



**THE CASH STORE FINANCIAL SERVICES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended June 30, 2008 and 2007**



## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

Signed "Gordon J. Reykdal"

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

Signed "Nancy L. Bland"

**Nancy L. Bland, CA,**  
Chief Financial Officer



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## AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheets of The Cash Store Financial Services Inc. as at June 30, 2008 and 2007 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Accountants

Edmonton, Canada

August 26, 2008



**THE CASH STORE FINANCIAL SERVICES INC.  
CONSOLIDATED STATEMENT OF OPERATIONS**

	Year Ended June 30	
	2008	2007
<b>REVENUE</b>		
Brokerage	\$ 130,566,929	\$ 123,498,177
Interest income	232,453	63,828
	<b>130,799,382</b>	123,562,005
<b>BRANCH EXPENSES</b>		
Salaries and benefits	35,399,165	33,655,792
Retention payments	20,111,340	23,418,230
Selling, general and administrative	16,621,291	14,704,520
Rent	10,278,919	9,204,600
Advertising and promotion	4,128,383	4,022,749
Amortization of capital assets	4,425,131	3,596,368
	<b>90,964,229</b>	88,602,259
Branch Operating Income	<b>39,835,153</b>	34,959,746
Regional expenses	7,440,298	5,968,693
Corporate expenses	11,181,487	14,754,297
Amortization of capital assets	595,724	495,066
Amortization of intangible assets	225,542	312,336
<b>INCOME BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS</b>	<b>20,392,102</b>	13,429,354
<b>PROVISION FOR INCOME TAXES - Note 7</b>		
Current	6,042,725	4,724,749
Future	1,826,900	35,000
	<b>7,869,625</b>	4,759,749
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>12,522,477</b>	8,669,605
<b>LOSS FROM DISCONTINUED OPERATIONS,</b> net of taxes of \$(776,000), and \$(674,000) respectively - Note 18	<b>(1,716,120)</b>	(2,787,942)
<b>NET INCOME</b>	<b>\$ 10,806,357</b>	\$ 5,881,663
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>		
Basic	20,123,645	20,596,472
Diluted	20,241,943	20,706,744
<b>BASIC EARNINGS PER SHARE</b>		
Income from continuing operations	\$ 0.62	\$ 0.42
Loss from discontinued operations	(0.08)	(0.13)
Net income	0.54	0.29
<b>DILUTED EARNINGS PER SHARE</b>		
Income from continuing operations	0.62	0.42
Loss from discontinued operations	(0.09)	(0.14)
Net income	\$ 0.53	\$ 0.28

See accompanying notes to consolidated financial statements.



**THE CASH STORE FINANCIAL SERVICES INC.  
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS**

	<b>Year Ended June 30</b>	
	<b>2008</b>	2007
<b>RETAINED EARNINGS, BEGINNING OF YEAR</b>	<b>\$ 25,422,743</b>	\$ 19,541,080
Dividends on common shares - Note 12	<b>(3,552,395)</b>	-
Shares repurchased - Note 11 (a)	<b>(2,789,921)</b>	-
Insta-rent spin-off - Note 18	<b>(8,545,927)</b>	-
<b>NET INCOME FOR THE YEAR</b>	<b>10,806,357</b>	5,881,663
<b>RETAINED EARNINGS, END OF YEAR</b>	<b>\$ 21,340,857</b>	\$ 25,422,743

See accompanying notes to consolidated financial statements.



**THE CASH STORE FINANCIAL SERVICES INC.  
CONSOLIDATED BALANCE SHEET**

	June 30 2008	June 30 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash - Note 3	\$ 15,644,024	\$ 18,653,158
Accounts receivable - Note 4	5,617,048	1,616,424
Prepaid expenses and other	562,059	1,288,927
Current future income taxes - Note 7	3,166,373	-
Current assets held for spin-off - Note 18	-	279,875
	<b>24,989,504</b>	<b>21,838,384</b>
Deposits and other	1,144,271	548,353
Capital assets - Note 5	14,016,716	13,251,680
Intangible assets - Note 6	5,336,479	5,546,978
Future income taxes - Note 7	1,598,300	6,561,573
Long term investments - Note 8	180,000	-
Goodwill	33,986,245	33,986,245
Non-current assets held for spin-off - Note 18	-	10,198,846
	<b>\$ 81,251,515</b>	<b>\$ 91,932,059</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities - Note 9	\$ 6,856,662	\$ 8,738,363
Income taxes payable	922,768	766,855
Current portion of deferred revenue	163,877	141,851
Current portion of deferred lease inducement	298,332	270,325
Current portion of obligation under capital leases - Note 10	7,644	111,263
Current liabilities held for spin-off - Note 18	-	2,402,124
	<b>8,249,283</b>	<b>12,430,781</b>
Deferred revenue	96,106	164,667
Deferred lease inducement	564,050	559,433
Obligations under capital leases - Note 10	-	7,644
Future income taxes - Note 7	1,140,000	1,110,000
Non-current liabilities held for spin-off - Note 18	-	14,584
	<b>10,049,439</b>	<b>14,287,109</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital - Note 11	46,084,736	48,953,956
Contributed surplus - Note 13	3,776,483	3,268,251
Retained earnings	21,340,857	25,422,743
	<b>71,202,076</b>	<b>77,644,950</b>
	<b>\$ 81,251,515</b>	<b>\$ 91,932,059</b>

**Commitments - Note 14**

**Contingencies - Note 15**

**Subsequent Events - Note 19**

Approved by the Board:

*Signed "Gordon J. Reykdal"*

Director

*Signed "J. Albert Mondor"*

Director

See accompanying notes to consolidated financial statements.



**THE CASH STORE FINANCIAL SERVICES INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>For the Year Ended June 30</b>	
	<b>2008</b>	2007
<b>Cash provided by (used in):</b>		
<b>OPERATING ACTIVITIES</b>		
Income from continuing operations	\$ 12,522,477	\$ 8,669,604
Items not affecting cash:		
Amortization of capital assets	5,020,855	4,091,434
Amortization of intangible assets	225,542	312,336
Stock-based compensation	624,787	1,160,353
Future income taxes	1,826,900	35,000
	<b>20,220,561</b>	14,268,727
Change in non-cash operating items:		
Accounts receivable	(4,000,625)	686,010
Prepaid expenses, deposits and other	130,950	137,997
Accounts payable and accrued liabilities	(1,881,701)	(3,183,688)
Income taxes receivable and payable	155,913	(1,662,986)
Deferred revenue	(46,535)	(79,247)
Deferred lease inducement	32,624	(138,297)
	<b>14,611,187</b>	10,028,516
<b>INVESTING ACTIVITIES</b>		
Purchase of intangible assets - Note 6	(15,043)	-
Purchase of capital assets	(5,785,891)	(3,283,512)
Purchase of long-term investment - Note 8	(180,000)	-
	<b>(5,980,934)</b>	(3,283,512)
<b>FINANCING ACTIVITIES</b>		
Repayment of capital leases	(111,262)	(150,655)
Dividends paid on common shares	(3,552,395)	-
Issuance of common shares	200,000	302,250
Shares repurchased	(5,975,695)	-
	<b>(9,439,352)</b>	151,595
Cash provided (used) by continuing operations	<b>(809,099)</b>	6,896,599
Cash used by discontinued operations:		
Operating activities	(1,894,952)	(949,349)
Investing activities	(305,083)	(161,833)
	<b>(2,200,035)</b>	(1,111,182)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(3,009,134)</b>	5,785,417
<b>CASH, BEGINNING OF YEAR</b>	<b>18,653,158</b>	12,867,741
<b>CASH, END OF YEAR</b>	<b>\$ 15,644,024</b>	\$ 18,653,158
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 32,597	\$ 26,958
Interest received	435,541	260,612
Income taxes paid	5,886,812	6,647,269

See accompanying notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 and 2007

The Cash Store Financial Services Inc.

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### Nature of Business

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The Cash Store Financial Services Inc. (the "Company"), formerly Rentcash Inc., operates under two branch banners: The Cash Store and Instalozans who act as brokers to facilitate payday advance services to income earning consumers. As at June 30, 2008, the Company operated 384 (2007 – 358) branches. On March 31, 2008, the Company separated its rental business and certain of its assets and liabilities into an independent, publicly traded company, Insta-Rent Inc., through a spin-off to the Company's shareholders (the "spin-off"). See note 18 for additional information.

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### Note 1 – Significant Accounting Policies

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#### (a) Basis of Presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly-owned subsidiaries, The Cash Store Inc., 1152919 Alberta Ltd. (O/A Instalozans), 1152931 Alberta Ltd. (O/A The Mortgage Company), Tembo Telecom Inc., TCS Cash Store Inc, and 5515433 Manitoba Inc. All significant inter-company balances and transactions have been eliminated.

Starting in the first quarter of 2008, the Company revised the presentation of its interim and year-end consolidated statement of operations to be more consistent with the presentation of other companies in the alternative financial services industry. This revised presentation is preferred by Company management as it more closely reflects how management evaluates the Company's performance. Specifically, Branch Operating Income is tracked and reported by the Company and is generally used to compare the performance at branch level and includes expenses which primarily relate to the operations of the branches. Regional expenses are used to gauge expenditures at the regional and divisional levels and include compensation of associates including centralized regional departments, Regional Managers, Divisional Vice Presidents and Divisional President, as well as other expenses related to the functions of these groups. Corporate expenses are used to gauge expenditures at the corporate level and include compensation of associates and related expenses at the corporate office level.

#### (b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates made by management. The recoverable values of capital assets, future tax assets, goodwill and intangible assets, and the amortization periods of capital assets and intangible assets, are the more significant items which reflect estimates in these financial statements.

#### (c) Retention Payments

The Company, through The Cash Store and Instalozans banners, acts as a broker on behalf of income earning consumers seeking short term advances. Funding of short term advances is provided by independent third party lenders. The advances are repayable by the customer to the third party lenders and represent assets of the lenders; accordingly they are not included on the Company's balance sheet.

To facilitate the short term advance business the Company has entered into written agreements with a number of third party lenders that are prepared to consider lending to the Company's customers. Pursuant to these agreements, the Company provides services to the lenders related to the collection of documents and information as well as loan collection services. The agreements also provide that the third party lenders are responsible for losses suffered on account of uncollectible loans provided the Company has properly performed its duties under the terms of the agreements. In the event the Company does not properly perform its duties and the lenders make a claim as required under the agreement, the Company may be liable to the lenders for losses they have incurred. A liability is recorded when it is determined that the Company has a liability under the agreement.



The Cash Store Financial Services Inc.

**Note 1 – Significant Accounting Policies (continued)**

**(c) Retention Payments (continued)**

The Company’s Board of Directors approved a resolution which authorizes management to pay a maximum amount of retention payments per quarter to third party lenders as consideration to those lenders that continue to be willing to fund advances to the Company’s customers. While the third party lenders have not been guaranteed a return, the decision has been made to voluntarily make retention payments to the lenders to deflect the impact of the loan losses experienced by the third party lenders. Retention payments are recorded in the period in which a commitment is made to a lender pursuant to the resolution approved by the Board of Directors.

**(d) Revenue Recognition**

Revenue arising from brokering short-term advances for customers is recognized once all services have been rendered, all advance amounts have been received by the customer and the brokerage fee has been received by the Company.

Revenue from the Company’s cheque cashing, money order sales, money transfer, bill payment services and other miscellaneous services is recognized when the transactions are completed at the point-of-sale in the store and the related fee charged by the Company has been received.

For mortgages that the Company has funded directly, which have terms ranging from 1 to 12 months, the Company is recognizing revenue using the effective interest method. Revenues include the interest rate being charged to the customer and the fee being charged and collected from the customer at the time of providing these loans (the “loan origination fee”). The loan origination fee is recognized as an adjustment to the yield on the related loan. The Company reviews these loans to assess whether a loan loss reserve is required. In doing so we consider the amount of outstanding loans owed to us, historical loans charged off, current and expected collection patterns and current economic trends. Consistent with the prior year, the loan loss reserve is currently nil. As these conditions change, we may need to make additional allowances in future periods.

**(e) Capital Assets**

Capital assets are recorded at cost. Amortization is recorded using the rates and methods outlined in the table below.

	<u>Rate</u>	<u>Method</u>
Computer hardware	25%	Straight-line
Computer software	20%	Straight-line
Fixtures and equipment	20%	Straight-line
Signs	20%	Straight-line
Buildings	4%	Straight-line

Leasehold improvements are amortized based on the straight-line basis over the shorter of the lease term and the estimated useful life of the asset.

**(f) Intangible Assets**

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

Intangible assets with finite useful lives are amortized over their useful lives. Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

**Note 1 – Significant Accounting Policies (continued)**

**(f) Intangible Assets (continued)**

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

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

**(g) Goodwill**

Goodwill represents the excess purchase price paid by the Company over the fair value of tangible and identifiable intangible assets and liabilities acquired. Goodwill is not amortized but instead tested for impairment in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of the reporting unit exceeds the fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

When the carrying amount of the reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

**(h) Long-term Investment**

The Company uses the cost method of accounting for its long-term investment. Under this method, the investment is initially recorded at cost and any earnings from the investment are recognized only to the extent received or receivable.

**(i) Deferred Lease Inducements**

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

**(j) Income Taxes**

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

**(k) Stock Based Compensation**

The Company has a stock based compensation plan, which is described in Note 11 (b). All stock based compensation awards and grants on or after July 1, 2002 are measured at the fair value at the date of grant and recognized over the award's vesting period as an expense and an increase in contributed surplus. When options are exercised, the proceeds received and the related amount in contributed surplus are credited to share capital. If stock or stock options are repurchased, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings. No expense has been recognized for stock options granted prior to July 1, 2002.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

The Cash Store Financial Services Inc.

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**Note 1 – Significant Accounting Policies (continued)**

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**(l) Earnings Per Share**

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

**(m) Accounting for the Impairment of Long-Lived Assets**

Long-lived assets and identifiable intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is assessed by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Any assets to be disposed by sale are reported at the lower of carrying amount or fair value less costs to sell.

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**Note 2 – Changes in Accounting Policies**

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As disclosed in the June 30, 2007 annual audited Consolidated Financial Statements, on July 1, 2007, the Company adopted the CICA Handbook Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement”, Section 1506 “Accounting Changes”, Section 3865 “Hedges” and Section 3861 “Financial Instruments-Disclosure and Presentation”.

The adoption of these standards has had no material impact on the Company’s net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

**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 capital lease obligations are designated as “other financial liabilities”.

Section 3855 requires that the Company records non-financial derivatives as assets or liabilities at their fair value unless exempted from derivative treatment as normal purchase or sale. The Section also requires the Company to identify embedded derivatives that need separation from the related host contract and measure those embedded derivatives at fair value. Subsequent change in fair value of embedded derivatives is recognized in the consolidated statement of operations and deficit in the period the change occurs. The Company has elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after July 1, 2003 and has determined there are no material embedded



The Cash Store Financial Services Inc.

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**Note 2 – Changes in Account Policies (continued)**

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**Financial Instruments (continued)**

derivatives that must be separated from the host contract and accounted for separately and there are no non-financial derivative instruments.

Transactions 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 the Company's 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. The Company is in the process of assessing the impact of adopting this new standard. This standard applies to the Company's interim and annual financial statements beginning July 1, 2008.

**Comprehensive Income**

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income ("OCI"). The Company has no OCI transactions recorded for the period ended June 30, 2008. The adoption of Comprehensive Income has been in accordance with the applicable transitional provisions.

Section 3251 establishes standards for the presentation of equity and for the changes in equity during the reporting period. The cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented as a new category within shareholders' equity. The Company has no opening or closing balances for accumulated other comprehensive income or loss and accordingly, does not have either a statement of comprehensive income or accumulated other comprehensive income.

**Hedges**

Section 3865 specifies circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

**Equity**

Effective July 1, 2007 the Company adopted CICA Handbook Section 3251, "Equity". The standard established standards for the presentation of equity and changes in equity during the reporting period and are in addition to those in CICA Handbook Section 1530. Specifically an enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income and the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves.



The Cash Store Financial Services Inc.

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**Note 2 – Changes in Account Policies (continued)**

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**Financial Instruments (continued)**

**Accounting Changes**

In July 2006, the Accounting Standards Board (“AcSB”) issued a replacement of The Canadian Institute of Chartered Accountants’ Handbook (“CICA Handbook”) Section 1506, Accounting Changes (“Section 1506”). The new standard allows for voluntary changes in accounting policy only when they result in financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively, and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company’s results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective July 1, 2007 has had no impact on these audited consolidated financial statements.

**Recent Accounting Pronouncements Not Yet Adopted**

**Financial Instruments**

Section 3862 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.

This standard is effective for the Company for interim and annual financial statements beginning on July 1, 2008. The Company does not expect the adoption of this standard to have a material impact on its financial position and results of operations.

In March 2007, the CICA also issued Handbook Section 3863, “Financial Instruments—Presentation” 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 non-financial 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 harmonizes disclosures with International Financial Reporting Standards (“IFRS”). The Company is in the process of assessing the impact of adopting this new standard. The standard applies to the Company’s interim and annual financial statements beginning July 1, 2008. The Company does not expect the adoption of this standard to have a material impact on its financial position and results of operations.

**Financial instruments presentation:**

In October 2006, the AcSB approved Section 3863-Financial Instruments-Presentation, which replaces Section 3861, Financial Instruments-Disclosure and Presentation. The existing requirements on presentation of financial instruments have been carried forward unchanged to Section 3863, Financial Instruments-Presentation.

This standard is effective for the Company for interim and annual financial statements beginning on July 1, 2008. The Company does not expect the adoption of the standard to have a material impact on its financial position and results of operation.



The Cash Store Financial Services Inc.

**Note 2 – Changes in Account Policies (continued)**

**Recent Accounting Pronouncements Not Yet Adopted**

**Capital Disclosures**

In December 2006, the CICA issued Handbook Section 1535, “Capital Disclosures”. 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. The Company is in the process of assessing the impact of adopting this new standard. This standard applies to the Company’s interim and annual financial statements beginning July 1, 2008. The Company does not expect the adoption of this standard to have a material impact on its financial position and results of operations.

**Going Concern**

In April 2007, the CICA approved amendments to Handbook Section 1400, "General Standards of Financial Statement Presentation". These amendments require management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The Company is in the process of assessing the impact of adopting this new standard. The new requirements of the standard applies to the Company's interim and annual financial statements beginning July 1, 2008. The Company does not expect the adoption of this standard to have a material impact on its financial position and results of operations.

**Goodwill**

In February 2008, the CICA issued Handbook Section 3064, ("CICA 3064") Goodwill and Intangible Assets. CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Reporting Standard IAS 38, Intangible Assets. This new standard applies to the Company's interim and annual financial statements beginning July 1, 2009. The Company does not expect the adoption of this standard to have a material impact on its financial position and results of operations.

**Note 3 – Cash and Restricted Cash**

Cash includes \$3,000,000 in externally restricted cash related to the issuance of a standby letter of credit in the same amount. The standby letter of credit was issued pursuant to provisions of an agreement with DirectCash ATM Processing Partnership, our debit and credit card service provider, which was required to satisfy timing differences in cash settlements. No amounts have been drawn on this letter to date.

**Note 4 – Accounts Receivable**

	<b>June 30, 2008</b>	June 30, 2007
Notes receivable	\$ <b>600,000</b>	\$ -
Mortgages receivable	<b>835,485</b>	164,650
Due from The Cash Store Australia Holdings Inc.	<b>659,830</b>	-
Other	<b>3,521,733</b>	1,451,774
	<b>\$ 5,617,048</b>	\$ 1,616,424



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The Cash Store Financial Services Inc.

**Note 4 – Accounts Receivable (continued)**

**Notes Receivable**

The Company has a \$600,000 note receivable due from Insta-Rent Inc. The receivable is payable to the Company by December 31, 2008. The interest rate being charged on the note is 0.1% per day on amounts owing with the amounts secured by the assets of Insta-Rent Inc.

**Mortgages Receivable**

The Company has \$835,485 (2007 - \$164,650) in mortgages outstanding at year-end that the Company has funded directly to its customers. These mortgages are due within the next fiscal year and bear interest rates between 12% and 28%. As security for these mortgages, the Company has taken second security on the customers' residential properties.

**Due from The Cash Store Australia Holdings Inc.**

The Company has \$659,830 (2007 - nil) receivable from The Cash Store Australia Holdings Inc. The receivable was repaid subsequent to year-end. See note 16(b) for additional information.

**Note 5 – Capital Assets**

	2008		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 2,087,994	\$ 1,004,439	\$ 1,083,555
Computer software	3,315,130	414,444	2,900,686
Fixtures, furniture and equipment	5,318,907	3,036,466	2,282,441
Leasehold improvements	12,985,113	7,176,152	5,808,961
Signs	3,929,616	2,169,125	1,760,491
Buildings	132,330	2,648	129,682
Land	50,900	-	50,900
	<b>\$ 27,819,990</b>	<b>\$ 13,803,274</b>	<b>\$ 14,016,716</b>

Starting in fiscal 2007, the Company started developing a new software system to be used in the Branches. It is anticipated that this system will be implemented in early fiscal 2009. Included in computer software are assets under development with a cost of \$2,382,787 (2007 - \$740,768). These assets have not been amortized in the year.

Amortization expense for the year includes a loss on disposition of capital assets of \$277,366 (2007 – gain of \$4,282)

	2007		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 1,050,848	\$ 637,134	\$ 413,714
Computer software	1,302,186	260,130	1,042,056
Fixtures, furniture and equipment	4,974,866	2,021,315	2,953,551
Leasehold improvements	11,572,243	4,827,861	6,744,382
Signs	3,504,329	1,456,352	2,047,977
Buildings	50,000	-	50,000
	<b>\$ 22,454,472</b>	<b>\$ 9,202,792</b>	<b>\$ 13,251,680</b>



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The Cash Store Financial Services Inc.

**Note 5 – Capital Assets (continued)**

Assets under capital lease included above:

	2008		2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware	\$ 67,074	\$ 67,074	\$ 67,074	\$ 60,859
Fixtures and equipment	574,448	422,531	574,448	307,641
Leasehold improvements	7,227	6,142	7,227	4,697
Signs	107,665	90,573	107,665	69,040
	<b>\$ 756,414</b>	<b>\$ 586,320</b>	<b>\$ 756,414</b>	<b>\$ 442,237</b>

Amortization of capital assets includes \$144,083 (2007 - \$154,637) relating to assets under capital leases.

**Note 6 – Intangible Assets**

	2008		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts, relationships, lists and other	\$ 706,991	\$ 684,318	\$ 22,673
Non-compete agreement	209,000	195,194	13,806
Favourable and unfavourable leases	89,000	89,000	-
Brand name	5,300,000	-	5,300,000
	<b>\$ 6,304,991</b>	<b>\$ 968,512</b>	<b>\$ 5,336,479</b>

  

	2007		
	Cost	Accumulated Amortization	Net Book Value
Customer contracts, relationships, lists and other	\$ 691,949	\$ 560,056	\$ 131,893
Non-compete agreement	209,000	116,673	92,327
Favourable and unfavourable leases	89,000	66,242	22,758
Brand name	5,300,000	-	5,300,000
	<b>\$ 6,289,949</b>	<b>\$ 742,971</b>	<b>\$ 5,546,978</b>

During fiscal 2008, the Company acquired a customer list for \$15,043.

**Note 7 – Income Taxes**

**(a) Provision for Income Taxes**

The income tax provision differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 30.6% (2007 – 34.5%) to income from continuing operations as a result of the following:



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The Cash Store Financial Services Inc.

**Note 7 – Income Taxes (continued)**

**(a) Provision for Income Taxes (continued)**

	2008	2007
Income before income taxes	\$ 20,392,102	\$ 13,429,354
Computed tax expense at statutory income tax rates	6,239,983	4,633,127
Change in enacted tax rates	1,350,842	(192,000)
Stock-based compensation	190,000	300,000
Permanent differences and other	88,800	18,622
<b>Total Income Tax Provision</b>	<b>\$ 7,869,625</b>	<b>\$ 4,759,749</b>

**(b) Future Income Taxes**

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

Current non-capital losses carried forward	\$ 3,166,373	\$ -
Long-term non-capital losses carried forward	\$ 57,000	\$ 1,395,000
Rental, capital, intangible assets and goodwill - differences between net book value and undepreciated capital cost	1,021,300	4,404,573
Deferred lease inducements - differences between book value and tax value	225,000	260,000
Future tax benefit of share issue costs (netted against share issue costs)	295,000	502,000
	<b>\$ 1,598,300</b>	<b>\$ 6,561,573</b>
<b>Future income tax liabilities:</b>		
Capital, intangible assets and goodwill - differences between net book value and undepreciated capital cost	<b>(1,140,000)</b>	<b>(1,110,000)</b>

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

As at June 30, 2008, the Company had unused non-capital tax loss carry forwards available to reduce taxable income in future years, mainly originating from the spin-off of its rental operations (Note 18), as follows:

Year of Origin	Year of Expiry	Amount
2006	2026	29,441
2007	2027	93,885
2008	2028	10,014,428
		<b>10,137,754</b>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Cash Store Financial Services Inc.

**Note 8 – Long-term Investment**

On March 31, 2008 the Company acquired 3,000,000 shares of The Cash Store Australia Holdings Inc. at a share price of \$0.06 per share for a total investment of \$180,000. This investment is recorded at cost.

**Note 9 – Accounts Payable and Accrued Liabilities**

	June 30, 2008	June 30, 2007
Trade accounts payable	\$ 2,226,664	\$ 1,379,995
Accrued liabilities	1,890,173	1,465,351
Accrued salaries and benefits	2,622,088	2,269,674
Amounts due to third party lenders	100,235	3,462,271
Other	17,502	161,072
	<b>\$ 6,856,662</b>	<b>\$ 8,738,363</b>

The amounts due to third party lenders reflects funds made available by lenders but not yet advanced to customers, any liability under the lending agreement as well as loan repayment and interest amounts collected from customers. Amounts due to third party lenders are non-interest bearing, unsecured and have no specified repayment terms.

**Note 10 – Obligations under Capital Leases**

	2008		
	Aggregate Due	Less Imputed Interest	Net
Various leases - repayable in monthly instalments totalling \$2,190 including interest ranging from 12.6 - 13.3%; due to mature in 2008; secured by leased assets with an aggregate carrying amount of \$170,094	\$ 8,307	\$ 663	\$ 7,644
<b>Less current portion</b>	<b>8,307</b>	<b>663</b>	<b>7,644</b>
	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
	2007		
	Aggregate Due	Less Imputed Interest	Net
Various leases - repayable in monthly instalments totalling \$15,867 including interest ranging from 9.8 - 21.0%; due to mature in 2008; secured by leased assets with an aggregate carrying amount of \$314,177	\$ 125,953	\$ 7,046	\$ 118,907
<b>Less current portion</b>	<b>117,646</b>	<b>6,383</b>	<b>111,263</b>
	<b>\$ 8,307</b>	<b>\$ 663</b>	<b>\$ 7,644</b>

The capital lease repayments are due as follows:

	Aggregate Due	Less Imputed Interest	Net
2008	8,307	663	7,644
	<b>\$ 8,307</b>	<b>\$ 663</b>	<b>\$ 7,644</b>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Cash Store Financial Services Inc.

During the year, the Company incurred interest charges related to capital leases in the amount of \$6,102 (2007 – \$19,652). These have been included in selling, general and administrative expenses.

**Note 11 – Share Capital**

**(a) Issued share capital**

	June 30, 2008		June 30, 2007	
	Number of Shares	\$	Number of Shares	\$
<b>Authorized:</b>				
Unlimited common shares with no par value				
<b>Issued:</b>				
Balance, beginning of period	20,793,112	\$ 48,953,956	20,464,362	\$ 48,588,131
Transfer from contributed surplus for stock options or warrants exercised - Note 13	-	116,555	-	63,575
Options exercised	100,000	200,000	328,750	302,250
Shares repurchased	(1,353,110)	(3,185,775)	-	-
Balance, end of period	19,540,002	\$ 46,084,736	20,793,112	\$ 48,953,956

On June 25, 2007, the Company announced its intention to make a normal course issuer bid to purchase, through the facilities of the Toronto Stock Exchange, certain of its outstanding common shares. The number of common shares to be purchased during the period of the normal course issuer bid (the "Bid") from June 27, 2007 to June 26, 2008 will not exceed 1,208,739 common shares, or approximately 8.9% of the public float outstanding on June 18, 2007. On May 12, 2008 the Company announced an amended normal course issuer bid to purchase an additional 144,371 common shares, which would not exceed 1,353,110 Common shares purchased pursuant to the Bid. All common shares repurchased by the Company pursuant to the normal course issuer bid have been cancelled. During the year, the Company purchased 1,353,110 Common shares at a cost of \$5,975,695. See note 19 for additional information.

**(b) Options to Employees and Directors**

The Company has an incentive stock option plan for certain employees, officers and directors. Options issued under the plan have vesting terms that vary depending on date granted and other factors. All stock options must be exercised over specified periods not to exceed five years from the date granted. At June 30, 2008 955,936 (2007 – 1,549,936) common shares remained reserved for issuance under the stock option plan. The continuity of the Company's outstanding and exercisable stock options for the year-end ended June 30, 2008 and 2007 is as follows:

	2008		2007	
	Total Options for Shares	Weighted Average Price	Total Options for Shares	Weighted Average Price
<b>Outstanding, beginning of period</b>	765,000	\$ 5.62	1,128,750	\$ 5.54
Granted	607,000	\$ 4.17	135,000	\$ 6.16
Exercised	(100,000)	\$ 2.00	(328,750)	\$ 0.92
Forfeited	(183,000)	\$ 5.04	(170,000)	\$ 13.74
<b>Outstanding, end of period</b>	1,089,000	\$ 4.35	765,000	\$ 5.62
<b>Exercisable, end of period</b>	249,999	\$ 4.89	313,333	\$ 4.35

At June 30, 2008, the range of exercise prices, the weighted average exercise price and weighted average remaining contractual life are as follows:



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Cash Store Financial Services Inc.

Fiscal Year Granted	Number Outstanding	Weighted Average Remaining Term	Weighted Average Exercise Price	Number Exercisable
2004	100,000	5 mos.	\$1.09	100,000
2005	10,000	16 mos.	\$3.85	10,000
2006	320,000	25 mos.	\$6.46	106,667
2007	100,000	37 mos.	\$5.51	33,332
2008	559,000	52 mos.	\$3.53	-
	1,089,000	38 mos.	\$4.35	249,999

**Note 11 – Share Capital (continued)**

**(b) Options to Employees and Directors (continued)**

As a result of the spin-off of the rental operations (note 18), the original award prices for all outstanding stock options have been adjusted to preserve the intrinsic value of the award immediately prior to the spin-off using an adjustment ratio based on the Company's market stock price and Insta-Rent Inc.'s fair market value at a certain point in time. The Company's stock options held by employees of the rental operations that are now employees of Insta-Rent Inc. were cancelled as of the date of the spin-off. The employees of Insta-Rent Inc. received Insta-Rent Inc. stock based awards to replace the cancelled awards in the Company.

**Note 12 – Dividends on Common Shares**

Dividends on common shares in the amount of \$3,552,395 were paid to common shareholders during 2008 (2007 - \$0).

**Note 13 – Contributed Surplus**

For stock options granted to officers and directors after July 1, 2002, the Company records compensation expense using the fair value method as outlined in Note 11 (b). Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the fair-value amount in contributed surplus is credited to share capital.

	2008	2007
Balance at beginning of period, as previously stated	\$ 3,268,251	\$ 2,171,473
Stock options or warrants exercised	(116,555)	(63,575)
Stock-based compensation expense	624,787	1,160,353
	\$ 3,776,483	\$ 3,268,251

**Note 14 - Commitments**

**(a) Lease Commitments**

The Company is committed to future minimum annual operating lease payments for office, store premises, equipment and vehicles, which expire through 2032.

	Aggregate Lease Payments
2009	\$ 7,715,338
2010	6,176,631
2011	4,299,824
2012	2,859,562
2013 and thereafter	221,040



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The Cash Store Financial Services Inc.

\$ 21,272,395

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

**Note 14 – Commitments (continued)**

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

Subsequent to the year-end, the Company has committed to leases for four (4) additional Cash Store and Instalozans locations. The additional minimum annual lease payments required for the next five years are as follows:

	Additional Lease Payments	Aggregate Lease Payments
2009	\$ 51,235	\$ 7,766,573
2010	27,800	6,204,431
2011	1,680	4,301,504
2012	0	2,859,562
2013 and thereafter	0	221,040
	\$ 80,715	\$ 21,353,110

**Note 15 - Contingencies**

**(a) Legal Proceedings**

The Company has been served in prior fiscal periods with Statements of Claim issued in Alberta, British Columbia and Ontario alleging that the Company is in breach of s. 347 of the Criminal Code (the interest rate provision) and certain provincial consumer protection statutes. The claim in British Columbia was certified as a class proceeding against the Company and its subsidiary, The Cash Store Inc., with respect to British Columbia residents, and the certification decision was affirmed by the British Columbia Court of Appeal in fiscal 2006. In fiscal 2007, the plaintiffs in the British Columbia brought forward an application to have certain of the Company’s third party lenders added to the claim. No decision has yet been made by the Court in respect of this application. The claim in Ontario was certified against The Cash Store Inc., but not against the Company, in fiscal 2006 with respect to residents of Canada other than residents of British Columbia and Alberta. In Alberta, there are two claims. One of the claims is in respect of payday loans and the certification motion has been pending since fiscal 2006. The other Alberta claim is in respect of title loans and the certification application has not yet been heard. The Company believes that it conducts its business in accordance with applicable law and is defending each of the actions vigorously. However, the likelihood of loss if any is not determinable. Accordingly, no provision has been made for these actions in the accounts.

On April 21, 2008, the Company settled the Ontario class action lawsuit in principle. The settlement is conditional upon the lawsuit being certified by the Court as a class proceeding under the Class Proceedings Act and as part of that process, the terms of settlement being approved by the Court. The settlement does not constitute any admission of liability by the Company. As at June 30, 2008 the settlement had not been approved by the Court. A decision is expected to be received during the first quarter of fiscal 2009.

Under the terms of the settlement in principle, the Company is to pay to the Class an aggregate of \$1.5 million in cash and \$1.5 million in credit vouchers to those customers of The Cash Store and Instalozans, outside of Alberta and British Columbia, who were advanced funds under a loan agreement and who repaid the payday loan plus the brokerage fees and interest in full (“the Class”). The credit vouchers may be used to pay existing outstanding brokerage fees and interest or to pay brokerage fees and interest which may arise in the future through new loans advanced to the customer. The credit vouchers are fully transferable and have no expiry date. In addition, the Company is to pay the legal fees and costs of the Class, in an amount to be approved by the Court.

Due to the uncertainty surrounding the court process the Company is not able, at this time, to determine the likelihood of the settlement and therefore has not accrued any amounts.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**The Cash Store Financial Services Inc.**

The Company is also involved in other claims related to the normal course of operations. Management believes that it has adequately provided for these claims.

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**Note 15 – Contingencies (continued)**

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**(b) Branch Operations**

The Company's subsidiaries, The Cash Store Inc. and 1152919 Alberta Ltd. (operating as Instalozans) act as brokers on behalf of consumers seeking short term advances. The funding of the advances is provided directly to the customers by independent third party lenders. The Company has entered into written business arrangements with a number of third party lenders that are prepared to consider lending to customers. Pursuant to these agreements, services related to the collection of documents and information as well as loan collection services are provided to the third party lenders. The agreements also provide that the third party lenders are responsible for losses suffered as a result of uncollectible loans provided the required duties under the terms of the agreements have been properly performed by the subsidiaries. In the event the duties are not properly performed and the lenders make a claim as required under the agreement, the subsidiaries may be liable to the lenders for losses they have incurred. The Company's contingent risk is the balance of the third party lenders loan portfolio which totalled approximately \$58 million as at June 30, 2008 (2007 - \$53 million).

To date, no claims have been made by the third party lenders and no payments have been made or accrued by the subsidiaries pursuant to this clause in the agreements. Risk is managed through compliance with the loan limits, procedures and selection criteria established by the lenders.

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**Note 16 – Related Party Transactions**

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**(a) Insta-Rent Inc.**

The Company provides administrative functions to Insta-Rent Inc. (see note 18). For this service the Company is charging Insta-Rent Inc. \$30,000 per month. Included in selling, general and administrative expense is a recovery of \$90,000 (2007 - \$0) relating to these services for the period that Insta-Rent was a separate public company. These transactions are subject to normal trade terms and are measured at the actual exchange amount.

Subsequent to the spin-off of the rental division and as part of the transition of administrative functions, the Company continued to receive payments from customers of Insta-Rent Inc. Included in accounts payable and accrued liabilities is \$520,844 as at year-end related to these payments received. These amounts are measured at the actual exchange amount, due to Insta-Rent Inc. upon receipt and were repaid subsequent to year-end.

The Company has a \$600,000 note receivable due from Insta-Rent Inc. This note bears an interest rate of 0.1% per day, is due on December 31, 2008, is secured by the assets of Insta-Rent Inc. and is measured at the exchange amount

**(b) The Cash Store Australia Holdings Inc.**

The Company has a \$659,830 note receivable from The Cash Store Australia Holdings Inc., of which the Company has a 19% ownership in (note 8). Amounts due are non-interest bearing, unsecured and have no specified terms of repayment. The receivable was repaid subsequent to year-end. Certain of the Directors and Officers of the Company hold shares in The Cash Store Australia Holdings Inc.

**(c) Former Director**

A company, in which a former Director of the Company is a partner, provided consulting services to the Company. Selling, general and administrative expense includes \$0 (2007 - \$48,485) relating to these services for the period that he served as a director. Included in trade accounts payable is \$0 (2007 - \$16,068) payable to the former Director's consulting company. These transactions are subject to normal trade terms and are measured at the actual exchange amount.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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The Cash Store Financial Services Inc.

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**Note 17 – Financial Instruments**

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**(a) Fair Value**

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

- (i) The fair value of financial instruments, other than the capital lease obligations, approximates their carrying amounts due to the short nature of these instruments. The estimated fair value of the capital lease obligations has been determined based on discounting future payments of interest and principal at estimated interest rates that would be available to the Company at year-end. At June 30, 2008 the fair value is not significantly different than its carrying value.
- (ii) The fair value of the capital lease obligations (collectively "the debt") are based on management estimates which are determined by discounting cash flows required under the debt at the interest rate currently estimated to be available for loans with similar terms. Based on these estimates, the fair value of the Company's debt as at June 30, 2008 is not significantly different than its carrying value.

**(b) Interest Rate Risk Management**

The Company has an interest bearing note with Insta-Rent Inc. which is fixed.

**(c) Credit Risk Management**

The maximum exposures to credit risk are represented by the carrying amount of accounts receivable. The credit risk related to accounts receivable results from the possibility of default of payment. The Company performs on-going credit evaluations and allows for uncollectible amounts when determinable.

The Company acts as a broker and has no concentration of credit risk with any particular individual, company or other entity.

**(d) Indemnities**

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

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**Note 18 – Discontinued Operations**

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On November 28, 2007, the Company's shareholders approved a plan to spin-off the Company's rental operations and certain of its assets and liabilities to Insta-Rent Inc., which is a new publicly traded company whose common shares were, upon the completion of this transaction, owned by the shareholders of the Company.

This spin-off transaction was completed on March 31, 2008 and, accordingly the Company ceased to consolidate those assets and liabilities of the rental division transferred to Insta-Rent Inc. and have presented the results of its operations and its cash flows for the year ended June 30, 2008 and 2007 as discontinued operations.

Discontinued operations for the year ended June 30, 2008 also includes non-recurring separation costs of \$677,948 which consist principally of external legal and accounting fees to affect the spin-off. In addition, certain corporate expenses were allocated to discontinued operations. These expenses were limited to specifically identified costs and other costs, such as corporate shared services, which support segment operations. These costs represent those that have historically been allocated and recorded by the Company's operating segments as an expense.



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The Cash Store Financial Services Inc.

**Note 18 – Discontinued Operations (continued)**

Also to facilitate the rental operation's separation from the Company, the Company is providing certain services to Insta-Rent Inc. during a transition period. Specifically, the Company and Insta-Rent Inc. entered into an interim service agreement on April 1, 2008, which will expire on April 1, 2009, to provide ongoing services such as financial and accounting support, contracts administrative services, payroll, benefits and human resources services, general office support services and the use the Company's information technology and telecommunications systems. The Company will charge Insta-Rent Inc. a fee of \$30,000 per month for these services. The Company will not have any significant involvement in the operations of Insta-Rent Inc.

The loss from discontinued operations is summarized as follows:

	2008	2007
Rental Revenue	\$ 15,468,418	\$ 24,235,684
Loss from discontinued operations before tax	(2,492,120)	(3,461,942)
<b>Loss from discontinued operations</b>	<b>\$ (1,716,120)</b>	<b>\$ (2,787,942)</b>

The following table presents the balance sheet related to the assets and liabilities held for spin-off as of June 30, 2007:

	2007	
<b>Current assets held for spin-off</b>		
Accounts receivable	\$	169,420
Prepaid expenses and other		110,455
	<b>\$</b>	<b>279,875</b>
<b>Non-current assets held for spin-off</b>		
Deposits and other	\$	14,592
Rental assets		8,515,176
Capital assets		1,493,033
Intangible assets		1,499
Future income taxes		37,427
Goodwill		137,119
	<b>\$</b>	<b>10,198,846</b>
<b>Current liabilities held for spin-off</b>		
Accounts payable and accrued liabilities	\$	1,765,880
Current portion of deferred revenue		634,939
Current portion of obligation under capital leases		1,305
	<b>\$</b>	<b>2,402,124</b>
<b>Non-current liabilities held for spin-off</b>		
Deferred revenue	\$	14,584



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2008 and 2007**

The Cash Store Financial Services Inc.

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**Note 19 – Subsequent Events**

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**(a) Purchase of the Company's equity securities**

On June 30, 2008, the Company announced its intention to make a normal course issuer bid to purchase, through the facilities of the Toronto Stock Exchange, certain of its outstanding common shares. The number of common shares to be purchased during the period of the normal course issuer bid (the "Bid") from July 3, 2008 to July 2, 2009 will not exceed 1,218,470 common shares, or approximately 10% of the public float outstanding on June 27, 2008. Common shares purchased pursuant to the Bid will be cancelled. No purchases related to this Bid were settled during fiscal 2008, however subsequent to year-end the Company has purchased 124,873 Common shares at a cost of \$564,858.

**(b) Dividends declared**

On August 27, 2008, the Company declared two cash dividends. The first dividend is a quarterly cash dividend of \$0.025 per common share and the second dividend is a special cash dividend of \$0.075 per common shares. Both are payable on October 2, 2008 to shareholders of record on September 18, 2008. Decisions on future dividends will be subject to Board of Directors' approval on a quarterly basis.

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**Note 20 – Comparative Figures**

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Certain of the comparative figures have been reclassified to conform to presentation adopted for the current year. In the current year and prior year certain tax figures have been reclassified and corporate costs eliminated for presentation purposes.