

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

**THE CASH STORE FINANCIAL SERVICES INC.
AND RELATED APPLICANTS**

**THIRD REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

May 9, 2014

**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., AND 1693926 ALBERTA LTD DOING
BUSINESS AS "THE TITLE STORE"

APPLICANTS

**THIRD REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.
IN ITS CAPACITY AS MONITOR**

INTRODUCTION

1. On April 14, 2014, Regional Senior Justice Morawetz granted an Initial Order (the "**Initial Order**") pursuant to the Companies' Creditors Arrangement Act, R.S.C. 1985, c.C-36, as amended (the "**CCAA**") to The Cash Store Financial Services Inc., The Cash Store Inc., TCS Cash Store Inc., Instalozans Inc., 7252331 Canada Inc., 5515433 Manitoba Inc. and 1693926 Alberta Ltd. doing business as "The Title Store" (collectively, the "**Applicants**" or "**Cash Store**") providing protections to the Applicants under the CCAA, including a stay of proceedings (the "**Stay**") until May 14, 2014, and appointing FTI Consulting Canada Inc. (the "**Monitor**") as CCAA monitor.

2. On April 15, 2014, the Court granted an Amended and Restated Initial Order (the “**Amended & Restated Initial Order**”) which, among other things, approved an interim CCAA credit facility (the “**Initial DIP**”) by Coliseum Capital LP, Coliseum Capital Partners II LP and Blackwell Partners LLC (collectively “**Coliseum**”) and appointed Blue Tree Advisors Inc. as Chief Restructuring Officer of the Applicants (the “**CRO**”). The proceedings commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
3. The purpose of this Third Report of the Monitor is to provide the Court with information regarding the following:
 - (i) Background relevant to the issues to be addressed at the hearing scheduled for May 13, 2014 in these CCAA Proceedings;
 - (ii) The activities of the Monitor in these CCAA Proceedings, to the extent not described in connection with the other more specific topics addressed in this report;
 - (iii) The Applicants’ intended cessation of their brokered loan business (the “**Broker Business**”) and the status of matters relating to the third party lenders (“**TPLs**”) involved in the Broker Business;
 - (iv) The Applicants’ projected need for additional debtor in possession financing (the “**Additional DIP**”) and the status of proposals relating thereto;
 - (v) The Applicants’ request to implement a key employee retention plan (“**KERP**”) and a court-ordered charge in respect thereof;
 - (vi) The motion of Computershare Trust N.A., in its capacity as Indenture Trustee, and Computershare Trust Company of Canada (“**CS Canada**”) in its capacity as Collateral Trustee and Indenture Trustee (together, “**Computershare**”); and
 - (vii) The Applicants’ request for an extension of the Stay.

TERMS OF REFERENCE

4. In preparing this report, the Monitor has relied upon unaudited financial information of the Applicants, the Applicants' books and records, certain financial information prepared by the Applicants and discussions with the Applicants' management and advisers. The Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Future oriented financial information reported or relied on in preparing this report is based on management's assumptions regarding future events; actual results may vary from forecast and such variations may be material.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

BACKGROUND

Business and Product Offerings

6. The Applicants provide alternative financial products and services to individuals including payday loans in applicable jurisdictions, chiefly through retail branches in different provinces and territories across Canada under the banners "Cash Store Financial", "Instaloans" and "The Title Store".
7. The type of product offered by the Applicants has historically varied by jurisdiction. The variation in product offering appears to have been driven by differences in the regulatory framework in different provinces and territories.
8. In particular, the Monitor understands that the existence of payday loan legislation in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Nova Scotia (the "**Regulated Provinces**") but not the other provinces and territories of Canada (where the criminal rate of interest in the *Criminal Code* (Canada) applies) has been a main driver leading to the following differences in product offerings:

- (a) **Direct Loans:** In British Columbia, Alberta, Saskatchewan and Nova Scotia (each of which is a Regulated Province), the Monitor understands that the Applicants' primary product offering is the payday loan (a short-term, non-collateralized loan, typically in the range of \$100 to \$1,500). The Monitor understands that the Applicants loan funds directly to the customer, with the rate fee and default interest, if any, payable to the Applicants at the applicable rate under the relevant payday loan legislation, which varies from province to province.
- (b) **Brokered Loans:** In New Brunswick, Newfoundland, Northwest Territories, P.E.I. and Yukon (which are not Regulated Provinces), the Monitor understands that the Applicants have employed their Broker Business model, pursuant to which the Applicants broker requests made by their customers for loans to TPLs (the "**TPL Brokered Loans**"). This business model and the associated agreements and other arrangements between the Applicants and the TPLs have been the subject of discussion and motions in these CCAA Proceedings. The agreements and other arrangements with TPLs are summarized in the affidavit of Steven Carlstrom sworn April 14, 2014 (the "**Carlstrom Affidavit**") and referenced in both the pre-filing report of the proposed monitor dated April 14, 2014 (the "**Pre-Filing Report**") and the second report of the Monitor dated April 27, 2014 (the "**Second Report**").
- (c) **Brokered Lines of Credit (prior to regulatory restrictions):** According to the Carlstrom Affidavit, on October 1, 2012 in Manitoba and February 1, 2013 in Ontario, Cash Store stopped offering payday loans and instead launched unsecured, medium-term revolving credit line products. The Monitor understands that the lines of credit were all brokered products, employing the

Broker Business model. As a result of the regulatory issues described in the Carlstrom Affidavit and referenced below, Cash Store ceased to offer its line of credit products in Ontario as of February 12, 2014 and it appears that, in Manitoba, Cash Store will be required to cease offering the current form of brokered lines of credit if proposed legislation is implemented (which is presently anticipated to occur later this year or in 2015).

Issues Leading to CCAA Filing

9. The reasons leading to the CCAA application by Cash Store are outlined in the Carlstrom Affidavit. Among other things, the Carlstrom Affidavit describes that, in Ontario, the Applicants are presently without the necessary payday lending licenses and broker's licenses. Therefore, they are not in a position to offer payday loans or lines of credit in Ontario. The Monitor has been advised that the Applicants are not eligible to re-apply for a license for 12 months after the final notice was delivered from the Ontario Registrar on March 27, 2014 and, if Cash Store chooses to re-apply for a license after 12 months, it will be required to provide new or additional evidence for the Ontario Registrar to consider or demonstrate that material circumstances have changed. The Monitor understands that it remains Cash Store's intention to take steps to attempt to obtain a payday lending license in Ontario and is in discussions with the regulator.
10. The Carlstrom Affidavit also outlines that the Applicants have faced regulatory issues in Manitoba (including that new legislation is being introduced), a Royal Canadian Mounted Police ("RCMP") investigation into alleged violations of the interest provisions of the Criminal Code in Newfoundland, and issues and investigations in other jurisdictions, and that the Applicants face significant litigation claims, including various class actions.

M&A Process

11. Prior to the start of the CCAA Proceedings, the Monitor understands that Rothschild Inc. ("**Rothschild**") was retained by the special committee of the

- Applicants' board of directors to act as its independent financial advisor, and commenced a mergers and acquisitions process to seek a sale or significant investment in Cash Store (the “**M&A Process**”). The Monitor understands that a number of parties executed non-disclosure agreements and have been conducting due diligence in a dataroom established by Rothschild.
12. During the CCAA Proceedings, the M&A Process has continued. Among other things, Rothschild recently provided to interested parties an updated outline of the intended sale process, which includes the following timeline (subject to the ongoing supervision of the Court and to the Court orders in these proceedings):
- (a) May 23, 2014 – parties to submit letters of interest (including transaction structure and price);
 - (b) May 29, 2014 - selection of parties advancing to Phase 2;
 - (c) May 30-July 11, 2014 – Phase II due diligence;
 - (d) June 2-13, 2014 – Management presentations;
 - (e) July 11, 2014 – Binding proposals (for entire company or select assets) due.

ACTIVITIES OF THE MONITOR

Notice

13. In accordance with paragraph 59 of the Amended & Restated Initial Order, the Monitor published a notice in the *Edmonton Journal* on April 21, 2014, in the *Calgary Sun* on April 17, 2014, and in the *Globe and Mail* on April 22, 2014, containing the prescribed information.
14. In addition, the Monitor made the Initial Order and Amended & Restated Initial Order publicly available by posting them on the website the Monitor has made

available for these CCAA Proceedings at <http://cfcanada.fticonsulting.com/cashstorefinancial/> (the “**Monitor’s Website**”).

15. On April 17, 2014, the Monitor sent a notice to parties who, based on the Applicants’ books and records, were known creditors with claims against the Applicants of more than \$1,000. The Monitor also prepared a list showing the names and addresses of those creditors and the estimated amounts of those claims and made that list publicly available by posting it on the Monitor’s Website on April 17, 2014.
16. In addition, the Monitor has established a hotline and email address (the “**Hotline**”) at which interested parties may contact the Monitor with questions or concerns.

Monitoring Receipts and Disbursements

17. The Monitor has supervised the Applicants’ systems to monitor the receipts and disbursements of the Applicants. In particular, the Monitor generally supervises the receipts, disbursements and cash balances each weekday. The Monitor also assists with the weekly budget-to-actual analysis that is provided to the DIP lenders.
18. The Monitor has been monitoring, in particular, the available cash relative to the TPL Net Receipt Minimum Balance and Minimum Cash Balance (each as defined below). The TPL Net Receipt Minimum Balance as at May 6, 2014 was \$1,151,620.78.
19. On May 5, 2014, the Applicants opened two new accounts in relation to:
 - (a) McCann Post-Filing Receipts (defined below): As at May 8, 2014, the amount in this account was \$699,558.00, which includes all relevant receipts up to May 6, 2014; and

- (b) Post-Filing Trimor Ontario Receipts (defined below): As at May 8, 2014, the amount in this account was \$690,380.00, which includes all relevant receipts up to May 6, 2014.

Other Activities

- 20. In addition, the Monitor's activities since the Initial Order have included the following:
 - (a) Attending on the premises of the Applicants on a daily basis each weekday;
 - (b) Coordinating with PWC, agent for Trimor Annuity Focus Limited Partnership #5 ("**Trimor**") and 0678786 B.C. Ltd. (formerly McCann Family Holding Corporation) ("**McCann**"), and assisting the Applicants with responding to requests from PWC;
 - (c) Hosting a meeting between counsel for the CRO, McCann, Trimor, Coliseum and the *ad hoc* committee (the "**Ad Hoc Committee**") of holders of the Applicants' 11 1/2% senior secured notes (the "**Notes**") and numerous discussions and negotiations regarding TPL issues;
 - (d) Assisting the CRO on behalf of the Applicants in negotiations regarding additional DIP financing;
 - (e) Assisting the CRO on behalf of the Applicants in discussions with various regulators;
 - (f) Monitoring the receipts and disbursements of the Applicants in relation to the cashflow forecast and assisting with the weekly budget-to-actual analysis that is provided to the DIP lenders;

- (g) Assisting the Applicants in dealing with inquiries from creditors and other stakeholders, including employees, vendors, suppliers and others;
- (h) Assisting the Applicants in negotiations with suppliers;
- (i) Monitoring the Hotline on a daily basis and responding to inquiries;
- (j) Assisting the Applicants, the CRO and their advisors in relation to the M&A Process; and
- (k) The other steps and activities set out in herein and in the First Report and Second Report.

BROKER BUSINESS AND TPL ISSUES

TPL Protections - Background

- 21. The Amended & Restated Initial Order authorizes and directs Cash Store to continue to carry on business and use the Property in a manner consistent with the preservation of the business, “including the making of brokered loans pursuant to past practices as modified by paragraphs 30 to 35”. In that regard, the Amended & Restated Initial Order also expressly permitted the Applicants to continue to use amounts received by the Applicants in connection with the TPL Brokered Loans after the effective time of the Initial Order (the “**TPL Post-Filing Receipts**”) for the sole purpose of brokering new TPL Brokered Loans.
- 22. The Amended & Restated Initial Order also contains various provisions aimed to provide protections to the TPLs (the “**TPL Protections**”). Among other things, the TPL Protections include:
 - (a) a charge (the “**TPL Charge**”) ranking *pari passu* with the DIP Charge in the amount of the Applicants’ cash-on-hand as of the

effective time of the Initial Order as security for any valid trust or other proprietary claim of a TPL to such cash-on-hand;

- (b) an obligation to maintain on deposit in the Applicants' general bank account an amount not less than difference between the TPL Post-Filing Receipts and any TPL Post-Filing Receipts that are redeployed as new TPL Brokered Loans (the "**TPL Net Receipt Minimum Balance**"); and
 - (c) a requirement that the Applicants ensure the TPLs receive a return of approximately 17.5% (or such lesser amount as may be agreed) with respect to TPL Brokered Loans that are repaid and available for redeployment from and after the Initial Order date and any capital protection (as described in the Carlstrom Affidavit).
23. As noted in the Second Report, McCann sought relief at the come-back hearing scheduled for April 28, 2014 chiefly relating to the TPL Protections and treatment of new TPL Brokered Loans. Trimor also raised concerns with, among other things, the application of the concept of "capital protection" provided for in paragraph 35 of the Amended & Restated Initial Order.
24. Various steps occurred in relation to the TPL issues between the issuance of the Amended & Restated Initial Order and the scheduled come-back hearing of April 28, 2014, including that counsel for McCann cross-examined Steven Carlstrom in respect of the Carlstrom Affidavit on April 22, 2014 and served two affidavits on that same date.
25. The April 28, 2014 come-back hearing was adjourned to April 30, 2014. The parties engaged in discussions on April 29 and April 30 and came to an understanding as to terms upon which the TPL issues would be further adjourned. That understanding was incorporated into an order dated April 30, 2014 (the "**Additional TPL Protection Order**").

26. Among other things, the Additional TPL Protection Order provides as follows:

- (a) **McCann Loans:** Receipts from loans brokered by the Applicants that are received after the date of the Initial Order, which loans have McCann listed as lender or which are attributable to or have been assigned to McCann (“**McCann Post-Filing Receipts**”) are to be deposited in a segregated account and not used for new brokered loans or any other purpose pending further order of the Court or agreement. The Charges (as defined in the Initial Order) do not apply to such funds without a further Court order;
- (b) **Trimor Loans in Ontario:** Receipts from loans brokered by the Applicants in connection with its Ontario operations that are received after the date of the Initial Order, which loans have Trimor listed as lender or which are attributable to or have been assigned to Trimor (“**Post-Filing Trimor Ontario Receipts**”) are to be deposited in a segregated account and not used for new brokered loans or any other purpose pending further order of the Court or agreement. The Charges (as defined in the Initial Order) do not apply to such funds without a further Court order;
- (c) **Trimor Loans Outside Ontario:** Receipts from loans brokered by the Applicants in connection with its operations outside of Ontario that are received after the date of the Additional TPL Protection Order, which loans have Trimor listed as lender or which are attributable to or have been assigned to Trimor (“**Post-Filing Trimor Non-Ontario Receipts**”) shall be treated in accordance with the TPL Net Receipt Minimum Balance requirements and may only be used (i) for the purpose of brokering new TPL Brokered Loans in the name of Trimor provided that, with effect upon any such new TPL Brokered Loan being made, it is declared that Trimor shall be the owner of such new TPL Brokered Loan

and all proceeds therefrom and such TPL Brokered Loan and all proceeds therefrom shall not form part of the Property and shall not be subject to the Charges; or (ii) on any other basis as may be agreed in writing between Trimor, the DIP Lender, the Applicants and the Monitor.

(d) **Minimum Cash Balance:** The Applicants are required to maintain a \$3 million minimum cash balance in addition to the Post-Filing McCann Receipts and Post-Filing Trimor Ontario Receipts (the “**Minimum Cash Balance**”).

27. On May 5, 2014, Trimor delivered a Notice of Motion for a motion returnable May 13, 2014 seeking, among other things, an order directing Cash Store to execute and deliver documentation to evidence that Trimor is the sole legal and beneficial owner of the Trimor Property (defined therein, which includes loans made in the name of Trimor and brokered by the Applicants) and assistance from the Applicants in facilitating the transfer of the administration of Trimor-owned Loans and Advances (defined therein) to another service provider.
28. On May 7, 2014, McCann delivered a Notice of Motion seeking similar relief.

Proposed Cessation of the Broker Business

29. As described in the affidavit of William E. Aziz, sworn May 9, 2014 (the “**Aziz Affidavit**”), in light of the ongoing disputes between the Applicants and their two largest TPLs, including the requests from Trimor and McCann that no further TPL Brokered Loans be made using receipts from the TPL Brokered Loans in their names, and in light of regulatory issues in Ontario and Manitoba, class actions and other investigations, the CRO in consultation with the Monitor, the Chief Regulatory and Compliance Officer, Cash Store management, and legal and financial advisors, conducted a review of the Broker Business.
30. As part of the review, the CRO and the Monitor considered the following, among other things:

- (a) Cash Store has stopped offering the broker loan line of credit in Ontario pursuant to the regulatory restrictions described above. In addition, the Applicants have indicated that the current model will likely not be compliant with anticipated legislation in Manitoba by the end of 2014. Once these closures are effected, the remaining Broker Business will be very small, consisting only of operations conducted in New Brunswick (14 stores), Newfoundland (13 stores), P.E.I. (3 stores), Northwest Territories (2 stores) and Yukon (1 store) (the “**Remaining Provinces**”). The net operating contribution of the branches in the Remaining Provinces is, collectively, approximately \$110,000 per month before allocation of head office costs;
- (b) The Amended & Restated Initial Order requires that the Applicants ensure that the TPLs receive a return of approximately 17.5% (or such lesser amount as may be agreed) with respect to TPL Brokered Loans that are repaid and available for redeployment from and after the Initial Order date and any capital protection (as described in the Carlstrom Affidavit). The Applicants advise that certain of their secured creditors have indicated they do not support continued voluntary retention payments. In addition, there is a dispute regarding the implementation of the “capital protection” and therefore, until that is resolved, it is unclear who bears the economic risk of any losses on TPL Brokered Loans going forward, leading Trimor and McCann on the one hand and Coliseum and the Ad Hoc Committee on the other hand to express concerns regarding ongoing brokered lending;
- (c) Both Trimor and McCann have taken the position that the TPL Post-Filing Receipts should not be redeployed by Cash Store to make new TPL Brokered Loans. While the Additional TPL Protection Order permits Cash Store to continue to deploy the Post-Filing Trimor Non-Ontario Receipts (subject to conditions set out therein) in the short term, Trimor

has brought a motion, returnable May 13, 2014, for the return of all Trimor Funds. Trimor is the provider of the substantial majority of TPL funds in the provinces and territories where the Broker Business is still conducted (outside of Ontario and Manitoba). If the Applicants did not have access to those funds (or funds from another TPL), the Applicants would be unable to conduct brokered lending in those provinces;

- (d) Cash Store is expending a great deal of management and advisor time and incurring significant cost in negotiations and litigation regarding its ability to continue to make TPL Brokered Loans over the objection of Trimor and others;
 - (e) The extent to which the Broker Business, as conducted by the Applicants prior to the commencement of these proceedings, complies with the criminal interest rate provisions of the *Criminal Code* (Canada) has been the subject of significant litigation and regulatory investigation prior to the filing. There has been no judicial determination in the outstanding litigation regarding the Applicants' compliance or non-compliance with the *Criminal Code* (Canada). In light of the nature of the allegations made regarding the Broker Business, each of the CRO and the Monitor sought legal guidance regarding this issue. As set out in the Aziz Affidavit, there is a material risk that the Broker Business is not legally defensible under the criminal interest provisions of the *Criminal Code*.
31. After considering the nature of the Broker Business relative to the legislation, the CRO and the Monitor then considered the appropriateness and desirability of continuing the Broker Business in a Court-supervised proceeding taking into account, among other things, the seriousness of the allegations, the level of certainty or uncertainty regarding compliance with the legislation, the relative importance of continuing the Broker Business operations financially, the positions of key stakeholders and the other issues noted above.

32. Taking into account all of the foregoing considerations, the CRO, with the support of the Monitor, has determined that it is appropriate to cease the Broker Business in all jurisdictions at this time.
33. The CRO contacted counsel to Coliseum and the Ad Hoc Committee to advise of the decision to cease the Broker Business in all jurisdictions. The Monitor understands that, on May 7, 2014, counsel to Coliseum and the Ad Hoc Committee advised the Applicants that they do not oppose this decision.
34. The CRO and the Monitor discussed the cessation of the Broker Business with the CEO of Cash Store on May 8, 2014 at which time the CRO instructed the CEO to prepare plans for an immediate cessation of the Broker Business in all jurisdictions in which the Broker Business is currently carried on by Cash Store.
35. The Amended & Restated Initial Order states in paragraph 4 that the Applicants:
- “shall continue to carry on business and use the Property, the Filing Date Cash (as defined below) and the TPL Funds (as defined in the Carlstrom Affidavit) in a manner consistent with the preservation of the business, **including the making of brokered loans pursuant to past practices as modified by paragraphs 30 to 35** (the “Business”), and Property.”
- [emphasis added]
36. Accordingly, the Applicants are seeking an order that, notwithstanding any provision contained in the Amended & Restated Initial Order, the cessation of the Broker Business in all jurisdictions in which it is currently carried out is approved and the CRO, in consultation with the Monitor, is authorized to take all steps to conduct an orderly cessation of such business.

Cessation of Broker Business: Operating Plan

37. To effect the cessation of the Broker Business, the Monitor understands that the Applicants propose, for the time-being, to:

- (a) take immediate steps to begin to implement an orderly cessation of the Broker Business and cease offering any new TPL Brokered Loans in Manitoba and the Remaining Provinces;
 - (b) keep store locations open in the short term to assist with the repayment/collection process (this will not be a change in Ontario (and Cash Store will not make active efforts to collect a TPL Brokered Loan in Ontario until after it matures); in Manitoba and the Remaining Provinces; Cash Store proposes to take reasonable steps to collect all TPL Brokered Loans as they come due as well as past due TPL Brokered Loans);
 - (c) make arrangements to maintain all payments on the TPL Brokered Loans in one or more segregated accounts pending the determination of entitlement thereto; and
 - (d) identify and take steps to rationalize costs no longer required as a result of the suspension.
38. There are at least two possibilities for collecting TPL Brokered Loans currently outstanding: 1) Cash Store continues to collect on such loans in the usual course (this is the option that the Monitor understands is preferred by Coliseum and the Ad Hoc Committee); or 2) Cash Store transfers the existing TPL Brokered Loans to a service provider identified by the relevant TPL for administration and collection (this is the option requested by Trimor and McCann in their existing motions).
39. To the extent there is a dispute regarding these options, the following considerations appear relevant to selecting between those two alternatives and may require further evidence and argument:

- (a) The TPL's legal entitlement (at this time) to require a transfer of existing TPL Brokered Loans to another service provider pursuant to the relevant broker agreement;
- (b) The need to preserve amounts to which there will be a dispute regarding entitlement, including claims and potential claims (by Coliseum, Ad Hoc Committee, Trimor, McCann, class action plaintiffs, the Applicants or others).¹ This would likely require holding payments received on account of TPL Brokered Loans (to which there is a dispute regarding entitlement) in one or more segregated accounts such that they are not available to the Applicants or the TPLs for their general use, pending determination regarding entitlement. It is unclear if the option proposed by Trimor and McCann (administration and collection by another service provider) would provide for this segregation;
- (c) The relative prejudice to the parties. Relevant considerations may include:
 - (i) The anticipated collection costs and anticipated default rates using a new provider as compared to the collection costs and anticipated default rates when the same loans are collected by the Applicants. Based on the Applicants' experience in Ontario, when it ceased offering new TPL Brokered Loans, it will likely experience an increased default rate. Evidence as to whether the proposed alternate provider is able to offer new loans (notwithstanding a

¹ Trimor and McCann are seeking relief including documentation to evidence that they are the sole legal and beneficial owner of the Trimor Funds or McCann Funds, respectively. In addition, as at May 6, 2014, \$1,260,516 in new TPL Brokered Loans were made in Trimor's name after the Additional TPL Protection Order (i.e. between May 1 and May 6, 2014) such that, in accordance with the Additional TPL Protection Order, it has been declared that Trimor is the owner of such new loans and proceeds therefrom. It is unclear if there is a dispute regarding these funds that would require maintaining receipts in relation to these TPL Brokered Loans.

segregation of funds collected as described above) and collect payments, and the impact of those aspects on the repayment rate, may be a relevant factor;

- (ii) Particularly to the extent the alternate service provider proposed by Trimor or McCann is a competitor of Cash Store, providing the TPL Brokered Loans to that provider may be akin to delivering a customer list. A customer list (if it is determined to belong to the Applicants) may be a valuable asset in the ongoing M&A Process such that this method of collection may cause prejudice to the Applicants and other stakeholders in the M&A Process.

Next Steps: Relief Sought

- 40. For the reasons set out above, the Monitor is supportive of the Applicants' request for an order i) approving the Applicants' cessation of the Broker Business and authorizing the CRO, in consultation with the Monitor, to take all steps to cease the Broker Business; and ii) ordering and directing that receipts from TPL Brokered Loans (to which there is a dispute regarding entitlement) be held in one or more segregated accounts until further order of the Court. The Monitor is of the view that further evidence and argument on the points outlined above would be helpful to the extent there is a dispute regarding the methodology for collecting the outstanding TPL Brokered Loans going forward. Absent that, the Monitor supports continued collection of TPL Brokered Loans as proposed by the Applicants.

DIP FINANCING PROPOSAL

DIP - Background

- 41. As previously reported, the Applicants received two competing DIP proposals prior to the Amended & Restated Initial Order from each of Coliseum and the Ad

- Hoc Committee. In the Amended & Restated Initial Order, the Court approved the Initial DIP facility in the amount of \$8.5 million.
42. The Initial DIP was expected to be of a very short-term nature only since, at the time, cash projections set out in the cashflow forecast provided to the Court by the Applicants estimated that the Applicants would require more than \$8.5 million in cumulative funding by week three of the proceedings.
 43. Given the anticipated need for additional DIP financing, the Applicants, through Rothschild, requested proposals for additional DIP financing from each of Coliseum and the Ad Hoc Committee by noon on April 24, 2014. At the same time, the Applicants, with the assistance of the CRO and the Monitor, explored with Coliseum and the Ad Hoc Committee the possibility of a joint facility in which both parties would participate in the proposed additional financing.
 44. On April 24, 2014, after a series of discussions, this process resulted in an agreement in principle between Coliseum and the Ad Hoc Committee to offer additional interim financing to the Applicants on a joint basis, and the parties began ‘papering’ this arrangement (the proposed “**Joint DIP**”).
 45. In part due to receipts not anticipated within the first two weeks of the CCAA Proceedings, the Applicants anticipated having sufficient cash to fund their operations through to May 5, 2014 without further financing (rather than requiring further financing by April 28, 2014). Accordingly, while the Initial DIP technically matured on April 28, 2014, the parties agreed to seek approval of additional DIP financing on May 5, 2014 and not April 28, 2014 to provide sufficient time to conclude the new DIP financing documentation.
 46. On May 1, 2014, Cash Store received an additional tax refund in the amount of approximately \$5.9 million (together with a \$2.6 million tax refund received earlier, the “**Tax Refunds**”). Cash Store wrote to Coliseum to advise of the receipt of this amount.

47. Late on May 1, 2014, Coliseum informed Cash Store that, among other things, it was in default of its obligations under the Initial DIP facility and that, to the extent that Cash Store failed to make a mandatory repayment of the Tax Refunds, Coliseum intended to attend Court to seek the relief available to it.
48. On May 2, 2014, Cash Store, after consultation with the Monitor, made arrangements to repay the \$5.9 million tax refund amount to Coliseum (as a partial repayment of the Initial DIP) and to keep segregated, while discussions between them continued, the \$2.6 million tax refund amount in accordance with the Initial DIP term sheet and the Amended & Restated Initial Order.
49. On May 1, 2014, Cash Store also received approximately \$2.6 million of Pre-Authorized Debit (“PAD”) and other receipts that were being held by DC Bank.
50. On May 2, 2014, the Monitor reported to the service list on these developments, including that Cash Store was not yet in a position to seek approval of additional DIP financing on May 5, 2014, that discussions were ongoing regarding the terms for additional DIP facilities, among other things, and that it was unclear whether a Court attendance would be necessary on May 5, 2014. Attached as **Schedule “A”** is a copy of the May 2, 2014 email from Monitor’s counsel to the Service List.
51. Later on May 2, 2014, the Monitor advised the service list that the Applicants did not intend to seek approval of additional DIP financing on Monday, May 5, 2014 and that the hearing on that date would not be required. The Monitor also indicated it expected to provide a report in relation to the May 13, 2014 hearing unless further developments warranted an earlier report. Attached as **Schedule “B”** is a copy of the subsequent May 2, 2014 email from Monitor’s counsel to the Service List.

Additional DIP Financing

52. The Applicants and the CRO, in consultation with the Monitor, have been negotiating terms for the provision of additional financing under the Joint DIP with counsel to Coliseum and the Ad Hoc Committee.
53. On May 8, 2014, the Applicants received an unsolicited competing DIP proposal from DirectCash Payments Inc. (“**DCPI**”) (the proposed “**DCPI DIP**”). The Monitor understands that DCPI provides prepaid debit and credit card services to Cash Store and has been advised by the Applicants that DCPI is related to DC Bank, which offers bank accounts to Cash Store’s customers and receives and processes the repayment of loans from certain of Cash Store’s customers.
54. Given the timing of the delivery of the DCPI DIP proposal, the Monitor understands that the Applicants have proceeded to serve motion materials seeking other relief while continuing to review the two DIP proposals. The Monitor understands that the Applicants intend to serve subsequent materials seeking approval of additional DIP facilities after completing this review and any discussions with the applicable parties. At this time, it is not clear when those materials will be served or whether the Applicants will be seeking approval of a DIP facility on May 13, 2014 together with the other relief sought.
55. According to the projected cash flow forecast, attached as **Schedule “C”**, the Applicants are not anticipated to require additional financing until at least May 16, 2014.
56. The Monitor understands that as at May 9, 2014, the amount remaining under the Initial DIP for outstanding principal and interest was approximately \$2,628,546.02 and that the Applicants have or will be paying that amount on May 9, 2014. As noted above, the Initial DIP matured on April 28, 2014.
57. While the Monitor will provide further comment when the Applicants seek approval of a DIP facility, at this stage, the Monitor has reviewed the current proposed amended Joint DIP and the proposed DCPI DIP and notes that both of

these proposals offer to provide sufficient funding (subject, in one case, to exercising an extension option) to allow the Applicants to meet their projected cash needs through the requested extension of the Stay period.

KEY EMPLOYEE RETENTION PLAN

58. The Applicants are seeking authorization to implement a Key Employee Retention Plan (the “**KERP**”) for employees who are considered by the Applicants to be critical to the successful completion of the CCAA Proceedings (the “**KERP Participants**”).
59. The terms and details of the KERP are still being finalized; however, the Applicants have indicated to the Monitor that: i) the KERP Participants will be Cash Store employees in Finance, Human Resources and Marketing, among other areas; ii) the KERP will be structured such that the KERP Participants would receive a set amount payable upon completion of a plan of arrangement, 30 days after the sale of Cash Store’s business, or in respect of an assignment in bankruptcy or appointment of a receiver by Cash Store; and iii) the maximum amount payable under the KERP would be \$400,000 (the “**Maximum Amount**”).
60. At this time, the Applicants are seeking approval of a KERP, to be established, in the Maximum Amount, and authorization for the CRO to implement and finalize the terms of the KERP, in consultation with the Monitor.
61. The Monitor agrees that there are certain employees who appear to be critical to the completion of the CCAA Proceedings to whom it would be appropriate to provide incentives. As part of the consultation process required in the draft Order, the Monitor expects to be provided with the names of the KERP Participants and the values of the proposed payments for each KERP Participant prior to finalization and implementation of the KERP. The Monitor will review the terms and range of the proposed amounts relative to comparable CCAA cases

and the KERP Participants' respective salaries and consider whether the KERP Participants appear to be necessary parties to these CCAA Proceedings.

62. The Applicants are requesting a Court-ordered charge to secure payment of the KERP obligations in an amount not to exceed the Maximum Amount (the "**KERP Charge**"). They propose that the KERP Charge would have priority over all other security interests, charges and liens other than the Administration Charge, the Director's Charge to a maximum of \$1,250,000, the existing DIP Charge and the TPL Charge (all as defined in the Initial Order).

INDENTURE TRUSTEE

63. On May 2, 2014, Computershare served a Notice of Motion seeking, among other things, an order varying and/or amending paragraphs 42 and 44 of the Amended & Restated Initial Order to require payment of the reasonable fees and disbursements of legal counsel and, if necessary, the financial advisor retained by Computershare in relation to the CCAA Proceedings, and include legal counsel and, if necessary, the financial advisor retained by Computershare as beneficiaries of the Administration Charge.
64. The Monitor understands that Computershare is the indenture trustee pursuant to the indenture dated January 31, 2012 providing for the issuance of the Notes and that CS Canada is collateral trustee pursuant to the Collateral Trust and Intercreditor Agreement dated January 31, 2012.
65. Given the relationships among their clients, the Monitor encouraged discussions to take place between counsel to Computershare and counsel to the Ad Hoc Committee. As at the time of writing this report, the Monitor understands that discussions are ongoing and that, to the extent a resolution cannot be reached, the hearing of this matter will not proceed on May 13, 2014 but rather the Monitor will assist the parties in scheduling an appropriate date for such hearing.

STAY EXTENSION

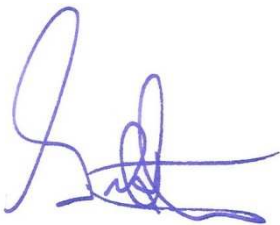
66. The Applicants have requested an extension of the Stay to June 17, 2014. To the extent the Applicants do not seek approval of a DIP Facility on the return of this motion, the Monitor understands that a shorter extension of the Stay may be sought.
67. The Cashflow attached hereto demonstrates that:
- (a) subject to approval of the requested order ceasing the Broker Business, the Applicants are projected to have sufficient liquidity to continue operations without further financing until at least May 16, 2014; and
 - (b) subject to approval of additional DIP financing of at least the amount provided in either the proposed amended Joint DIP or the proposed DCPI DIP (subject, in one case, to exercising an extension option) (the “**Required DIP Amount**”, which is assumed in the attached forecast), the Applicants are projected to have sufficient liquidity to continue operations during the proposed extension of the Stay period to June 17, 2014.
68. The Applicants, under the supervision and direction of the CRO, appear to be working with due diligence and in good faith to address numerous issues in these CCAA Proceedings and take steps to achieve an expeditious restructuring or recapitalization of their business.
69. The proposed extension of the Stay to June 17, 2014 would extend the Stay after the date by which letters of interest are requested in the M&A Process, the date for inviting parties to advance to Phase 2 of that process, and the scheduled completion of management presentations. As a result, it is likely that the parties will have greater visibility regarding the next steps in the M&A Process at that time. Accordingly, subject to approval of additional DIP financing of at least the

Required DIP Amount, the Monitor recommends that this Court grant the Stay extension to June 17, 2014 as requested by the Applicants.

70. To the extent approval is not granted for additional DIP financing, the Monitor supports a shorter extension of the Stay (provided the Cashflow reflects sufficient funds to the requested Stay extension date) to enable the Applicants to continue negotiations in relation to and seek approval of further DIP financing. To the extent approval is granted for additional DIP financing in an amount less than the Required DIP Amount, the Monitor reserves the right to provide further comment.
71. The Monitor respectfully submits to the Court this Third Report.

Dated this 9th day of May, 2014.

FTI Consulting Canada Inc.
The Monitor of
The Cash Store Financial Services Inc.
and Related Applicants



Greg Watson
Senior Managing Director

SCHEDULE "A" – Email to Service List dated May 2, 2014

From: Yeoh, Swee-Teen

Sent: Friday, May 02, 2014 1:36 PM

To: mwasserman@osler.com; jdacks@osler.com; priesterer@osler.com; ksachar@osler.com; nycprojectoilers@rothschild.com; nycprojectoilers@rothschild.com; wberman@casselsbrock.com; rjacobs@casselsbrock.com; rchadwick@goodmans.ca; boneill@goodmans.ca; orestes.pasparakis@nortonrosefulbright.com; Alan.Merskey@nortonrosefulbright.com; virginie.gauthier@nortonrosefulbright.com; alexander.schmitt@nortonrosefulbright.com; stapong@bennettjones.com; lenzk@bennettjones.com; StaleyR@bennettjones.com; adam.maerov@mcmillan.ca; brett.harrison@mcmillan.ca; patricia.wakelin@computershare.com; Shelley.Bloomberg@computershare.com; mohanie.shivprasad@computershare.com; tina.vitale@computershare.com; john.wahl@computershare.com; TMoss@perkinscoie.com; RSarubbi@perkinscoie.com; jkruger@blg.com; PMcCarthy@blg.com; jforeman@harrisonpensa.com; ahatnay@kmlaw.ca; dbieganeck@dcllp.com; Ehoaken@counsel-toronto.com; hawkesr@jssbarristers.ca; mweinczok@dickinsonwright.com; Dpreger@dickinsonwright.com; charles.wright@siskinds.com; serge.kalloghlian@siskinds.com; alex.dimson@siskinds.com; gmeisenheimer@harrisonpensa.com; jharnum@kmlaw.ca; ascotchmer@kmlaw.ca; sahnir@bennettjones.com; bellj@bennettjones.com; muskytoe@hotmail.com; vmnelson7@hotmail.com; bruce.hull@hotmail.com; pb@hbmlaw.com; mm@hbmlaw.com; baziz@bluetreadvisors.com

Cc: 'greg.watson@fticonsulting.com'; 'jeffrey.rosenberg@fticonsulting.com'; Gage, James D.; Meredith, Heather L.

Subject: In the Matter of Cash Store Financial Services Inc.; Court File No. CV-14-10518-00CL

Importance: High

On behalf of the Monitor, we wish to provide the following update in respect of some current developments as well as the hearing proposed for May 5, 2014 with respect to additional DIP facilities:

- Yesterday, Cash Store received a tax refund in the amount of approximately \$5.9 million. This tax refund is in addition to a tax refund of approximately \$2.6 million received last week. Cash Store has written to the DIP Lenders to advise them of these receipts.
- Late last night, the DIP Lenders informed Cash Store that, among other things, it is currently in default of its obligations under the DIP facility and that, to the extent that Cash Store fails to make a mandatory repayment today of the tax refund amounts, the DIP Lenders intend to attend Court to seek the relief that is available to them.
- Cash Store, after consultation with the Monitor, has made arrangements to repay the \$5.9 million tax refund amount and to keep segregated, while discussions with the DIP Lenders continue, the \$2.6 million tax refund amount in accordance with the DIP term sheet and the Amended & Restated Initial Order.
- Yesterday, Cash Store also received approximately \$2.6 million of PAD and other receipts that were being held by DC Bank.
- At this time the Monitor understands that Cash Store is not yet in a position to seek approval of additional DIP financing on May 5, 2014. Discussions between Cash Store and the DIP Lenders regarding the terms for additional DIP facilities, among other things, are taking place today.

- Cash Store and the Monitor are currently considering Cash Store's cash flow requirements through to May 13, 2014 after the tax refund arrangements referenced above and the receipt of these other funds from DC Bank, in the context of the Court order requirements.
- Pending the outcome of discussions with the DIP Lenders, it is unclear at this time whether a Court attendance will be necessary on May 5, 2014.

Cash Store or the Monitor will provide a further update to the service list.

Heather L. Meredith



Swee-Teen Yeoh

Legal Assistant | Adjointe juridique
Bankruptcy & Restructuring | Faillite et restructuration
Jamey Gage, Kevin McElcheran, Heather Meredith, Barbara Boake, James Farley and Kelly Peters
T: 416-601-8200 (542199)
F: 416-868-0673
E: steen@mccarthy.ca

MT Services Limited Partnership

Administrative services provider for McCarthy Tétrault LLP
Suite 5300
TD Bank Tower
Toronto ON M5K 1E6

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SCHEDULE "B" – Second Email to Service List dated May 2, 2014

From: Meredith, Heather L.

Sent: Friday, May 02, 2014 10:54 PM

To: Yeoh, Swee-Teen; mwasserman@osler.com; jdacks@osler.com; priesterer@osler.com; ksachar@osler.com; nycprojectoilers@rothschild.com; nycprojectoilers@rothschild.com; wberman@casselsbrock.com; rjacobs@casselsbrock.com; rchadwick@goodmans.ca; boneill@goodmans.ca; orestes.pasparakis@nortonrosefulbright.com; Alan.Merskey@nortonrosefulbright.com; virginie.gauthier@nortonrosefulbright.com; alexander.schmitt@nortonrosefulbright.com; stapong@bennettjones.com; lenzk@bennettjones.com; StaleyR@bennettjones.com; adam.maerov@mcmillan.ca; brett.harrison@mcmillan.ca; patricia.wakelin@computershare.com; Shelley.Bloomberg@computershare.com; mohanie.shivprasad@computershare.com; tina.vitale@computershare.com; john.wahl@computershare.com; TMoss@perkinscoie.com; RSarubbi@perkinscoie.com; jkruger@blg.com; PMcCarthy@blg.com; jforeman@harrisonpensa.com; ahatnay@kmlaw.ca; dbiegane@dcclp.com; Ehoaken@counsel-toronto.com; hawkesr@jssbarristers.ca; mweinczok@dickinsonwright.com; Dpreger@dickinsonwright.com; charles.wright@siskinds.com; serge.kalloghlian@siskinds.com; alex.dimson@siskinds.com; gmeisenheimer@harrisonpensa.com; jharnum@kmlaw.ca; ascotchmer@kmlaw.ca; sahnir@bennettjones.com; bellj@bennettjones.com; muskytoe@hotmail.com; vmnelson7@hotmail.com; bruce.hull@hotmail.com; pb@hbmlaw.com; mm@hbmlaw.com; baziz@bluetreadvisors.com

Cc: 'greg.watson@fticonsulting.com'; 'jeffrey.rosenberg@fticonsulting.com'; Gage, James D.

Subject: Re: In the Matter of Cash Store Financial Services Inc.; Court File No. CV-14-10518-00CL

Further to the report earlier today, set out below, the Monitor understands that the Applicants do not intend to seek approval of additional DIP financing on Monday, May 5th and that the hearing on that date will not be required.

The Monitor intends to provide a report in relation to the May 13, 2014 hearing and expects to provide further comments regarding these matters and the Applicants' cashflow at that time (unless further developments warrant an earlier report).

Sincerely,



Heather Meredith

Partner | Associée

Bankruptcy & Restructuring | Faillite et restructuration

T: 416-601-8342

C: 416-725-4453

F: 416-868-0673

E: hmeredith@mccarthy.ca

McCarthy Tétrault LLP

Suite 5300

TD Bank Tower

Box 48, 66 Wellington Street West

Toronto ON M5K 1E6

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SCHEDULE "C" – Projected Cashflow Forecast

The Cash Store Financial Services, Inc.

Weekly Cash Forecast

(CAD 000's)

| Week Ended | 5/9/2014 | 5/16/2014 | 5/23/2014 | 5/30/2014 | 6/6/2014 | 6/13/2014 | 6/20/2014 | Total |
|--------------------------------------|------------|------------|------------|-----------|------------|------------|-----------|------------|
| Cash Receipts | \$ 8,067 | \$ 7,546 | \$ 10,904 | \$ 10,723 | \$ 5,104 | \$ 6,339 | \$ 9,409 | \$ 58,090 |
| Operating Disbursements: | | | | | | | | |
| Loan Disbursements | 8,090 | 7,123 | 8,547 | 5,698 | 5,980 | 6,478 | 6,727 | 48,644 |
| Operating Expenses | 2,304 | 1,907 | 3,367 | 3,521 | 2,533 | 1,278 | 2,183 | 17,092 |
| Total Operating Disbursements | 10,394 | 9,030 | 11,914 | 9,219 | 8,513 | 7,756 | 8,910 | 65,736 |
| Operating Cash Flow | \$ (2,327) | \$ (1,484) | \$ (1,010) | \$ 1,504 | \$ (3,409) | \$ (1,418) | \$ 499 | \$ (7,647) |
| Non-Operating Disbursements: | | | | | | | | |
| Post Petition Non Operating Expenses | 1,106 | 630 | 553 | 553 | 133 | 434 | 133 | 3,542 |
| Credit Facility Interest | - | - | - | 125 | - | - | - | 125 |
| DIP Interest and Related Fees | 47 | - | - | - | - | - | - | 47 |
| Capex | - | - | - | - | - | - | - | - |
| Total Non-Operating Disbursements | 1,153 | 630 | 553 | 678 | 133 | 434 | 133 | 3,714 |
| BoP Cash | \$ 14,252 | \$ 8,190 | \$ 6,076 | \$ 6,012 | \$ 6,838 | \$ 7,796 | \$ 7,944 | \$ 14,252 |
| Total Cash Flow | (3,481) | (2,114) | (1,563) | 826 | (3,542) | (1,852) | 366 | (11,361) |
| EoP Cash Before New Borrowing | \$ 10,771 | \$ 6,076 | \$ 4,512 | \$ 6,838 | \$ 3,296 | \$ 5,944 | \$ 8,310 | \$ 2,891 |
| BoP DIP Loan | \$ 2,581 | \$ 0 | \$ 0 | \$ 1,500 | \$ 1,500 | \$ 6,000 | \$ 8,000 | \$ 2,581 |
| DIP Draw | - | - | 1,500 | - | 4,500 | 2,000 | - | 8,000 |
| DIP Paydown | (2,581) | - | - | - | - | - | - | (2,581) |
| EoP DIP Loan | \$ 0 | \$ 0 | \$ 1,500 | \$ 1,500 | \$ 6,000 | \$ 8,000 | \$ 8,000 | \$ 8,000 |
| EoP Cash After New Borrowing | \$ 8,190 | \$ 6,076 | \$ 6,012 | \$ 6,838 | \$ 7,796 | \$ 7,944 | \$ 8,310 | \$ 8,310 |
| Less: Non-Ontario Restricted Cash | 706 | 106 | (614) | (1,333) | (1,380) | (1,441) | (1,534) | (1,534) |
| Less: Ontario Restricted Cash | (1,256) | (1,357) | (1,478) | (1,600) | (1,661) | (1,742) | (1,863) | (1,863) |
| Less: Cash Minimum | (3,000) | (3,000) | (3,000) | (3,000) | (3,000) | (3,000) | (3,000) | (3,000) |
| Less: Tax Refund | - | - | - | - | - | - | - | - |
| EoP Cash After Restricted Cash | \$ 4,640 | \$ 1,825 | \$ 920 | \$ 905 | \$ 1,756 | \$ 1,761 | \$ 1,913 | \$ 1,913 |

Notes:

[1] The purpose of this cash flow forecast is to determine the liquidity requirements of the Applicants during the forecast period.

[2] Receipts from operations are forecast based on existing Consumer Loan Receivables and Accounts Receivable, forecast lending volumes and other revenues, and customer payment terms.

[3] Forecast disbursements from operations are forecast based on existing Accounts Payable, forecast loan volumes and operating expenses, and payment terms.

[4] Post-petition non operating expenses include professional fees associated with the Applicants restructuring and payments made to Third Party Lenders.

Forecast professional fee disbursements are based on advisor level estimates of fees that may be incurred during the forecast period.

Third Party Lender payments include interest associated with the funds advanced by the Third Party Lenders.

[5] Credit Facility Interest includes interest associated with the \$12 million in secured loans provided by the Senior Lenders.

[6] DIP Interest and Related Fees includes interest and transaction fees associated with the DIP financing.

[7] DIP Proceeds include anticipated draws from the DIP facility.