



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended December 31, 2008



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INTRODUCTION

The following management discussion and analysis (“MD&A”) should be read in conjunction with The Cash Store Financial Services Inc.’s (“Cash Store Financial”) unaudited consolidated interim financial statements for the three and six months ended December 31, 2008, and the audited consolidated financial statements and MD&A for the year ended June 30, 2008, both of which are available at SEDAR (www.sedar.com).

This management’s discussion and analysis is dated as of January 27, 2009.

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 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 “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 state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur”, or “be achieved”. In particular, this MD&A contains forward-looking statements in connection with the Cash Store Financial’s goals and strategic priorities, introduction of products, share repurchase initiatives and branch openings. 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 in our Annual Information Form (“AIF”) dated August 27, 2008 under the heading “Risk Factors”. All material assumptions used in making forward-looking statements 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 Canadian economy. 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 statements, 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 statements 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.



Non-GAAP Measures

This MD&A refers to certain financial measures that are not determined in accordance with generally accepted accounting principles (“GAAP”) in Canada. These measures do not have standardized meanings and may not be comparable to similar measures presented by other companies. Although a measure such as “Earnings before Interest, Income Taxes, Extraordinary Items, Stock-based Compensation, Amortization of Capital and Intangible Assets” (“EBITA”) does not have a standardized meaning prescribed by GAAP, this measure is used herein or can be determined by reference to Cash Store Financial’s 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. “Branch Operating Income” (“BOI”) is a non-GAAP measure that we track and report 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. “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 and our operational and financial position.

The following table provides a reconciliation of net income in accordance with GAAP to EBITA.

EBITA Reconciliation

	2009			2008				2007	
	Q2	Q1	YTD	Q4	Q3	Q2	Q1	Q4	Q3
Consolidated Results									
Income from continuing operations	4,292	6,056	10,348	3,190	2,706	3,207	3,418	2,013	1,374
Interest	1	14	15	3	1	3	2	4	9
Income tax	1,316	3,236	4,552	2,734	1,323	1,958	1,855	1,007	567
Stock-based compensation	264	299	563	331	106	96	92	241	282
Amortization of capital and intangible assets	1,421	1,323	2,744	1,356	1,297	1,375	1,218	1,164	1,104
EBITA from continuing operations	7,294	10,928	18,222	7,614	5,433	6,639	6,585	4,429	3,336
EBITA from discontinued operations	-	-	-	-	(560)	(396)	(402)	(202)	(579)



BUSINESS PROFILE AND STRATEGY

This section contains forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information.

Cash Store Financial is an alternative financial services provider to traditional banks, serving the needs of everyday people, through our two branch banners: The Cash Store and InstaLoans. The Cash Store and InstaLoans act as brokers to facilitate payday advance services to income-earning consumers. We also provide a range of in-demand financial products that are not supplied by traditional financial institutions. Driven by a dynamic workforce, a performance-based culture, and a commitment to strong business fundamentals, at December 31, 2008, we owned and operated 415 branches in nine provinces and two territories and employed over 1,600 associates across Canada. Cash Store Financial is the only payday advance broker in Canada listed for trading on the Toronto Stock Exchange. Cash Store Financial trades under the symbol "CSF".

Our business is based on the recognition that the needs of a segment of the population are not being met by traditional financial institutions. Our strategic objective is to establish The Cash Store and InstaLoans as the alternative financial services provider of choice offering a wide range of products, a high level of customer service, 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 revolving lines of credit, term loans, telephone reconnect services, injury advances, mortgages, financial product insurance, prepaid phone cards and cheque cashing products.

Cash Store Financial's strategic priorities are:

Operational:

- Maintaining a dominant position in the Canadian alternative financial services industry, through continued expansion into underserved communities.
- Providing superior service and innovative products.
- Building partnerships with our customers to ensure that their needs are met.
- Developing a motivated, knowledgeable team of associates dedicated to serving our customers.
- Providing strong leadership through in-the-field hands-on involvement of senior management.
- Working closely with government bodies to ensure a healthy, regulated industry exists to serve the needs of the Canadian population.

Financial:

- Maximizing shareholder value by growing our earnings per share.
- Maintaining a strong balance sheet to ensure continued aggressive growth at acceptable risk and enabling us to respond quickly to growth opportunities as they arise.
- Controlling costs through a strong focus on operational excellence.
- Ensuring that all branches are contributing to our profitability.



Second Quarter and Year-to-Date Highlights

This section contains forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information.

Income from continuing operations for the second quarter was \$4.3 million, compared to \$3.2 million for the same quarter last year. For the six months ended December 31, 2008, income from continuing operations was \$10.3 million, compared to \$6.6 million in the same period last year. The higher earnings resulted in diluted earnings per share from continuing operations increasing to \$0.23 in the quarter, compared to \$0.15, respectively, for the same period last year, and \$0.54 for the six months ended December 31, 2008 compared to \$0.32 for the same period last year. Over the quarter the diluted earnings per share were increased by \$0.02 per share as a result of the normal course issuer bid repurchases in the prior quarter.

During the second quarter, branch operating income was the strongest in October, followed by a drop in November and subsequently increased in December due to seasonality. Corporate expenditures remained fairly consistent over the three months with a slight increase in December due to professional fees related to the substantial issuer bid and holiday incentives.

Our EBITA from continuing operations for the second quarter was \$7.3 million, compared to \$6.6 million in the same quarter last year. For the six months ended December 31, 2008, the Company's EBITA from continuing operations was \$18.2 million, compared to \$13.2 million for the same period last year. This improvement is due to better execution of growth initiatives, collection protocols and risk management. Included in EBITA during the second quarter is the estimated costs related to the class action settlement of \$1.9 million.

The higher second quarter earnings reflect the following:

- Increased revenue as a result of 48 new branches opened compared to December 31, 2007 (including fourteen branches acquired through the purchase of a small regional company during the quarter, as well as an 11.0% increase in same branch revenues through improved staff retention, more effective bonus structures, communication of expectations at all levels of the organization and action plans for our lowest-performing branches; and
- Improved collection protocols used to reduce retention payments in line with management's expectations.

Earnings were reduced by:

- Increased branch expenses as a result of the 48 new branches;
- Increased corporate expenses as a result of increased bonuses due to higher profits, as well as an increase in training and information system support; and
- Increased expenses related to the class action lawsuit settlement and substantial issuer bid.

Management has established as a strategic priority an improvement to the revenue and earnings contributions of our lowest-performing branches. The effective execution of corporately-directed branch action plans has increased the profitable branches as a percentage of our overall branch network, and has shown an increase in the earnings contribution of our lowest-performing branches.



Product and revenue diversification initiatives continue to generate positive results. Fees from other services (including fees from cheque cashing, money transfer, payment protection, debit cards, pre-paid credit cards, term loans, revolving lines of credit, collections, telephone re-connect services, and prepaid phone cards) increased to \$6.3 million for the quarter, compared to \$5.5 million in the same period last year and \$12.7 million for the six months ended December 31, 2008, compared to \$10.5 million in the same period last year. During the quarter and in future periods we will continue to focus on ancillary products which enhance and continue to contribute to our core product line-up.

In order to further increase shareholder value, we have, over the past six months, repurchased 1,218,470 common shares pursuant to a normal course issuer bid at an average share price of \$5.83 per share and at a total cost of \$7.1 million. In addition, we have, over the past quarter, repurchased 1.5 million common shares pursuant to a substantial issuer bid at an average share price of \$6.00 per share at a total cost of \$9.0 million. Combined, these two transactions amounted to 16.1% of our shares outstanding at December 31, 2008.

During the first six months of our fiscal year, working capital has decreased by \$8.4 million from \$16.7 million at June 30, 2008. The decrease in working capital is primarily due to the purchase of our common shares and dividend payments, offset by the utilization of most of the future tax benefit associated with the spin-out of the rental operations on March 31, 2008.

Economic and Industry Review

The payday loan industry is subject to various federal and provincial laws and regulations. The laws and regulations are subject to change and could impose unforeseen costs or limitations on the industry.

Many provinces are currently working through a process to establish consumer protection measures for the payday loan industry. The Nova Scotia Utility and Review Board (“URB”) has issued an Order setting the maximum cost of borrowing for a payday loan at \$31 per \$100 lent. The Manitoba Public Utilities Board (PUB) has issued an Order setting the maximum cost of borrowing for a payday loan at \$17 per \$100 lent. This Order was appealed and Leave was granted on January 2, 2009 by the Manitoba Court of Appeal as well as a Stay of the Order until the appeal is heard. The Provinces of British Columbia, Saskatchewan, Ontario and New Brunswick have passed legislation that allows for the setting of maximum rates, although these rates have not yet been established. At this stage, with the exception of Nova Scotia, it remains difficult for us to specify what, if any, limits might be set in each province, due to incomplete public consultation processes that are either underway or have yet to begin.

Regardless of the potential impact of future provincial regulation, the payday loan industry has continued to grow in Canada.

During this period of economic and financial market uncertainty, we continue to analyze the impact to the industry particularly in the areas of revenue growth, default rates and access to capital. To date, we have not experienced any substantial negative effects to our business or ability to meet our customers’ needs.



SELECTED FINANCIAL INFORMATION

<i>Thousands of dollars, except for per share amounts and branch figures</i>		Three Months Ended		Six Months Ended	
		December 31 2008	December 31 2007	December 31 2008	December 31 2007
Consolidated results					
	<i>No. of branches</i>	415	367	415	367
Revenue					
Brokerage		\$ 36,966	\$ 32,591	\$ 74,259	\$ 64,772
Corporate		83	83	209	140
		37,049	32,674	74,468	64,912
Branch expenses		18,935	17,460	37,470	34,493
Retention payments		4,600	5,290	8,851	11,082
Branch operating income		13,514	9,924	28,147	19,337
Regional expenses		2,024	1,991	3,745	3,725
Corporate expenses		3,691	2,589	7,097	4,832
Other amortization		281	180	495	343
Income from continuing operations before income taxes, class action settlement and discontinued operations		7,518	5,164	16,810	10,437
Class action settlement		(1,910)	-	(1,910)	-
Income from continuing operations		4,292	3,207	10,348	6,625
Loss from discontinued operations		-	(676)	-	(1,066)
EBITA		7,294	6,639	18,222	13,224
Net income and comprehensive income		\$ 4,292	\$ 2,531	\$ 10,348	\$ 5,559
Weighted average number of shares outstanding - basic		18,507	20,267	18,971	20,483
Basic earnings per share					
Income from continuing operations		\$ 0.23	\$ 0.15	\$ 0.55	\$ 0.32
Loss from discontinued operations		-	(0.03)	-	(0.05)
Net income and comprehensive income		0.23	0.12	0.55	0.27
Diluted earnings per share					
Income from continuing operations		0.23	0.15	0.54	0.32
Loss from discontinued operations		-	(0.03)	-	(0.05)
Net income and comprehensive income		0.23	0.12	0.54	0.27
Consolidated Balance Sheet Information					
Working capital		\$ 8,272	\$ 8,700	\$ 8,272	\$ 8,700
Total assets		78,827	87,788	78,827	87,788
Total long-term liabilities		2,231	2,005	2,231	2,005
Total liabilities		15,804	10,536	15,804	10,536
Shareholders' equity		\$ 63,023	\$ 77,252	\$ 63,023	\$ 77,252

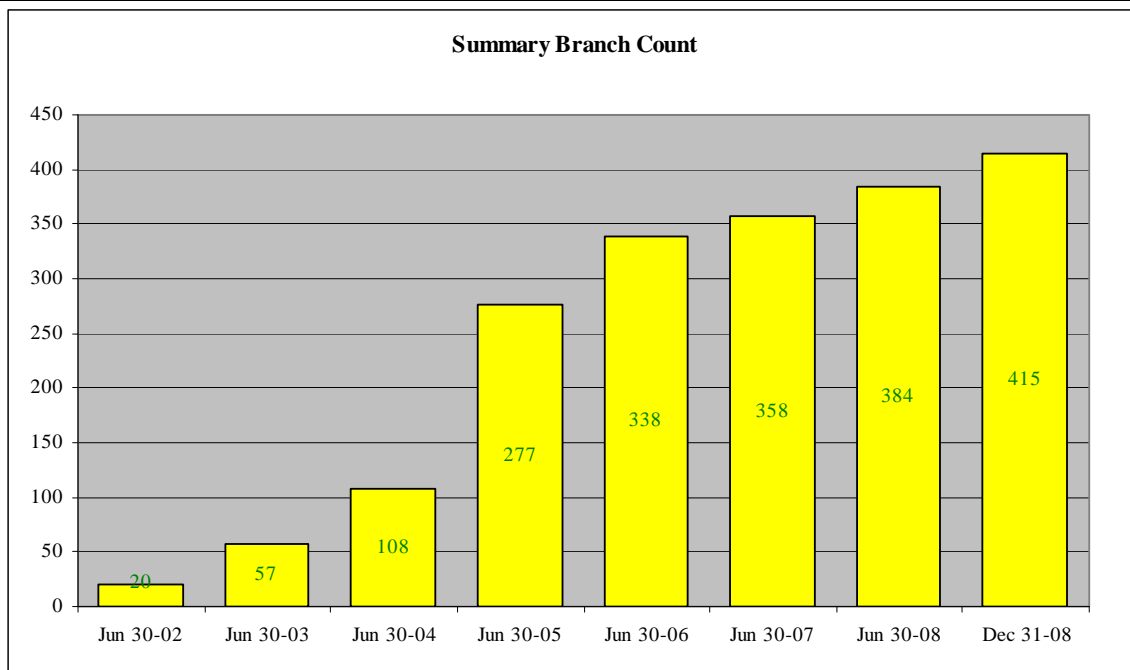
FINANCIAL ANALYSIS

This analysis provides an overview of our financial results for the second quarter of fiscal 2009 compared to the same period in 2008 and for the first six months of fiscal 2009 compared to the first six months of fiscal 2008.

Branch Count

This section contains forward-looking statements. See Cautionary Statement Regarding Forward-Looking Information.

At the end of the second quarter, a total of 415 branches were in operation compared to 367 branches at the end of the same quarter last year. During the quarter, eleven new branches were opened, fourteen branches were purchased (we are in the process of evaluating each branch's performance and some consolidation is likely to occur in future periods), and one branch was closed and accounts transferred to a nearby branch. Branch performance continues to be monitored and consolidations will occur when efficiencies can be achieved.



The opening or acquisition of 25 new branches over the quarter is consistent with our growth strategy. The closing of one underperforming branch is consistent with our strategy of ensuring positive contributions from all of our branches. We anticipate adding five to six branches per month over the next quarter.

Revenue

Revenue increased 13.4% to \$37.0 million from \$32.7 million in the same quarter last year. Year-to-date, revenue was \$74.5 million compared to \$64.9 million in the first six months of fiscal 2008. The higher revenue reflects an increase in loans brokered and related other services. This growth is due to 48 additional branches, the maturing of existing branches and increased same branch revenues. Same branch revenues increased through improved staff retention, more effective bonus structures, communication of expectations at all levels of the organization and action plans for our lowest-performing branches.

The table below illustrates consistent growth in all branch age categories contributing to the overall growth in revenue.



<i>(Thousands of dollars)</i>		Revenues			Average Revenue/Branch/Month	
Year Opened	Number of Branches	Q2 2009	Q2 2008	% Change	Q2 2009	Q2 2008
2001*	94	\$ 9,975	\$ 9,907	1%	\$ 35	\$ 35
2002	15	1,771	1,819	-3%	39	40
2003	35	3,939	3,732	6%	38	36
2004	52	5,161	4,729	9%	33	30
2005	68	6,217	5,702	9%	30	28
2006	54	4,536	3,714	22%	28	23
2007	25	1,794	1,322	36%	24	18
2008	35	2,168	433	401%	21	4
2009	37	643	-	-	6	-
	415	36,203	31,359	15%	\$ 29	\$ 25
Closed branches		2	549			
Other		762	682			
Continuing operations		\$ 36,966	\$ 32,591			

* Instaloan branches were acquired by Cash Store Financial on April 22, 2005, they have been operating since 2001.

The following table depicts the split between brokerage fees and other revenues:

<i>(thousands of dollars)</i>	Three months ended		Six months ended	
	December 2008	December 2007	December 2008	December 2007
Revenues				
Brokerage fees	\$ 30,716	\$ 27,078	\$ 61,591	\$ 54,317
Other	6,250	5,513	12,668	10,455
	36,966	32,591	74,259	64,772
Corporate	83	83	209	140
	\$ 37,049	\$ 32,674	\$ 74,468	\$ 64,912

Broker fees for the second quarter increased 13.4% to \$30.7 million from \$27.1 million in the same quarter last year as a direct result of 48 additional branches, the maturing of existing branches and the increased focus on growth through the establishment and communication of higher expectations at all levels, improved staff retention and more effective bonus structures. Year-to-date, broker fees totalled \$61.6 million, compared to \$54.3 million for the six months ended December 31, 2007.

Revenue from other services (including fees from cheque cashing, money transfers, payment protection, debit cards, term loans, revolving lines of credit, collections, telephone re-connect services, and prepaid phone cards) increased to \$6.3 million in the second quarter, up from \$5.5 million in the same quarter last year. Year-to-date, other revenue totaled \$12.7 million, compared to \$10.5 million for the six months ended December 31, 2007. These improvements demonstrate the progress we continue to make against our objective of diversifying our revenue stream and increasing the value generated from our existing suite of products. During the quarter and in future periods we will continue to focus on ancillary products which enhance and feed our core products.

Loans brokered in the second quarter totalled \$147.0 million and averaged \$374 per loan (excluding our broker fee), compared to \$129.5 million and an average of \$366 per loan in the same quarter last year. Year-to-date, the Company brokered \$294.9 million in loans at an average amount of \$369 per loan (excluding our broker fee), compared to \$260.8 million in loans at an average amount of \$360 for the six months ended December 31, 2007.

Due to the seasonal nature of our business, we anticipate revenues will drop slightly over the next quarter.



Same Branch Revenues

Same branch revenues for the 353 locations open since the beginning of the second quarter of fiscal 2008 increased by 11.0% compared to the same quarter last year, with same branch revenues averaging \$97,100 in the second quarter compared to \$87,400 in the second quarter of the previous year. Same branch revenues for the 341 locations open since the beginning of the first quarter of fiscal 2008 increased by 10.1% compared to the same period last year, with same branch revenues averaging \$197,500 year-to-date compared to \$179,400 in the same period last year. Same branch revenues increased through improved staff retention, more effective bonus structures, communication of expectations at all levels of the organization and action plans for our lowest-performing branches.

We continue to maximize shareholder value from our network of branches and products. As the cost structure for the existing branch base is relatively fixed, improving same branch revenues is an important objective. Small increases in same branch revenues currently lead to a direct increase in profitability.

Branch Operating Income

Branch operating income for the quarter was \$13.5 million compared to \$9.9 million in the second quarter of last year. Year-to-date, branch operating income was \$28.1 million, compared to \$19.3 million for the same period last year. Branch operating income improved as a result of increased revenue as noted above partial offset by increased expenses. Branch operating income, by maturity level, is outlined below:

<i>(Thousands of dollars)</i>		BOI (Loss)		BOI % of Revenues	
Year Opened	Number of Branches	Q2 2009	Q2 2008	Q2 2009	Q2 2008
2001 *	94	\$ 4,088	\$ 3,703	41.0%	37.4%
2002	15	642	715	36.3%	39.3%
2003	35	1,647	1,380	41.8%	37.0%
2004	52	1,977	1,766	38.3%	37.3%
2005	68	2,199	1,595	35.4%	28.0%
2006	54	1,502	630	33.1%	17.0%
2007	25	539	64	30.0%	4.8%
2008	35	586	-	27.0%	0.0%
2009	37	31	-	4.8%	-
	415	13,211	9,853		
Branches not yet open		(11)	-		
Closed branches		(144)	(203)		
Other		458	274		
Branch Operating Income		\$ 13,514	\$ 9,924		

* Instaloan branches were acquired by Cash Store Financial on April 22, 2005; they have been operating since 2001.

Expenses (excluding retention payments)

Expenses for the second quarter totalled \$23.5 million, an increase from \$20.8 million in the same quarter last year. Year-to-date, expenses have increased to \$46.1 million in the first half of the year, compared to \$40.8 million for the same period last year. The increase is primarily due to the addition of 48 new branches and increased bonuses related to higher profitability.



Retention Payments

Third-party lender retention payments for the second quarter totalled \$4.6 million (3.1% of loans brokered), compared to \$5.3 million (4.1% of loans brokered) in the same quarter last year. Payments decreased despite the fact that total loans brokered increased to \$147.0 million this quarter from \$129.5 million in the same quarter last year. As a percentage of revenue, retention payments have decreased to 12.4% in the second quarter of 2009, compared to 16.2% in the second quarter of 2008. Year-to-date, retention payments totalled \$8.9 million (3.0% of loans brokered), compared to \$11.1 million (4.2% of loans brokered) in the six months ended December 31, 2007. As a percentage of brokerage revenue, retention payments have decreased to 11.9% for the six months ended December 31, 2008, compared to 17.1% in the same period last year.

Improved collection protocols have contributed to a continued reduction in retention payments in line with management's expectations.

Amortization

Amortization of capital and intangible assets for the quarter totalled \$1.4 million, compared to \$1.4 million in the second quarter last year. Year-to-date, amortization of capital and intangible assets was \$2.7 million, compared to \$2.6 million for the six months ended December 31, 2007. The increase reflects the addition of 48 new branches.

Income Taxes

Our effective tax rate was 23.5% in the second quarter, compared to 37.9% for the second quarter last year, as a result of a decrease in federal and provincial corporate tax rates as well as utilization of substantially all of the \$4.9 million in income tax offsets gained through the spin-out of the rental division. Year-to-date, our effective tax rate was 30.6%, compared to 36.5% for the six months ended December 31, 2007.

Income from Continuing Operations

Income from continuing operations for the second quarter was \$4.3 million, compared to \$3.2 million in the same quarter of fiscal 2008. The increased income from operations was due primarily to improved revenues and lower retention payments, offset by expenses associated with 48 new branches, increased bonuses as a result of higher profitability, increased professional fees associated with the substantial issuer bid and the class action lawsuit settlement. Year-to-date, income from continuing operations was \$10.3 million, compared to \$6.6 million for the six months ended December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Our cash decreased to \$15.4 million in the second quarter, compared to \$15.6 million at June 30, 2008. Significant items impacting cash in the second quarter and year-to-date include:

- The repurchase of our shares pursuant to a normal course issuer bid in the amount of \$1.6 million in the quarter and \$7.1 million year-to-date;
- The repurchase of our shares pursuant to a substantial issuer bid in the amount of \$9.0 million in both the quarter and year-to-date;



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- Dividend payments of \$3.1 million in both the quarter and year-to-date;
 - Cash generated from operating activities, before non-cash operating items, of \$10.9 million in the quarter and \$22.3 million year-to-date; and
 - Capital asset expenditures of \$1.7 million in the quarter and \$2.6 million year-to-date.

At the end of the second quarter, our working capital position totalled \$8.3 million. The \$8.4 million decrease from June 30, 2008 is primarily as a result of the purchase of our common shares and dividend payments, offset by the utilization of most of the future tax benefit associated with the spin-out of the rental operations.

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”). As a Company we identify risks in four main categories: 1) operational; 2) financial; 3) legal and regulatory; and 4) strategic. 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). Our Risk Management department works continually to assess and mitigate the impact of potential risks to our stakeholders.

Consumer Protection Regulations

Cash Store Financial’s business is subject to various federal and provincial laws and regulations. The laws and regulations are subject to change and could impose unforeseen costs or limitations on the way we conduct or expand our business.

Cash Store Financial has been, and continues to be, a long-standing advocate of improved consumer protection measures for the payday loan industry. Our long-term strategy has been predicated on the belief that regulatory certainty will have a positive impact on operations. Accordingly, even though we do not lend directly to customers but provide brokerage services to customers who wish to borrow from arms-length third party lenders, we have taken an active role in various hearings at the provincial level whose goal is to introduce consumer protection measures including limits on the total cost of borrowing. In some instances, the regulators may take the position that broker fees are included in the total cost of borrowing.

On April 4, 2008 the Public Utility Board (“PUB”) in Manitoba issued an Order to establish maximum amounts that can be charged in respect of a payday loan. This cap was set at \$17 per \$100 lent. In its Order, the Manitoba PUB stated its intention to force all but the most efficient operators from the market. This Order was appealed and Leave was granted on January 2, 2009 by the Manitoba Court of Appeal as well as a Stay of the Order until the appeal is heard.

On July 31, 2008, the Nova Scotia Utility and Review Board (“URB”) also issued an Order setting the maximum cost of borrowing for a payday loan. The URB adopted a market approach and set the maximum at \$31 per \$100 lent, effectively allowing most, if not all, operators currently in the market to remain in business.

The Provinces of British Columbia, Saskatchewan, Ontario and New Brunswick also have passed legislation that allows for the setting of maximum rates, although these rates have not yet been established. At this stage, with the exception of Nova Scotia, it remains difficult for us to specify



limits that each province will set, due to incomplete public consultation processes that are either underway or have yet to begin.

Class Action Lawsuit

Cash Store Financial is subject to lawsuits and regulatory proceedings that could generate adverse publicity and cause us to incur substantial legal and other expenditures. Class action litigation proceedings have been initiated against almost all of the major payday advance businesses in Canada, including proceedings against us in Alberta, British Columbia and Ontario. As described below, the Ontario action, which encompasses claims for all areas of Canada except Alberta and British Columbia, has been settled. Failure by Cash Store Financial to successfully defend itself in the Alberta and British Columbia lawsuits or future actions could have a material adverse effect on our results of operations and financial condition in future periods.

The Ontario Action

On April 13, 2004, a legal proceeding was commenced against The Cash Store Inc. and 1152919 Alberta Ltd. (o/a Instaloans), by Thompson McCutcheon (the "Plaintiff"), a customer of the Company. The Plaintiff obtained an order pursuant to the *Class Proceedings Act*, 1992, S.O. 1992 c.6 (the "Act"), as amended, certifying the action as a class proceeding and appointing him as the representative of the Class. The Plaintiff asserted that the Company was in breach of the *Criminal Code* and *Fair Trading Act* as the aggregate of all charges including interest, broker fees and card fees charged 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 June 4, 2008, the Company settled the class action lawsuit in principle and on December 2, 2008, the Ontario Superior Court of Justice certified the class action lawsuit as a class proceeding under the *Class Proceedings Act*, and granted approval of the settlement that had been agreed to between the Company and the representative Plaintiff on behalf of the Class.

Under the terms of the settlement, the Company agrees to establish a Settlement Fund of \$3.0 million, consisting of \$1.5 million in cash, and \$1.5 million in vouchers. The vouchers are valid to pay future brokerage fees or for the repayment of an existing brokerage fee at The Cash Store or Instaloans. The minimum settlement agreed to by the Company is \$1.5 million, consisting of \$750,000 in cash and \$750,000 in vouchers. In addition, the Company has paid \$510,000 in legal fees and disbursements to counsel for the Class. The Company recorded a provision in its second quarter of 2009 of \$1.9 million to cover the estimated costs of the settlement, including legal fees awarded under the settlement.

The settlement does not constitute any admission of liability by Cash Store Financial.



Third Party Lenders/Retention Payments

We do not fund any short-term advances; all funding is 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. The agreements also provide that the third party lenders are responsible for losses suffered on account of uncollectible loans provided we have properly performed our duties under the terms of the 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.

Cash Store Financial's Board of Directors approved 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.

CHANGES IN ACCOUNTING POLICIES AND PRACTICES

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. "Available-for-sale financial assets" are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income ("OCI"). "Held-to-maturity investments", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method.

Cash has been designated as "held-for-trading". Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities and obligations under capital leases and other are designated as "other financial liabilities".

Section 3855 requires that we record non-financial derivatives as assets or liabilities at their fair value unless exempted from derivative treatment as a normal purchase or sale. The Section also requires us to identify embedded derivatives that need separation from the related host contract



and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations and deficit in the period the change occurs. We have elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on, or after, July 1, 2003 and have determined there are no material embedded derivatives that must be separated from the host contract and accounted for separately and there are no non-financial derivative instruments.

Transaction costs that are directly attributable to the acquisition or issuance or disposal of financial assets or liabilities are expensed at the time of occurrence.

Section 3861 (replaces Handbook Section 3860, “Financial Instruments-Disclosure and Presentation”) establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed. There was no material effect on our financial statements when we adopted the Section 3861 on July 1, 2007.

In March 2007, the CICA issued Handbook Section 3862, “Financial Instruments—Disclosures”, which complements CICA 3861 and provides expanded disclosure requirements that provide additional detail by financial assets and liability categories. This standard harmonizes disclosures with International Financial Reporting Standards, IFRS 7, “Financial Instruments: Disclosures”, and places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. We have assessed the impact of adopting this new standard. As a result of adopting this standard, new or enhanced disclosure is provided in Note 10 – Financial Instruments and Risk Management of our interim consolidated financial statements for the three months and six months ended December 31, 2008.

Accounting Changes

As disclosed in the June 30, 2008 annual audited consolidated financial statements, on July 1, 2008, we adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535 Capital Disclosures (“Section 1535”), Section 3862 Financial Instruments – Disclosure (“Section 3862”) and Section 3863 Financial Instruments – Presentation (“Section 3863”).

The adoption of these standards has had no material impact on our financial position, net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

Financial instruments

Section 3862 is based on International Financial Reporting Standards (“IFRS”) 7 “Financial Instruments: Disclosures” and requires disclosures, by class of financial instrument that enables users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis of each type of market risk to which an entity is exposed, show how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable.

In March 2007, the CICA also issued Handbook Section 3863 to enhance financial statement users’ understanding of the significance of financial instruments to an entity’s financial position, performance and cash flows. This Section establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related



interest, dividends, gains and losses, and the circumstances in which financial assets and financial liabilities are offset. This standard also harmonizes disclosures with IFRS 7.

As a result of adopting this standard, new or enhanced disclosure is provided in Note 10 - Financial Instruments and Risk Management of our interim consolidated financial statements for the three months and six months ended December 31, 2008.

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535. This standard requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance.

As a result of adopting this standard, new or enhanced disclosure is provided in Note 11 - Management of Capital of our interim consolidated financial statements for the three months and six months ended December 31, 2008.

CONTROLS AND PROCEDURES

Management has evaluated whether there were changes in our internal financial reporting controls during the most recent interim period ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

OUTSTANDING SHARE DATA

As at January 27, 2009, we had 16,927,482 common shares outstanding. There were also options to purchase 1,050,000 common shares, which if exercised, would provide us with proceeds of approximately \$4.6 million.



SUMMARY OF QUARTERLY RESULTS

The financial results for each of the last eight quarters are summarized in the following table. The results demonstrate a continued emphasis on growth compared to prior quarters, with an equal emphasis on management programs for underperforming branches.

	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Consolidated Results								
<i>No. of branches</i>	415	391	383	378	367	361	358	355
Brokerage	\$ 36,966	\$ 37,293	\$ 34,490	\$ 31,305	\$ 32,591	\$ 32,181	\$ 31,451	\$ 29,895
Corporate	83	126	52	41	83	57	16	32
	37,049	37,419	34,542	31,345	32,674	32,238	31,467	29,927
Branch expenses	18,935	18,535	18,635	17,724	17,460	17,034	16,903	16,607
Retention payments	4,600	4,251	4,229	4,800	5,290	5,792	5,501	5,707
Branch operating income	13,514	14,633	11,678	8,821	9,924	9,413	9,063	7,613
Regional expenses	2,024	1,721	1,985	1,730	1,991	1,734	1,819	1,470
Corporate expenses	3,691	3,406	3,524	2,827	2,589	2,243	4,001	4,010
Other amortization	281	214	244	234	180	163	222	192
Net income before income taxes, class action settlement and discontinued operations	7,518	9,292	5,925	4,030	5,165	5,273	3,021	1,941
Class action settlement	(1,910)	-	-	-	-	-	-	-
EBITA from continuing operations	7,294	10,928	7,614	5,433	6,639	6,585	4,429	3,336
Net income from continuing operations	4,292	6,056	3,190	2,706	3,207	3,418	2,013	1,374
Loss from discontinued operations	-	-	-	(650)	(676)	(390)	(422)	(924)
Net income and comprehensive income	\$ 4,292	\$ 6,056	\$ 3,190	\$ 2,056	\$ 2,531	\$ 3,028	\$ 1,591	\$ 450
Basic earnings per share								
Income from continuing operations	\$ 0.23	\$ 0.32	\$ 0.16	\$ 0.14	\$ 0.15	\$ 0.17	\$ 0.09	\$ 0.07
Loss from discontinued operations	-	-	-	(0.03)	(0.03)	(0.02)	(0.02)	(0.04)
Net income and comprehensive income	0.23	0.32	0.16	0.11	0.12	0.15	0.07	0.02
Diluted earnings per share								
Income from continuing operations	0.23	0.31	0.16	0.13	0.15	0.17	0.09	0.07
Loss from discontinued operations	-	-	-	(0.04)	(0.03)	(0.02)	(0.02)	(0.04)
Net income and comprehensive income	0.23	0.31	0.16	0.09	0.12	0.15	0.07	0.02