h) Written Closing Submissions;
- (i) Digital Trial Management;
- (j) Protective Order; and
- (k) Further Directions

24. It is currently anticipated that the common issues trial will last approximately 3-5 weeks in duration.
25. If the plaintiff is successful at the trial of the common issues, it is anticipated that the resolution of the common issues will conclude the litigation, including settling on the manner in which each class member is to benefit from the remedies obtained. If damages are ordered by the Court, the plaintiff anticipates that such damages can be calculated and distributed to the class members through an aggregate plan of distribution pursuant to Section 24 of the *Class Proceedings Act, 1992*.
26. In the event that there are issues which are specific to individuals or subgroups of individuals as amongst the class, the plaintiff proposes that the Court should utilize the tools provided under Sections 25 and 26 of the *Class Proceedings Act*.

#### **NOTICE OF SETTLEMENT OR JUDGMENT**

27. If the plaintiff is successful at the trial of the common issues, the plaintiff will ask the Court to settle the general form and content of a notice to be delivered to class members (the "Notice of Resolution").

28. The plaintiff will ask the Court to order that the Notice of Resolution be distributed to class members substantially in accordance with the Notice Plan for the Notice of Certification as set out herein.

**REVIEW OF LITIGATION PLAN:**

29. The plaintiff proposes that this litigation plan should be reconsidered and revised as necessary under the continuing case management authority of the Court pursuant to the *Class Proceedings Act, 1992*.

TIMOTHY YEOMAN

Plaintiff

v. THE CASH STORE FINANCIAL SERVICES INC., et al.  
Defendants

Court File No. 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

**PROCEEDINGS COMMENCED AT LONDON**

**AFFIDAVIT OF SARAH A. BOWDEN  
(sworn February 5, 2014)**

**HARRISON PENZA LLP**  
Barristers & Solicitors  
450 Talbot Street  
London, ON N6A 4K3

Jonathan J. Foreman (LSUC #45087H)  
Genevieve Meisenheimer (LSUC #59191U)  
Tel: (519) 679-9660  
Fax: (519) 667-3362

Lawyers for the Plaintiff

TIMOTHY YEOMAN

Plaintiff

v. THE CASH STORE FINANCIAL SERVICES INC., et al.  
Defendants

Court File No. 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

PROCEEDINGS COMMENCED AT LONDON

**MOTION RECORD  
(for Certification)  
(VOLUME 3)**

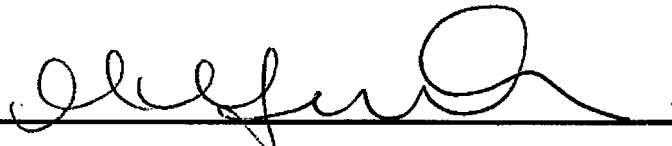
**HARRISON PENZA LLP**  
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Jonathan J. Foreman (LSUC #45087H)  
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Tel: (519) 679-9660  
Fax: (519) 667-3362

Lawyers for the Plaintiff

**TAB C**

**This is Exhibit "C" referred to in the  
Affidavit of Jonathan J. Foreman  
Sworn before me, this 9th day of May, 2014**

A handwritten signature in cursive script, appearing to read "J. Foreman", is written over a horizontal line.

**A Commissioner, etc.**

Court File No.: 7908/12 CP

**ONTARIO  
SUPERIOR COURT OF JUSTICE**

BETWEEN:

TIMOTHY YEOMAN

Plaintiff

- and -

THE CASH STORE FINANCIAL SERVICES INC., THE CASH STORE INC.,  
INSTALOANS INC., DIRECTCASH BANK, DIRECTCASH ATM PROCESSING  
PARTNERSHIP, DIRECTCASH ATM MANAGEMENT PARTNERSHIP, DIRECTCASH  
PAYMENTS INC., DIRECTCASH MANAGEMENT INC., and  
DIRECTCASH CANADA LIMITED PARTNERSHIP

Defendants

*Proceeding under the Class Proceedings Act, 1992*

**SUPPLEMENTARY AFFIDAVIT OF SARAH A. BOWDEN  
(sworn March 5, 2014)**

I, **SARAH A. BOWDEN**, of the City of London, in the Province of Ontario, **MAKE  
OATH AND SAY:**

1. I am a lawyer in the class actions department at Harrison Pensa LLP, lawyers for the Plaintiff. As such, I have personal knowledge of the matters to which I hereinafter depose except for the statements I have indicated are based on information and belief. To the extent that my knowledge is based on information

and belief, I identify the source of such information and believe the information to be true.

2. On February 5, 2014, I swore an affidavit in support of an Order certifying this action as a class proceeding. I repeat and rely on the content of my previously filed affidavit, and I make this supplementary affidavit to provide the Court with further information relating to the business activities of the Cash Store Financial defendants. The defined terms used in my affidavit sworn February 5, 2014 shall continue in this affidavit.
3. Since the time of swearing my previous affidavit, we have learned of the following developments in the matter:
  - a) The Ontario Superior Court of Justice released the decision of the Honourable Justice Morgan, which finds that Cash Store Financial's "BLOC [Basic Line of Credit] product constitutes a "payday loan" under subsection 1(1) of the [Payday Loans] Act." Attached hereto to this my affidavit and marked as EXHIBIT 'A' is a true copy of the decision of Morgan J., dated February 12, 2014;
  - b) The Ministry of Consumer Services released a news bulletin on February 13, 2014 indicating that Ontario's Registrar of Payday Loans "issued a proposal to refuse recent applications made for payday lender licenses from Cash Store and Instalozans", and referenced past convictions in Provincial Offences Court for operating as payday lenders in Ontario without a license. A second bulletin dated

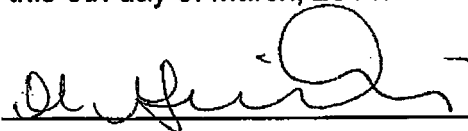


November 20, 2013 advises of the guilty pleas of The Cash Store Inc. and Instalozans Inc. with respect to operating as payday lenders in Ontario without a license. Attached hereto to this my affidavit and marked as **EXHIBIT 'B'** and **'C'** are true copies of bulletins issued by the Ministry of Consumer Services on February 13, 2014 and November 20, 2013, respectively.

- c) Cash Store Financial issued a press release indicating that "The Company is not currently permitted to sell any payday loan products in Ontario", and "the Company is no longer offering any of its line of credit products in Ontario." Attached hereto to this my affidavit and marked as **EXHIBIT 'D'** is a true copy of press release of Cash Store Financial dated February 13, 2014.

4. I make this affidavit in support of the Plaintiff's motion for certification and for no other or improper purpose.

SWORN BEFORE ME at the City of  
London, in the Province of Ontario  
this 5th day of March, 2014.



Commissioner for taking affidavits

)  
)  
)  
)  
)

  
SARAH A. BOWDEN

**This is EXHIBIT 'A' referred to in the  
Supplementary Affidavit of  
Sarah A. Bowden sworn before me  
this 5th day of March, 2014.**



*A Commissioner, etc.*

**CITATION:** The Director v. The Cash Store, 2014 ONSC 980  
**COURT FILE NO.:** CV-13-482242  
**DATE:** 20140212

**ONTARIO**

**SUPERIOR COURT OF JUSTICE**

**BETWEEN:**

The Director designated under the Ministry  
of Consumer and Business Services Act

Applicant

- and -

The Cash Store Financial Services Inc., The  
Cash Store Inc., and Instabans Inc.

Respondents

)  
)  
) *William Manuel and Kevin Hille, for the*  
) *Applicant*  
)  
)

)  
)  
) *Timothy Pinos and Jason Beitchman, for the*  
) *Respondents*  
)  
)  
)  
)  
)  
)

) **HEARD:** November 29, 2013

**MORGAN J.**

**I. The payday loan question**

[1] Is it a line of credit or is it a payday loan? That is the difficult question of characterization posed in this Application.

[2] The Respondents are a group of related companies that offer loans to the public on a retail basis. They were previously licensed as a payday lender under the *Payday Loans Act, 2008*, SO 2008, c. 9 (the "*Act*"), but this license lapsed in July 2013. In 2013 the Respondents restructured their business in Ontario, and began offering a newly fashioned financial product called a "Basic Line of Credit" ("BLOC") to their customers.

[3] The Applicant is the public official who is authorized under section 54(1) of the *Act* to apply to this court for an order "if it appears to the Director that a person or entity is not complying with this Act or the regulations".

[4] The Applicant alleges that the BLOC product is in name a line of credit but in substance a payday loan, and that as such it is subject to the numerous consumer protection provisions built into the provincial regulatory regime for payday loans. The Respondents contend that the BLOC product is a true line of credit that fills a market need since larger American subprime banks pulled out of Canada in the wake of the recent recession, and that as such it is outside the Applicant's jurisdiction under the *Act*.

[5] If the *Act* applies to the BLOC, the Respondents would need to be licensed under the *Act* in order to offer this product to the public in Ontario. Furthermore, the Respondents' business would be caught by Ontario Regulation 98/09, as recently amended by Ontario Regulation 316/11 (the "*Regulation*"). The *Regulation* includes the cost of goods and services (i.e. service fees) in the calculation of the maximum cost of borrowing, it restricts certain goods and services by means of its definition of prohibited loans, and it requires lenders to provide funds in cash to customers. These provisions would potentially impact on the Respondents' business practices and would require changes in the terms of the BLOC.

[6] The history and policy underlying the *Act* and the *Regulation*, along with the process of the *Regulation's* enactment, have been thoroughly analyzed and upheld by the Divisional Court in *Cash Store Financial Services Inc. v Ontario (Minister of Consumer Services)*, 2013 ONSC 6440. As the Divisional Court put it at para 30, the *Act* was enacted in 2008 by Ontario as a package of consumer-oriented "legislative measures that protected the recipients of payday loans and ensured that the costs associated with these loans did not exceed certain limits."

[7] This Application is the latest in what appears to be a running battle between the parties. As indicated, the Respondents were at first licensed under the *Act*, but the introduction of the *Regulation* impacted in a way that the Respondents found onerous. They then challenged the *Regulation* in Divisional Court on the grounds, *inter alia*, that the government had not adequately consulted with them as a business affected by the *Regulation*. The Court, as indicated, upheld the *Regulation*. At the same time as seeking judicial review of the *Regulation*, the Respondents re-designed their products and gave up their license on the view that the new BLOC offering did not fall within the *Act's* ambit.

[8] The question now is whether the product offered to the public by the Respondents has been designed in such a way that it is outside the terms of the *Act* and avoids the impact of the *Regulation*. The Respondents accuse the Applicant of pursuing it relentlessly and of attempting to regulate it even after it changed its business model from payday loans to something altogether different. The Applicant, for its part, insists that it has caught the Respondents offering the same old product in deceptively new wrapping.

[9] For the reasons that follow, I agree with the Applicant that the BLOC amounts to a "payday loan" under subsection 1(1) of the *Act*. Although the contest is a close one, it is evident to me that this time the persistent regulatory cat has caught the clever business mouse.

## II. The BLOC product

[10] As described by Respondents' counsel, a consumer applying for the BLOC provides: a) photo ID; b) confirmation of a bank account; c) confirmation of income; d) a telephone number; and e) an email address. The Respondents, in turn, provide the customer with: a) a Broker Disclosure Statement; b) an agreement and Disclosure Statement (setting out interest rate, maximum credit limit, initial draw, brokerage fee, minimum payment, payment schedule and statement of other fees); c) a Recurring Pre-Authorized Debit Agreement; d) a credit assessment summary; and e) a draw receipt for the initial draw.

[11] The Respondents are the broker, not the lender, under the BLOC. They earn a fee of 21% payable on the initial draw. The lender, who is a separate entity, earns interest at the rate of 59.9% per annum.

[12] The loan Agreement signed by the customer is, as indicated above, accompanied by a Recurring Pre-Authorized Debit Agreement. The Agreement requires repayment of 50% of the outstanding balance in every repayment period. As initially designed, the BLOC required repayment of 90% of the outstanding balance before another draw could be obtained, but the amount was changed to 50% when the Applicant challenged that arrangement.

[13] The affidavit materials indicate that BLOC customers are entitled to select their own repayment period. The Respondents' affiant deposes that most borrowers choose to repay their draw biweekly if they are paid biweekly, or monthly if they are paid monthly, in an effort to minimize interest payments. On the Respondents' website, maximum borrowing under the BLOC is promoted as a percentage of the customer's salary: "Borrow up to 60% of your net income".

[14] The Applicant submits that the BLOC product is readily comparable to the payday loans that the Respondents offered customers when it was licensed under the *Act*. As with the BLOC, a customer applying for a payday loan was required to provide bank account information, proof of income, a telephone number, and an email address. Likewise, the affidavit evidence indicates that the Respondents' now discontinued payday loans, much like the BLOC, offered an advance of up to 60% of the customer's net income for the upcoming pay period.

[15] The affidavit material also indicates that the BLOC targets roughly the same consumer market as the former payday loans – i.e. the economic tier of Canadians who, while employed, lack access to traditional credit.

### III. The legislative framework

[16] The *Act* is limited in its application. Section 2(1) provides that it applies "in respect of all payday loans if the borrower, lender or loan broker is located in Ontario when the loan is made or to be made". Under s. 1(1), a "payday loan" is defined as follows:

...an advancement of money in exchange for a post-dated cheque, a pre-authorized debit or a future payment of a similar nature but not for any guarantee,

suretyship, overdraft protection or security on property and not through a margin loan, pawnbroking, a line of credit or a credit card.

[17] A line of credit is specifically referenced as being outside the "payday loan" definition, although the term "line of credit" is not itself defined in the legislation.

[18] The definition of "payday loan" in the *Act* was copied verbatim from the definition of that term found in section 347(2) of the *Criminal Code*. Section 347 of the *Criminal Code* creates both an indictable and a summary conviction offense for the lending of money at a criminal rate of interest. The "criminal rate" is defined, effectively, as 60% per annum. Since the BLOC lender earns interest at the annual rate of 59.9%, it is evident that the product has been designed to be outside the regulatory provisions of the *Act* and just shy of the prohibition in the *Criminal Code*.

[19] The Ontario legislation was enacted in coordination with the federal legislation. Section 347.1(2) of the *Criminal Code* provides that the offence in section 347(1) and applicable provisions of the *Interest Act*, RSC 1985, c. I-15 do not apply if... "(c) the province is designated under subsection (3)." That subsection, in turn, provides:

(3) The Governor in Council shall, by order and at the request of the lieutenant governor in council of a province, designate the province for the purposes of this section if the province has legislative measures that protect recipients of payday loans and that provide for limits on the total cost of borrowing under the agreements.

[20] Under section 91(19) of the *Constitution Act, 1867*, it is the federal government that has legislative power over interest rates. The delegation of this power to designated provinces with respect to payday loans in section 347.1(c)(3) of the *Criminal Code* was narrowly targeted at the regulation of a specific type of product. The federal Minister of Justice, in introducing the exemption for designated provinces in section 347.1 of the *Criminal Code* in 2007, made this clear:

While [the statutory definition of payday loans] might seem like a mouthful, it is an extremely important aspect of the proposed amendments. Laws and legal systems are meant to provide a certain degree of precision, clearly defining the limits of the behaviour which they purport to regulate.

By defining a payday loan in this fashion, the proposed amendments provide the precision necessary to ensure that the exemption will not capture other types of lending arrangements where the policy considerations at play are very different. These amendments are targeted in scope.

[21] Similarly, as counsel for the Respondents points out, the fact that the *Act* filled a specific opening delivered to the province by the federal government was recognized in the Ontario legislature upon its enactment:

Mr. Bill Mauro (Thunder Bay-Atikokan): 'I was quite pleased yesterday to see that the Payday loans Act passed third reading here in the Legislature... It is also extremely important that I point out that for the first time in the history of this Legislature, our government has stepped into an area that heretofore was not regulated.'

Ontario Debates, Session 39.1, June 10, 2008.

[22] The *Act* therefore does not apply to any financial product offered by the Respondents that does not meet the statutory definition of a "payday loan". Indeed, given the province's constitutional limitations, it *could not* apply to anything but a payday loan since the regulation of any other lending instrument and applicable interest rates is within the authority of the federal government.

#### IV. Burden of proof

[23] The Applicant submits that it has proved that the BLOC is *prima facie* a payday loan as on its face it so resembles a payday loan. Citing *Peel Law Association v Pieters* (2013), 116 OR (3d) 81 (Ont CA), Applicant's counsel contends that the Respondents are seeking to fall within a specific statutory exclusion – i.e. a line of credit – and that the burden of proof therefore shifts to the Respondents to establish that the BLOC falls within the exclusion. The Applicant puts the point as it was put by Cronk J.A. in *Stellarbridge Management Inc. v Magna International (Canada) Inc.* (2004), 71 OR (3d) 263, at para 60 (Ont CA): "he who asserts must prove...[but] he who relies on an exception to the general rule must prove that he comes within the exception."

[24] I am not convinced that this kind of midstream shift in burden applies in establishing the Applicant's jurisdiction under the *Act*. The Applicant has regulatory authority over "payday loans", and the onus is on the Applicant to establish that the financial product that it is targeting fits that definition.

[25] The *Act's* negative reference to "line of credit" in the definition section – along with "any guarantee, suretyship, overdraft protection or security on property and not through a margin loan, pawnbroking, ...or a credit card" – does not carve out an exception to the definition of payday loans. If that were the case, a line of credit, along with a guarantee, suretyship, credit card, pawnbroking, etc., would have to be a subset of payday loans to which that term would apply but for the exception.

[26] The various types of transactions listed with a line of credit as not being payday loans are just that – *not* payday loans; they are not transactions that have the characteristics of payday loans but that are for policy reasons being excluded from the statutory definition. To take just one example from the list, it cannot be seriously contended that pawnbroking – whose unique characterizing feature involves the bailment of personal property, which has nothing to do with any other feature of payday loans – is in fact a payday loan that was specifically carved out as a statutory exception to that term.

[27] The Supreme Court of Canada provided the general rationale for placing and shifting the burden of proof in *Snell v Farrell*, [1990] 2 SCR 311, at para 29, where it stated that “all evidence is to be weighed according to the proof which it was in the power of one side to have produced, and in the power of the other to have contradicted.” That reason for shifting the burden of proof from its ordinary position on the Applicant does not apply in the present circumstances.

[28] The Respondents are in no better a position to establish that the BLOC is a line of credit rather than a payday loan than is the Applicant in establishing that the BLOC is a payday loan rather than a line of credit. Although the Applicant complains that it has not had sufficient access to the Respondents’ business records to be able to satisfy the entire evidentiary burden, the evidence issue is a distraction from the substantive question posed in the Application. There is certainly enough evidence in the record to understand the specific terms of the BLOC product, which after all are designed for the consumer and are not overly complicated. What remains to be established is the characterization question of whether that product is distinct from, or fits squarely within, the statutory definition of a payday loan.

[29] The syntax of the *Act*’s definition of “payday loan” suggests that the list of items of which line of credit forms a part is provided as a contrast to payday loans. Saying that the *Act* applies to payday loans but not to lines of credit is like saying that a rule of privilege applies to lawyers but not to accountants. See *Tower v MNR*, 2003 DTC 5540, at para 38 (Fed CA). The latter category is not a narrow exception to the more general former category; accountants are not an exception to the rules governing solicitors any more than a line of credit is an exception to the rules governing payday loans. The contrast to something *not* included in the regulation helps to carefully define what is included.

[30] Accordingly, the burden of proof does not shift. The onus is on the Applicant to establish that the BLOC is a payday loan and that the Applicant therefore has jurisdiction under the *Act*.

#### V. Payday loan or line of credit?

[31] Guidance as to the proper approach to interpreting the *Act* is contained in section 4 of the *Act* itself, as follows:

4. In determining whether this Act applies to a person, entity, agreement or transaction, a court or other tribunal shall consider the real substance of the person, entity, agreement or transaction and in so doing may disregard the outward form.

[32] As indicated above and as summarized by Respondents’ counsel in their factum, the statutory definition sets out several characteristics of a payday loan:

- 1) An advancement of money;
- 2) In exchange for a post-dated cheque, pre-authorized debit or a future payment of a similar nature;



3) Not in exchange for any guarantee, suretyship, overdraft protection or security on property; and

4) Not provided through a margin loan, pawnbroking, a line of credit or a credit card.

[33] Respondents' counsel goes on to submit that there are two distinctions between the payday loan definition and the BLOC. The second of these is easily ignored; the Respondents contend that the *Act's* explicit contrasting of "line of credit" from the categories of transactions that could comprise a payday loan provides a distinguishing point for the BLOC product. This is a textbook illustration of a circular argument. One needs to know whether the BLOC is a true line of credit in order to determine whether or not it is outside the statutory definition as being a "line of credit".

[34] The first distinction identified by Respondents' counsel, on the other hand, is more to the point. They submit that characteristics 1) and 2) above "define payday loans as single transactions: i.e., the taking out of a loan to carry one over until one's next payday, at which point the loan will be paid off." They go on to observe that in the defining features of a payday loan, "[t]here is no mention of 'advancements' of money, or critically, advancements of credit. There is no mention of post-dated cheques, ongoing accounts or repayment schedules, but only one cheque, one debit, or one future payment."

[35] The latter group of features appear to be more form than substance. Whether or not the *Act* speaks of "advancements" that may or may not be obtained, or requires post-dated cheques that may or may not be used, or provides ongoing accounts or repayment schedules that may or may not be applied, is a matter of the mechanics of the loan. Those features do not define its essential character. This court indicated in *Parker v Yundt*, 2012 ONSC 244, at paras 25-26, that in a characterization question of this nature, one "may disregard the outward form of a transaction and may have regard to the pattern of activity."

[36] The question that goes to the heart of the issue is Respondents' counsel's first one: whether the BLOC is an ongoing, multi-faceted transaction, or a series of single, discreet transactions. As Susan Abbott, the Respondents' expert witness, explained in her affidavit, there three distinguishing features of a line of credit:

1. You apply once. As long as you comply with the terms, you have access to the approved credit line.
2. You are charged only based on the funds you actually borrow.
3. You can redraw up to the approved limit.

[37] The Respondents do their utmost to demonstrate that the BLOC is indeed the same as any line of credit. As their affiant describes it, interest on the loan starts running when the borrower takes the first draw, just like with any line of credit. Moreover, there is an overall credit limit,

and each advance of funds is labelled as a draw toward the overall credit amount, as with any line of credit. The facility is open for a year, and the borrower may repay it at any time without penalty, just like with a traditional rolling line of credit.

[38] As further described by the Respondents, the borrowers can draw down the loan in stages up to the credit limit. After the initial advance, they have a right to make subsequent draws on the loan subject only to a credit check and to the minimum repayment requirements.

[39] In order to visualize how the transaction will work, it must be recalled that the Respondents' evidence is that customers typically opt for a biweekly repayment schedule to coincide with their employment pay cycle. The customer passes a credit check, takes out a "Basic Line of Credit" up to a maximum amount, and then takes part of that maximum as an initial draw. As long as the minimum repayment of 50% is made by the repayment date (typically two weeks later), the customer can then take another draw, subject to passing another credit check.

[40] That process can be compared to a series of payday loans. Customers pass a credit check and then take out a loan payable in two weeks, to coincide with their employment pay cycle. As long as repayment is made by the due date two weeks later, the customer can then take out another payday loan, subject to passing another credit check.

[41] The Respondents argue that for a payday loan one would have to re-apply for each subsequent loan while for a BLOC no re-application is necessary for each subsequent draw. That, however, is a distinction that makes little substantive difference. The essence of any loan application is the credit check, which has to be done whether a new payday loan is being obtained or a new draw on the BLOC is being obtained. Whether or not a borrower has to also fill out the rest of the application form each time is a matter of mechanics.

[42] If the Respondents had stayed with their initial proposal and required 90% repayment for each draw before a new one is obtained, the identity between a payday loan (or series of payday loans) and a BLOC would have been virtually complete. Having reduced the repayment requirement to 50%, there is a slight difference between the two arrangements. This difference, however, is more theoretical than real.

[43] Given the extremely high rate of interest charged in a BLOC, it is unlikely that any borrower could accumulate more than one or two draws without fully repaying them and still pass a credit check for another one. The reality of such high interest loans – especially given the Respondents' professed target market of borrowers who cannot obtain traditional loans at standard banks rates – is that repayment is necessary before a new draw is obtained.

[44] With this reality in mind, one can describe the two types of transactions in remarkably similar terms:

a) A payday loan customer can take out twenty-six discreet loans during the course of a year, repaying the loans and passing a credit check for a new loan on a biweekly basis.

b) A BLOC customer can take twenty-six draws on a line of credit for a year, repaying the draws and passing a credit check for a new draw on a biweekly basis.

[45] The two arrangements may be different in concept, but their differences are impossible to perceive with the naked eye. One is a white pony with black stripes, and the other is a black pony with white stripes. For all practical and regulatory purposes, they both add up to the same creature – a payday loan.

## VI. Disposition

[46] The Applicant shall have a declaration that the Respondents' BLOC product constitutes a "payday loan" under subsection 1(1) of the *Act*. The BLOC is subject to: (i) the *Act*, its General Regulation 98/09, as amended, and any applicable administrative penalties where the amount of the loan is \$1,500 or less and the term of the agreement is 62 days or less, and (ii) section 347 of the *Criminal Code*, section 2 of the *Interest Act*, the *Act* and its General Regulation 98/09, as amended, and any applicable administrative penalties where the amount of the loan is more than \$1,500 or the term of the agreement is more than 62 days.

[47] The Respondents are prohibited from acting as a loan broker of the BLOC without a loan broker's license under the *Act*.

[48] After the hearing counsel advised me by letter that they have agreed on \$50,000 as costs to whichever party is successful in the Application. The Respondents shall therefore pay the Applicant costs in the all-inclusive amount of \$50,000.

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Morgan J.

**CITATION:** The Director v. The Cash Store, 2014 ONSC 980  
**COURT FILE NO.:** CV-13-482242  
**DATE:** 20140212

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**

**BETWEEN:**

The Director designated under the Ministry of  
Consumer and Business Services Act

Applicant

-- and --

The Cash Store Financial Services Inc., The Cash Store  
Inc., and Insta loans Inc.

Respondents

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**REASONS FOR JUDGMENT**

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E.M. Morgan J.

2014 ONSC 980 (CanLII)

**This is EXHIBIT 'B' referred to in the  
Supplementary Affidavit of  
Sarah A. Bowden sworn before me  
this 5th day of March, 2014.**

  
A Commissioner, etc.

## **Cash Store and Instalozans Denied Payday Lender Licences**

February 13, 2014 4:00 p.m.

Ontario's Registrar of Payday Loans today issued a proposal to refuse recent applications for payday lender licences from Cash Store and Instalozans - both owned by The Cash Store Financial Services Inc.

Separately, on February 12, the Superior Court of Justice issued a decision that the basic line of credit Cash Store and Instalozans has been offering is a payday loan and subject to Ontario's Payday Loans Act and Regulations. Cash Store and Instalozans are prohibited from acting as a loan broker of the basic line of credit without a licence and they have been ordered to pay \$50,000 in costs to the Ontario Ministry of Consumer Services.

The Court's decision resulted from an application filed on June 7, 2013 by the Ministry. As a result of the decisions by the Registrar and Superior Court of Justice, Cash Store and Instalozans cannot offer payday loans or their basic line of credit product in Ontario.

In February 2013, the Ontario Registrar of Payday Loans issued proposals to revoke Cash Store's and Instalozans' licences. In the same month, Cash Store and Instalozans indicated they would no longer offer payday loans in Ontario, but would offer lines of credit instead. In July 2013, the companies did not renew their payday lender licences.

Under the Payday Loans Act, the Registrar may propose to refuse a licence if the applicant's past conduct "affords reasonable grounds for belief that the applicant will not carry on business in accordance with law and with integrity and honesty."

Past conduct the Registrar alleges includes:

- The November 2013 convictions of Cash Store and Instalozans operating as unlicensed payday lenders
- Charging more than the Ontario maximum of \$21 per \$100 borrowed for a payday loan
- Not providing consumers with their payday loans immediately

Both Cash Store and Instalozans have the right to request a hearing before the Licence Appeal Tribunal to dispute the proposal.

**QUICK FACTS**

- More than 750 payday loan storefronts are located in the province.
- Under the Payday Loans Act, a payday lender must provide a consumer with their loan immediately upon entering into the payday contract.

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**Stephen Puddister Communications**  
416-326-7279

**Available Online**  
**Disponible en Français**

**This is EXHIBIT 'C' referred to in the  
Supplementary Affidavit of  
Sarah A. Bowden sworn before me  
this 5th day of March, 2014.**

  
A Commissioner, etc.



## **Payday Lenders Plead Guilty and Fined \$150,000 for Operating without a Licence**

November 20, 2013

### **NEWS**

On November 18, 2013, The Cash Store Inc. and Instalozans Inc — owned by The Cash Store Financial Services Inc. — pleaded guilty at the Guelph Provincial Offences Court to operating as payday lenders in Ontario without a licence.

The Cash Store Inc. and Instalozans Inc. were fined a total of \$150,000, and are required to pay victim surcharges.

Between February 1, 2012, and July 4, 2012, The Cash Store Inc. and Instalozans Inc. acted as lenders of payday loans to borrowers throughout Ontario (including at their Guelph, Brantford and Sarnia stores), without being licensed as lenders under Ontario's *Payday Loans Act, 2008*.

Consumers are reminded to check the ministry's Consumer Beware List  [<http://www.ontario.ca/consumerbeware>](http://www.ontario.ca/consumerbeware) before doing business with any company.

### **QUICK FACTS**

- More than 750 payday loan storefronts are located in the province.
- Since 2008, inquiries to the Ontario government about payday loans have increased nearly tenfold, from 141 to 1,324.

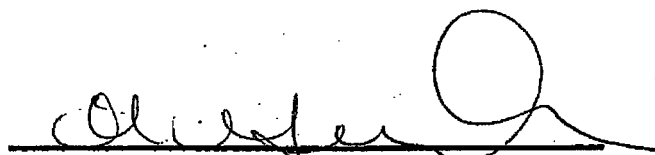
### **LEARN MORE**

- Payday Loans Act, 2008  [<http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_08p09\\_e.htm>](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_08p09_e.htm).
- The rights of payday loan customers  [<http://www.ontario.ca/mcs/en/Pages/Payday\\_Loans.aspx>](http://www.ontario.ca/mcs/en/Pages/Payday_Loans.aspx).

### **CONTACT**

Sandra Bento, Media Relations, 416-327-9708

**This is EXHIBIT 'D' referred to in the  
Supplementary Affidavit of  
Sarah A. Bowden sworn before me  
this 5th day of March, 2014.**



**A Commissioner, etc.**



## News Release

February 13, 2014

### Cash Store Financial Provides Ontario Licenses Update

EDMONTON, February 13, 2014 /CNW/ - The Cash Store Financial Services Inc. ("Cash Store Financial" or the "Company") (TSX: CSF; NYSE: CSFS) today announced that the Registrar of the Ministry of Consumer Services in Ontario has issued a proposal to refuse to issue a license to the Company's subsidiaries, The Cash Store Inc. and Instalozans Inc. under the *Payday Loans Act, 2008* (the "Payday Loans Act"). The Payday Loans Act provides that applicants are entitled to a hearing before the License Appeal Tribunal in respect of a proposal by the Registrar to refuse to issue a license. The Cash Store Inc. and Instalozans Inc. will be requesting a hearing.

The Company is not currently permitted to sell any payday loan products in Ontario. As reported yesterday, the Company is no longer offering any of its line of credit products in Ontario.

#### About Cash Store Financial

Cash Store Financial is the only lender and broker of short-term advances and provider of other financial services in Canada that is listed on the Toronto Stock Exchange (TSX: CSF). Cash Store Financial also trades on the New York Stock Exchange (NYSE: CSFS). Cash Store Financial operates 510 branches across Canada under the banners "Cash Store Financial" and "Instalozans". Cash Store Financial also operates 27 branches in the United Kingdom.

Cash Store Financial and Instalozans primarily act as lenders and brokers to facilitate short-term advances and provide other financial services to income-earning consumers who may not be able to obtain them from traditional banks. Cash Store Financial also provides a private-label debit card (the "Freedom" card) and a prepaid credit card (the "Freedom MasterCard") as well as other financial services, including bank accounts.

Cash Store Financial employs approximately 1,900 associates and is headquartered in Edmonton, Alberta.

Cash Store Financial is a Canadian corporation that is not affiliated with Cottonwood Financial Ltd. or the outlets Cottonwood Financial Ltd. operates in the United States under the name "Cash Store". Cash Store Financial does not do business under the name "Cash Store" in the United States and does not own or provide any consumer lending services in the United States.

#### For further information, please contact:

Gordon Reykdal, CEO, at 780-408-5118, or  
Peter Block, NATIONAL Public Relations, 416-848-1431

**Forward-Looking Information**

This news release contains "forward-looking information" within the meaning of applicable Canadian securities legislation and "forward-looking statements" within the meaning of United States federal securities legislation, which we refer to herein, collectively, as "forward-looking information". Generally, forward-looking information can be identified by the use of forward-looking terminology such as "estimates", "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". In particular, this news release contains forward-looking information with respect to the Credit Agreement, credit facilities being advanced under the Credit Agreement and the Company's ability to meet payment and interest obligations. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Cash Store Financial, to be materially different from those expressed or implied by such forward-looking information, including, but not limited to, changes in economic and political conditions, legislative or regulatory developments, technological developments, third-party arrangements, competition, litigation, risks associated with but not limited to, market conditions, and other factors described under the heading "Risk Factors" in our Annual MD&A, which is on file with Canadian provincial securities regulatory authorities, and in our Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission. All material assumptions used in providing forward-looking information are based on management's knowledge of current business conditions and expectations of future business conditions and trends, including our knowledge of the current credit, interest rate and liquidity conditions affecting us and the general economic conditions in Canada, the United Kingdom and elsewhere. Although we believe the assumptions used to make such statements are reasonable at this time and have attempted to identify in our continuous disclosure documents important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Certain material factors or assumptions are applied by us in making forward-looking information, including without limitation, factors and assumptions regarding our continued ability to fund our payday loan business, rates of customer defaults, relationships with, and payments to, third party lenders, demand for our products, our operating cost structure, current consumer protection regulations, as well as the ability to meet payments and interest obligations under the Credit Agreement, relationships with the Lenders and ability to abide by the terms of the Credit Agreement. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information, except in accordance with applicable securities laws.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36 AS AMENDED

Court File No. CV-14-10518-00CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF THE CASH STORE  
FINANCIAL SERVICES Inc., THE CASH STORE INC., TCS CASH STORE INC., INSTALOANS INC.,  
7252331 CANADA INC., 5515433 MANITOBA INC., 1693926 ALBERTA LTD DOING BUSINESS AS "THE  
TITLE STORE"

Applicants

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**  
Proceeding commenced at TORONTO

**MOTION RECORD OF**  
**TIMOTHY YEOMAN**

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Agents for Harrison Pensa LLP, counsel to  
Timothy Yeoman (class plaintiff)